

## African Development Bank Group

### African Development Fund (AfDF)

<b>FY2002 Appropriation</b>	<b>FY2003 Scheduled Request</b>	<b>FY2003 Arrears Request</b>	<b>FY2003 Total Request</b>
\$100M	\$118M	\$73,333	\$118,073,333

For FY2003, the Administration requests \$118 million for the African Development Fund (AfDF) for the first of three annual U.S. payments under the ninth replenishment of the AfDF and \$73,333 to clear one-third of the outstanding arrears. In early 2002, donor countries including the U.S. are expected to agree to the AfDF-9 replenishment that will cover AfDF operations over the period 2002, 2003, and 2004. The total U.S. commitment over three years under AfDF-9 is \$354 million.

#### **AfDF's Institutional Mandate**

Poverty reduction is the overriding objective of the African Development Fund (AfDF). In Africa, over the last two decades, both income and non-income measures of poverty have deteriorated. Today, social indicators such as infant mortality, life expectancy, primary school enrollment, adult literacy, and maternal mortality are some of the worst in the world. Furthermore, compared to other regions of the world, the level of income inequality in Africa is relatively high.

AfDF's strength lies in understanding local conditions. In recent years, and at strong urging from the U.S., AfDF has sharpened its focus on areas where it can make a contribution to poverty reduction in Africa. AfDF's operational priorities, as articulated in the Bank Group Vision Statement, include: agriculture and rural development; human capital development, especially basic health care and primary education; private sector development; governance; gender; the environment; and economic integration and co-operation.

#### **Key Facts**

- Since its establishment in 1973, AfDF has approved a total of \$15.1 billion in loans, grants, and debt relief.
- The U.S. is the second-largest historical contributor to the Fund (after Japan), having paid 12% of the total cumulative contributions as of end of 2001.
- In 2001, donors laid out four broad policy objectives that would serve the basis for the AfDF-9 replenishment agreement:
  - Greater selectivity and focus in Fund operations;

- Enhanced AfDF development effectiveness with measurable results on the ground;
  - Improved link between lending and performance; and
  - Deepened co-ordination with other development partners.
- In 2001, the AfDF approved 98 development loans and grants totalling \$1.2 billion, an increase of 22% over 2000.
  - During 2001, 24% of AfDF lending was for agriculture and rural development projects, 18% for social sector operations, and 16% for transportation sector including rural and feeder roads. Together, lending to these sectors constituted 58% of the AfDF's total lending.
  - In 2001, U.S. contributions to AfDF totalled nearly \$100.0 million.

### **Supporting U.S. Objectives**

Negotiations on the ninth replenishment of the AfDF are expected to conclude in early 2002. Once again, the U.S. played an important role in these negotiations by focusing the AfDF's agenda, defining its comparative advantage, and setting in place reforms that improve its development effectiveness.

As part of the AfDF-9 negotiations, the U.S. and other donors underscored the AfDF's need to focus on operations that raise productivity and in so doing reduce poverty in African countries. Donors urged the Fund to do more in taking a leadership role on good governance, which goes to the core of development effectiveness. Also, they called for a substantial proportion of AfDF-9 resources to go to agriculture, rural development, and the social sectors, such as basic health care and primary education. Finally, the U.S. and others affirmed the critical need for measurable indicators in monitoring and evaluating the Fund's operations in each sector.

#### *Increasing Productivity*

- In 2001, the Bank Group examined some of the strategic dimensions to evaluating results and analysing the determinants of project performance at the level of country, sector portfolios and individual projects.
- This important effort will build on the Bank's current work involved in measuring program results. In 2001, the Bank reported:
  - In Guinea, an AfDF project introduced new industrial farming techniques by training more than 450 farmers, thereby increasing productivity and average yields of oil palm and rubber trees. The project provided more than 1,500 permanent jobs and thousands of seasonal jobs.

- In Malawi, an AfDF-financed project helped 2,200 women to receive basic business management training, and provided credits to 1,700 women.
- Noting some progress by the Fund in tracking results in the AfDF-8, AfDF management agreed on the need to demonstrate more systematically and effectively how its operations increase the productive capacity of its borrowing countries and reduce poverty. In particular, management agreed to the following:
  - All projects should contain clear and measurable indicators of expected performance outcomes;
  - In collaboration with the World Bank, the Fund will develop a model for measuring the Fund's impact on poverty alleviation;
  - The Bank will further refine its establishment of a results-based management system to track project indicators, measure results and identify best practices that can then be fed back into new projects.
- Also in AfDF-9 negotiations, management agreed that the Fund's engagement in countries will be more rigorously linked to the Fund's comparative advantage vis-à-vis other partners and country performance.

#### *Performance-Based Allocations*

- In 2001, the AfDF continued implementation of its annual Country Performance Assessments (CPAs) for determining the allocation of AfDF resources. Each CPA measures a country's performance by taking into account such measures as macroeconomic policies, policies for growth with equity and poverty reduction, and good governance. It also takes into account the performance of individual Bank projects in a country and the quality of the Bank Group's portfolio overall in determining country allocations.
- In the AfDF-9 negotiations, donors obtained AfDF management's commitment to further refine the CPA, as appropriate, in collaboration with IDA. Also, management agreed to align its practice with that of IDA with regard to the transparency and disclosure of outcomes of the CPA exercise as a means of exerting peer pressure among borrowing member countries to enhance performance and promote good governance.

#### *Poverty Reduction*

- In the last few years, poverty reduction has been listed in the Bank's Country Strategy Papers (CSPs) as the top priority and in its dialogue with regional member countries.
- AfDF now supports the use of PRSPs as the key link between debt relief and poverty reduction, and has been working closely with the World Bank and IMF in the PRSP process.

- In the AfDF-9 negotiations, management agreed to strengthen the CSPs to ensure that they serve as the business plan for operationalizing those portions of the PRSP that are in line with key Fund goals and priorities. Importantly, the CSPs will justify the volume and instruments of the Fund's assistance as well as set out precise monitorable indicators for volume and timing of assistance.
- Also in the AfDF-9 negotiations, management has agreed that the Fund, in collaboration with other development partners, should improve PRSPs with respect to:
  - Setting priorities and establishing costs associated with public actions critical for growth and poverty reduction;
  - Strengthening public expenditure management systems;
  - Improving the participatory process; and
  - Setting indicators to measure and evaluate progress.
- In 2001, AfDF approved \$57 million for five stand-alone projects aimed at poverty reduction in Benin, Burkina Faso, Nigeria, Ghana, and Sierra Leone. In addition, many other AfDF-approved projects, especially those in the agriculture and social sectors, have explicit poverty reduction components.
- In 2001, the AfDF continued working with the World Bank in developing monitorable indicators of poverty.
- AfDF's first Annual Poverty Reduction Report, which will be published shortly, includes an important discussion of best practices in poverty reduction and the design of the Fund's policies and projects.

### *Encouraging Participation*

- The AfDB has taken major steps to strengthen its policy and operational partnerships with non-governmental (NGOs) and civil society organizations (CSOs).
- Since September 1999, the AfDB Group and NGOs have used the Permanent Committee as a mechanism for Bank-NGO dialogue on both policy and project related issues. Moreover, all Bank Group operations have consistently followed a participatory approach, which seeks to incorporate the voices, priorities, and strategies of all stakeholders and beneficiaries, including in the design and implementation phases of all new projects and programs.
- The AfDB has developed a handbook on Consultation and Participation in Bank Operations in order to mainstream its participation agenda. Similarly, training sessions for all project staff are planned in 2002.
- The AfDF is collaborating with the United Nations Economic Commission for Africa to create an African Regional NGO directory and database, to be hosted on the AfDB Group website ([www.afdb.org](http://www.afdb.org)).

### *Promoting Good Governance*

- In 2001, the Bank completed its Operational Guidelines for the Implementation of the Bank Group Governance Policy. Importantly, the Guidelines call for Country Governance Profiles (CGP) that will provide a framework to help identify and prioritize governance issues in a given country, taking into account governance interventions of other donors.
- The Bank is preparing CGPs on all regional member countries in collaboration with UNDP, which has agreed to provide resources and expertise, and outside consultants, as necessary. The Bank is also working with the OECD on a similar exercise.
- Also, the Bank Group is participating in a joint effort with the Economic Commission for Africa, UK Department for International Development, UN Development Program, and African Capacity-Building Foundation in developing regional governance indicators for African countries.
- In 2002, the first Report on the Status of Governance in African countries will be released. This Report will provide donors with the tools to assess the impact of governance projects and programs.
- Notwithstanding this progress in the AfDF-9 negotiations, donors noted the need for the Bank to significantly increase its work on governance, if indeed the Bank is to assume a leadership role in this area. Importantly, management agreed with donors to strengthen the overall governance weight in a country's Country Performance Assessment rating and that the Fund could begin to take lead responsibility for the design and implementation of policy-based lending operations focused on good governance.
- In 2001, the Bank's policy-based lending activities already started to address issues of governance more directly and projects and programs began attributing a higher importance to governance. For example in 2001, the Fund approved:
  - Nigeria: \$5 million loan for the Institutional Support Project for Governance, Capacity-building, and Poverty Reduction
  - Cameroon: \$3.99 million National Governance Program
  - Ghana: \$3.77 million for the Institutional Support for Governance and Poverty Reduction project
  - Djibouti: \$1.48 million for the Institution-building for Good Governance of Public Finance project
  - Sierra Leone: \$1.2 million for the Institutional Support for Capacity Strengthening, Governance, and Poverty Reduction project
- Efforts are underway to strengthen the AfDB Group's internal capacity to mainstream good governance in its operations including through the appointment of a Senior

Governance Advisor, and development of a plan to incorporate appropriate legal and judicial reforms into project designs.

### *Lending for Basic Health, including the Fight Against HIV/AIDS*

- In November 2001, the Board of Directors approved the Fund's HIV/AIDS Strategy designed to build on work by other development partners and focused on the AfDF's detailed knowledge of its borrowing countries.
- Since 1990, the Bank Group has approved \$351 million in loans and grants to the health sector, of which an average of about 10% has been for activities dedicated to combating HIV/AIDS.
- The annual share allocated to fighting HIV/AIDS has increased steadily since 1990, and in 2001 nearly 20% of the total \$68.93 million approved loans and grants to the health sector was for HIV/AIDS control programs.
- Examples of projects aimed at HIV/AIDS control approved in 2001 include:
  - Chad: Support to Strengthening of the National HIV/AIDS and STD Control System Project (\$7.5 million)
  - Gabon: Support to HIV/AIDS and STD Control Project (\$6.28 million)
  - Zimbabwe: Support to the National AIDS Control Program (\$1.26 million)

### *Human Capital Development/Social Sector*

- In 2001, the AfDF finally approved its long-awaited Gender Policy and continued refining its existing health sector policy and guidelines.
- The AfDF places increasing importance on human capital development, with operations focused on primary education, preventative health care and micro-credit. Recent examples of AfDF lending in these areas include:
  - Niger: Second Health Care Improvement Project (\$20.53 million)
  - Angola: Second Basic Education and Job Skills Project (\$12.09 million)
  - Chad: Fifth Technical Education and Vocational Training Project (\$8.45 million)

The AfDF has made some progress in measuring results of some of its interventions in these sectors.

- For example, in Cape Verde, an AfDF-financed project resulted in doubling the total number of students in school from 66,000 in 1986-1987 to close to 134,000 in 1989-1999. Girls represented 58% of the pupils enrolled.
- In Kenya, an AfDF Rural Health Project reduced infant mortality from 90 per thousand to 59 per thousand in the project area.

### *Agriculture and Rural Development*

- In 2001, about one quarter of the Fund's total lending and grant activity went to agriculture and rural development projects.
- In 2001, the AfDF focused its attention on public sector goods and services such as feeder roads, rural water supply and rural electrification in order to provide the appropriate infrastructure to boost the productivity of African economies and strengthen their growth potential. For example, in 2001, the Board of Directors approved:
  - Ethiopia: \$40.9 million Koga Irrigation and Watershed Management Project
  - Ethiopia: \$47.3 million Rural Electrification Project
  - Kenya: \$25 million Rural Road Rehabilitation Project
- The AfDF also geared many of its projects to managing natural resources, improving and diversifying crop and livestock production, improving income generating activities for smallholders, producers, processors and traders and reinforcing food security.

### *Regional Integration*

- Recognizing the need for regional economic cooperation and integration in Africa, management agreed, in the context of the AfDF-9 negotiations, to develop improved staff capacity in this area and, as part of the Bank's new organizational structure, to establish a focal point to help coordinate the Fund's interventions.
- Going forward, the Fund will develop two new instruments – Regional Strategy Papers and Regional Institutional Strategy Papers – to identify possible partners and to provide a strategic framework for regional interventions.
- Also, the Fund will begin to take responsibility on its own for the design and implementation of limited and targeted policy-based loans aimed at promoting regional integration.

### *Sustainable Development*

- The Bank Group aims to balance growth and environmental concerns for sustainable development. Recently, the Bank has been co-operating with the World Bank and donors to develop an operational strategy for Environmental Assessment Capacity Building in regional member countries.
- For example, the AfDB was a co-sponsor with IFC in organising environmental training workshops for financial intermediaries in November 2001.

- The Bank participated in the World Bank sponsored workshop on "Environmental Risk Management" to address issues of recurring natural disasters such as floods, droughts, human migration etc.

#### *Promotion of Economic Reforms and Private Sector Development*

- The AfDF promotes private sector development through its policy-based lending, including encouraging elimination of trade barriers, liberalization of commodity prices, and restructuring/privatization of parastatals.
- The AfDF also promotes Public-Private Partnerships (PPPs), with the ultimate goal of spurring privatization, in telecommunications, energy, transportation, and water and sanitation sectors in countries that have an accommodating business environment, necessary legal and regulatory frameworks, and sufficient technical capacity within the public sector.
- In 2001, the AfDF took a critical look at its pilot program in micro-finance (AMINA) aimed at strengthening the capacity of African micro-finance agencies to assist small entrepreneurs in Africa. The pilot program has had limited effectiveness primarily because it was constrained by insufficient staff, irregularities and difficulties with Bank bureaucracy in procurement and contracting, and poor coordination with the country operations.
- To address these problems, Management is now proposing that the AMINA unit become more directly integrated into the Bank's regular program lending activities and that the Bank further mainstream micro-finance activities in its operations.
- The AfDF already incorporates micro-finance elements into many of its poverty reduction projects. There are currently 50 poverty reduction projects with micro-finance components underway for a total of \$818 million. For example:
  - Cameroon: a \$18.2 million Rural Family Income Improvement Program includes \$1.5 million for micro-credits that are delivered, via local joint initiative groups, to as many as 20,000 women in rural northern Cameroon.
  - Ghana: \$6 million for micro-credits and \$3.5 million for micro-finance capacity-building is being made available in the Inland Valley Development Project
  - Zambia: \$1.5 million is available for micro-credits and \$5 million for micro-finance capacity building in the Gwembe Small-Scale Irrigation Project
  - Burkina Faso: \$1.9 million in micro-credits is part of the Bageza and Kadiogo Rural Development Project

#### *Post-Conflict Lending*

- The AfDF is lending to promote rehabilitation in post-conflict situations. For example:
  - Eritrea: Emergency Reconstruction Program (\$24.99 million)



- Sierra Leone: Economic Rehabilitation and Recovery Program (\$12.56 million)
- Guinea-Bissau: Post-Conflict Rehabilitation Program (\$7.35 million)