

## AFRICAN DEVELOPMENT BANK GROUP

*The African Development Bank Group consists of three entities: the African Development Bank, the African Development Fund and the Nigeria Trust Fund. The non-concessional window of the AfDB Group, the AfDB, is not discussed here in detail because only middle-income countries are eligible for it.*

### 1) QUANTITY OF AID

#### 1.1. Current/Recent Quantity Performance:

##### African Development Fund (AfDF)

Approvals US\$ m	2,032
Disbursements US\$ m	987

Source: AfDB (2006a).

##### Nigeria Trust Fund (NTF)

Approvals US\$ m	4.56
Disbursements US\$ m	4.85

Source: AfDB (2006a).

Since 2000, AfDF disbursements have increased substantially in absolute amount (up from US\$ 354 m), due to the large increase in donor commitments for the AfDF-X replenishment as well as an improvement in AfDB disbursement speeds.

#### 1.2. Future Quantity Intent

The current commitment capacity of the AfDF-X replenishment of donor funds is Units of Account (UA) 3.7 billion (roughly US\$ 5.5 billion as of January 2007) which covers the years 2005-07. This represents a 56% increase compared to AfDF-IX which covered 2002-04. The discussions regarding the Eleventh Replenishment of AfDF (AfDF-XI) are now well under way with the second replenishment meeting taking place in Tunis in June 2007 (see AfDF (2007) for a summary of the discussions).

### 2) KEY AGENCIES/MECHANISMS

#### 2.1 Agencies and Structures

In recent years, the African Development Bank Group has undergone major organisational re-structuring. This has included a decentralisation effort, with 25 new country offices opened in 2006-07.

##### *African Development Fund (AfDF)*

Established in 1973, the African Development Fund is the concessionary arm of the African Development Bank. Its mission is to contribute to the economic and social development of its regional members, to promote cooperation and increased

international and regional trade, and to provide financing on concessional terms for such purposes.

*Nigeria Trust Fund (NTF)*

The Nigeria Trust Fund was established by the Nigerian Government and the AfDB in 1976, to provide below market rates to assist development efforts of regional member countries (RMCs), particularly in low-income countries. The NTF was initially established for a 30 year period to terminate in April 2006. The two parties have agreed for a one-year extension while the future role of the NTF is determined.

**2.2 Key Policies and Documents**

*AfDB Strategic Plan 2003-2007 (AfDB, 2002)*

This strategic plan, aims to make the Bank's Vision operational through *assisting its RMCs in the effective and efficient implementation of the MDGs*. The MDGs are the core driving forces of the plan

*Progress on the Action Plan to Improve the Implementation of AfDF Operations, 2006 (AfDF, 2006a)*

The Action Plan is part of a process looking to create a more dynamic, responsive, effective and flexible knowledge institution with a stronger country focus. The report states that good progress has been made in many areas including institutional reorganization for effectiveness; improved country dialogue and collaboration with other donors at the country level; and use of Results-Based Country Strategy Papers and increased selectivity in operational programming. In 2007, good progress is to be expected in areas including procurement and disbursement administration; deepened Economic and Sectoral Work (ESW) and application of lessons from post evaluation; and enhanced decentralization and empowerment of field offices. More progress is needed in areas including staffing levels and skills mix; portfolio management and implementation of audit recommendations; Management Information System; building in-country capacity; and knowledge generation, management and dissemination.

*Implementation of the Operational Priorities under AfDF-X, 2006 (AfDF, 2006b)*

The Operational Priorities outline the aims of AfDF-X as outlined by the Fund Deputies (which are the representatives of member countries at the AfDF). The central theme is to concentrate assistance on strategies and activities aimed at boosting economic growth and reducing poverty in AfDF eligible member countries, with particular focus on promoting increasing productivity and providing support to pro-poor policies and investments aimed at improving the welfare of low-income groups. The report describes a breakdown by sector and aid modality of the Fund's disbursement activities and reflects on the success it has had in improving the delivery of its assistance.

**3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA**

**3.1. Recipient Countries**

## African Development Fund

Top ten	% of total approved loans and grants	US\$m
Uganda	8.9%	132.74
Congo, Dem. Rep.	8.8%	131.17
Ghana	8.7%	128.99
Senegal	7.7%	114.74
Benin	6.0%	89.24
Madagascar	5.8%	85.98
Burkina Faso	5.7%	84.72
Mali	5.0%	74.88
Ethiopia	4.4%	65.41
Kenya	4.2%	62.28

Source: AfDB (2007a).

The top ten recipients listed above received 65.2% of total approved loans and grants from the AFDF in 2005. 22 countries received approval for loans and/or grants from the AFDF during the 2005 fiscal year:

### 3.2. Allocation Criteria

#### 3.2.1. *Pre-selection criteria*

The AfDB uses the World Bank's income-based classifications to determine which countries are eligible for concessional credit through the AFDF. This means that 38 IDA-only countries are eligible for only AFDF funds. Furthermore, IBRD-only countries cannot receive funds from the African Development Fund and are AfDB-only. Nigeria and Zimbabwe are blend countries, eligible to receive funds from AFDF and the AfDB. All countries are eligible to receive funds from the NTF.

#### 3.2.2. *Allocation criteria*

The AFDF allocates funds on the basis of an « Enhanced Performance Based Allocation » (EPBA) system, which is relatively similar to that of IDA in containing a combination of policy performance (CPIA) and portfolio (i.e. disbursement) performance. However, there are some important differences, especially a higher weighting of poverty and needs rather than governance. The EPBA has nevertheless been causing three problems according to the AFDF-X mid-term review (AfDF, 2006a):

- 1) reducing some countries' allocations to levels where only very small projects are possible, making transaction costs excessively high (Bank management has therefore proposed applying some minimum threshold to the level of disbursements after PBA adjustments);
- 2) reducing disbursements to fragile states – the Bank has recently come out with a new policy to enhance these disbursements by allocating some resources specifically on the basis of fragility regardless of EPBA ; and
- 3) application of the EPBA in conjunction with the Debt Sustainability Framework assessment on an annual basis has led to dramatic changes in amounts and terms of financing for member countries. This should be reduced somewhat by a recent decision to apply EPBA assessments to the DSF based only on a 3-year average.

The EPBA continues to be reviewed on a rolling basis and will be a major topic for discussion in the planning of AFDF-XI in 2007.

## 4) AID POLICIES

### 4.1. Concessional loans

The terms of different concessional loans available from the AfDB Group are shown in the Table below. However, during the period of AfDF-X, its interventions are financed 56% by loans and 44% by grants. AFDF core grant financing is allocated based on a system similar to the IDA Debt Sustainability Framework, but using the AfDB's CPIA system to determine country policy quality (see 3.2.2. above). Volatility in assessments under this framework (due also to the Multilateral Debt Relief Initiative) has meant that as of December 2006, 59% of commitments under AFDF-X were in loans and only 41% in grants. The AFDF also provides grant-based TA using trust funds supplied by several donors.

TERMS OF AfDF/NTF LOANS					
	AfDF Project Loans	AfDF Lines of Credit	AfDF General TA Loans	AfDF Special TA Loans*	NTF
Maturity	40-50 years	20 years	50 years	50 years	Up to 25 years
Grace period	10 years	5 years	10	45	5
Interest Rate	0.75	0.75	0.75	0.75	2-4
Commitment Charge	0.5% pa (from 90 days after signature)	0.5% pa (from 90 days after signature)	0.5% pa (from 90 days after signature)	0.5% pa (from 90 days after signature)	0.75% pa (from 120 days after effective date)
*For pre-investment study that finds a project not possible, for strengthening regional cooperation, or for the improvement of the operations of existing institutions and not related to specific projects or programmes					

Source: AfDB (2006a, p215).

### 4.2. Types of Assistance

AfDF - Breakdown of different types of ODA (disbursements):

	\$USm	% of gross disbursements
Stand-alone technical cooperation	46.82	2.30%
Action related to debt	613.86	30.21%
Project Grants	545.65	26.85%
Project Loans	642.54	31.62%
Policy Based Programme Support Loans (PBL)	181.52	8.93%
Project Preparation Facility	1.62	.008%

Source: AfDB (2006a).

NTF disbursements were entirely devoted to debt relief in 2006, though the Fund did historically support a wide range of project funding.

AfDF assistance is chiefly channeled towards project (which often includes TC) and budget support. The ADB has equally provided debt relief under the HIPC and MDRI. Under AfDF-X, a ceiling for "policy-based interventions" (budget and sector support) was set at 25% though actual commitments look certain to fall well short of this level (as of December 2006 around 13%), due largely to a growing focus on infrastructure projects. The Bank has indicated however that it wants to move to a greater percentage of its resources in the form of sectoral and/or general budget support. It has not set specific targets for this however (AfDB, 2006b, p41).

This is borne out by both the Paris and the HIPC-CBP surveys. Paris (indicator 9) shows that all AfDB resources were channelled through Programme Based Approaches (PBAs) in Sierra Leone and nearly all in Madagascar (90%). According to HIPC government analysis, Burkina, Chad, Gambia, Mozambique and Senegal receive high proportions of PBA.

As for technical cooperation, Paris indicator 4 shows that all TC was co-ordinated with country-led strategies in Benin, Chad, DRC, Kenya, Uganda and Zambia.

The HIPC-CBP shows high-quality TC in Gambia, Guinea-Bissau and Sao Tome.

#### 4.3. Channels of Assistance

In theory, as all AFDF support is government-to-government, all AfDF resources are channelled via the budget of the recipient country. However, for some projects, information is not always perfectly reflected in the national budget. The HIPC-CBP survey has only 7 out of 18 countries report all AFDF aid on-budget: Ethiopia, Gambia, Mali, Malawi, Mauretania, Sierra Leone and Zambia.

#### 4.4. Sectors and Projects

African Development Fund

Sector	% of bilateral ODA (commitments)
Social and Administrative Infrastructure	12.52%
Of which: Education	4.5%
Health	6.26%
Other	1.76%
Communications	--
Transport	14.92%
Energy	0.36%
Agriculture	14.63%
Industry, mining, construction	--
Multi-sector	11.72%
HIPC debt relief	30.21%

Source: AfDB (2006a).

AFDF operations cover virtually all sectors defined in the recipient countries' planning system (PRSP). However, since 2004, the ADB has been focusing on a number of sectors, namely: water and sanitation; support to good governance; environmental issues; post-conflict assistance and multi-country interventions. Under AFDF-X, a ceiling of 15% was allowed to be spent on multi-country activities (commitments as at December 2006 were at 12%). Infrastructure has risen to 44% of total commitments and in 2007 will represent 65% of commitments. The focus for the remainder of AFDF-X and for AFDF-XI is likely to be on selectivity across sectors, especially stressing infrastructure, water and sanitation, and regional integration, though it will fund other sectors when other donors are not available (AfDB, 2006a).

Most HIPCs consider alignment with the PRSP to be very high, especially Ethiopia, Malawi, Mali, Gambia, Rwanda, Sierra Leone and Zambia. An increasing number of countries also find the AfDB willing to fund sectors other donors reject, especially infrastructure and regional cooperation. This willingness is also reflected in its commitment to align Bank resources better to PRSPs in beneficiary countries, as e.g. outlined in the Bank's action plan on Harmonisation and Alignment (AfDB, 2006b).

#### **4.5. Flexibility**

AfDF can be flexible in financing budget deficits and can step in for specific cases where a country that suffered external shocks needs assistance, though delays in disbursements can make its reaction time somewhat lengthy. This is probably also the reason why among HIPC governments only Guinea-Bissau and Sao Tome and Principe give the AfDF high scores for flexibility.

#### **4.6. Predictability**

All AfDF commitments are planned on a 3-year basis in line with its donor replenishment periods, which should allow a higher level of predictability. However, it does not have specific disbursement schedules and its disbursements often occur considerably behind schedule, making predictability much less reliable. This is acknowledged by the AfDF itself (see e.g. AfDF, 2006b).

According to the Paris survey (indicator 7, ratio of disbursements recorded by Government to aid scheduled by donors), predictability is best in Malawi (95%) and Uganda (89%). HIPCs agree that AfDB programmes make multi-year commitments, but score the Bank less well on whether aid is disbursed in the intended fiscal year (with only 5 countries - Ethiopia, Gambia, Mali, Mauretania and Zambia indicating 75% or more).

#### **4.7. Conditionality**

The AfDF does not impose many additional conditionalities for the implementation of the Government's sector guidelines. However, it does generally link its conditions to those of IDA and the IMF, or to multi-donor budget support frameworks, especially when cofinancing budget or sector support operations. This implies that conditionality is relatively heavy.

The HIPC-CBP survey confirms this view, with conditionalities in general being seen as very numerous and cumbersome (though there is some evidence of reduced conditionality in most recent evaluations).

#### **4.8. Policy Dialogue**

Disbursements of policy-based AfDF interventions (budget and sector support loans or grants) are formally linked to execution of an IMF programme and sometimes co-finance World Bank operations (but increasingly do not). The AfDF has not until recently played a significant role in the macro-economic policy dialogue between donors and government in most countries, mainly due to the lack of strong decentralised representation, but this is changing as decentralisation increases.

HIPC government officials see the AfDF's policy dialogue as very active, especially where there is strong local representation. However, it is also seen as heavily linked with BWI policies, except in the Gambia and Sao Tome & Principe.

### **5) AID PROCEDURES**

#### **5.1 Conditions Precedent**

Programming follows the AfDF replenishment cycles, with Country Strategy Papers prepared for each separate cycle.

The AFDF has several major conditions precedent, including:

- the establishment of parallel Project Implementation Units for most projects;
- a complex pre-appraisal and appraisal process;
- a legal opinion;
- high levels of counterpart funding due to restrictions on expenditures eligible for AFDF funding (though efforts are underway to reduce this by making expenditure eligibility more flexible);
- various documentary requirements proving these conditions have been met
- establishment of separate bank accounts.

HIPC government officials confirm the high level of counterpart funding in AFDF operations, though lower levels appears to exist in Ethiopia, Zambia and Sierra Leone. Sao Tome & Principe and Zambia indicate that conditions precedent are less numerous, and Sao Tome that as a result disbursement delays are relatively short.

The Paris declaration indicator on Project Implementation Units (PIUs) reports 121 PIUs in 19 beneficiary countries: only 5 countries do not have any AfDB PIUs (Chad, DRC, Egypt, Kenya and Mali). AfDB (2006b, p41) indicates a willingness to scale back the use of PIUs as part of the Bank's commitment to the Paris declaration.

## **5.2 Disbursement Methods**

The AfDF can disburse in one of three ways :

- direct payment to suppliers;
- rolling funds - an advance followed by further tranches when funds are exhausted;
- letter of credit - reimbursing a commercial bank for expenditures funded.

The precise combination of methods is agreed during the negotiations of each operation (AfDB, 2007c).

According to HIPC officials, disbursement methods used are mostly reimbursement claims or direct payment to suppliers, though in the Gambia and Zambia more than 2/3 of AfDF resources being disbursed as cash advances through Government systems. Nevertheless, in general disbursement methods are seen as causing considerable delay, though this is being reduced as some decentralised offices provide more assistance.

## **5.3 Disbursement Procedures**

The financing agreement fixes first and last disbursement dates. The latter is important because of frequent and substantial delays in disbursements – requests for postponement of this date need to be made before it arrives. Until the mid-1990s, projects used to continue in existence with many years of non-performance, but now the Bank prefers to “clean up” (i.e. cancel) such projects and re-allocate the funds to performing or new projects.

Disbursement documentation is complex, including AFDF forms, copies of contracts, records of all expenditures, and any guarantees. There have been sustained efforts in recent years to accelerate disbursement and procurement procedures. The AFDF organises for example training seminars on its procedures, and sends special missions to countries to try to overcome severe problems. These efforts have borne some fruit but are still being enhanced. The ADB also demands separate reports at least every semester and special reports on utilisation of funds, as well as a final report maximum

6 months after the end of the project, and audits of project accounts. It also conducts systematic post-project evaluations.

According to the Paris survey (indicator 5a), the AFDF uses country public financial management systems for all its operations and resources only in Kenya (and 89% in Tanzania). HIPC officials indicate that multiple disbursement procedures are very cumbersome and cause considerable delay.

#### **5.4 Procurement Procedures (AfDB, 2007b)**

The African Development Bank's Rules of Origin restrict procurement to member countries of the Bank (causing problems for participation in funding pools with other donors). Roughly 27% of goods and services were procured from Regional Member Countries (RMCs) in 2004, with the remaining supplied by consultants and businesses from outside of the region (AfDB, 2007d). The Rules of Origin are currently under review to ensure that the Bank's policies facilitate harmonisation and alignment and managing for results (AfDB, 2006b, p40).

HIPC officials generally analyse AfDB procurement procedures to be very time-consuming, though less so in Malawi and the Gambia. According to the Paris survey (indicator 5b), the AFDF uses country procurement systems for all its operations and resources in Benin, Cameroon and Tanzania (and 99% in Gabon).

#### **5.5 Coordination**

In its action plan to implement the Paris declaration (AfDB, 2006b), the Bank indicates a great willingness to enter into partnerships with other donors, and in general move towards better coordination with both donors and beneficiary governments. Decentralisation of operations is already assisting with this coordination.

The Paris indicators show a high number of missions, with many of them done jointly, (Benin, Cameroon, CAR and Sierra Leone) All the AfDB's analytical work is done jointly in Sierra Leone and Uganda..

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