PROGRESS REPORT ON THE IMPLEMENTATION OF ADF-16 STRATEGIC AND OPERATIONAL PRIORITIES

FOSTERING A CLIMATE-SMART, RESILIENT, INCLUSIVE, AND INTEGRATED AFRICA

ADF-16 Mid-Term Review
8-10 October, Cotonou, Benin

AFRICAN DEVELOPMENT FUND

ACRONYMS AND ABBREVIATIONS

AAAP	African Adaptation Acceleration Program
AfDB	African Development Bank
ADF	African Development Fund
ADF-16	Sixteenth General Replenishment of the African Development Fund
ADER	African Development Effectiveness Report
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank Group
AFAWA	Affirmative Finance Action for Women in Africa
AIDI	African Infrastructure Index
CBAM	EU's Carbon Border Adjustment Mechanism
CIF	Climate Investment Funds
CODE	Committee on Operations and Development Effectiveness
COP	UN Climate Change Conference of the Parties
CPA	Country Performance Assessment
CPIA	Country Policy and Institutional Assessment
CRF	COVID-19 Response Facility
CRFA	Country Resilience and Fragility Assessment
DAP	Multi-dimensional action plan for the management and mitigation of debt distress risks in Africa
DIA	Development Impact Approach
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
DtP	Desert to Power
ERI	Electricity Regulatory Index
ESIA	Environmental and Social Impact Assessments
ESW	Economic and Sector Work
FAREC	Feed Africa Response to COVID-19
GCA	Global Center on Adaptation
GCI	General Capital Increase
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
IRCC	Independent Risk and Claims Committee
MDRI	Multilateral Debt Relief Initiative
MSMEs	Micro, Small & Medium Enterprises
MVA	Modified Volume Approach
NAP	National Adaptation Plans
NDC	Nationally Determined Contributions
NCBP	Non-concessional Borrowing Policy
NSEZ	Northern Savannah Ecological Zone
OpsCom	Operations Committee
PBA	Performance-Based Allocation
PBO	Program-Based Operation
PCG	Partial Credit Guarantee
PGCL	Office of the General Counsel and Legal Services
PPA	Portfolio Performance Assessment

PPF	Project Preparation Facility
PRG	Partial Risk Guarantee
PSDS	Private Sector Development Strategy 2021 – 2025
PSF	Private Sector Credit Enhancement Facility
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
RO	Regional Operation
ROSPF	Regional Operations Selection and Prioritization Framework
RPG	Regional Public Good
SAPZ	Special Agro-industrial Processing Zone
SDRs	Special Drawing Rights
SEGA	Strategy for Economic Governance
SEAH	Sexual Exploitation, Abuse and Harassment
SMEs	Small & Medium Enterprises
TAAT	Technologies for African Agricultural Transformation
TCF	Total Compensation Framework
TSF	Transition Support Facility
UA	Unit of Account

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Executive Summary

ADF-16 Consultations: The Sixteenth Replenishment of the African Development Fund (ADF-16) concluded in December 2022 with a financing package of UA 6.2 billion for the three-year cycle 2023-2025. Deputies endorsed 'Fostering a Climate-Smart, Resilient, Inclusive, and Integrated Africa' as the overarching theme for ADF-16, resting on two pillars: (i) sustainable, climate-resilient quality infrastructure; and (ii) governance, capacity building and sustainable debt management. Two cross-cutting themes, gender and private sector development, were adopted for the cycle, with fragility and climate adaptation as lenses to be applied across all ADF-16 operations.

The ADF-16 Mid-Term Review (MTR) takes place against the backdrop of major global and regional challenges, including heightened geopolitical tensions, escalating insecurity and conflict, rising food and energy prices, growing debt pressures, and the accelerating impacts of climate change. These interlocking crises have had significant impacts on ADF countries, including on their access to development finance, which is increasingly constrained. Despite these pressures, economic growth has proved resilient. Real GDP growth in ADF countries is projected to rise from 3.1% in 2023 to 3.7% in 2024 and 4.3% in 2025, with ADF countries making up 10 of the 20 fastest growing economies in the world.

Approved Operations: The ADF-16 cycle became effective on June 8, 2023, once the Fund had received instruments representing 34% of the total pledge. As at the end of August 2024, 39% of resources under the three main envelopes had been approved by the Board of Directors. The overall utilization rate is expected to reach approximately 61% by the end of October and nearly 70% by the end of December 2024. By envelope, Performance-Based Allocations (PBA), TSF Pillar I resources and the Regional Operations envelope are expected to reach utilization rates of 65%, 52%, and 59%, respectively, by the end of October 2024. The remaining resources are expected to be fully utilized by the end of the cycle.

Policy Commitments: The Bank has made strong progress on delivering its ADF-16 policy commitments. The replenishment included 33 streamlined, strategic, and impact-oriented commitments for delivery between 2023 and 2025. Of the 25 commitments due by the MTR, all but one has either been delivered or is expected to be delivered by year end.

Portfolio Performance: The ADF portfolio continues to deliver strong development results, with 81% of completed projects independently rated as satisfactory. However, the pace of implementation of the active portfolio remains slow, with 32% of operations facing performance challenges and delays, mirroring the levels reported in 2022. This reflects a challenging operating environment across ADF countries. In 2023, the Bank continued to improve the quality of its operations by mainstreaming climate and gender considerations into project design. All new operations were fully appraised for environmental and social safeguards and 100% of sovereign operations were screened and categorized using the Gender Marker System (GMS). The Bank Group's sovereign portfolio retains top spot among 50 global development institutions in the 2024 Aid Transparency Index.

The ADF remains strongly results-focused. During 2023, the Bank Group continued its development of a new Results Management Framework, with stronger metrics for monitoring the ADF's contribution to development progress across the continent. As reported in the ***ADF-16 Delivery and Results Report***[1], ADF-supported operations completed in 2023 provided, 1 million people with new or improved access to water, and 2.7 million people with better health services. Nearly 250 km of national roads and 163 km of cross-border roads were constructed or maintained, providing more than 2.5 million people with improved access to transport. ADF reached 81% of its target on new household energy connections, benefiting nearly half a million people with electricity access. While contributing to cleaner, more reliable and affordable power through the construction of 1,303 km of cross-border transmission lines. ADF's strong contribution to socio-economic development has been recognized internationally, including by the *Financial Times*, which described the Bank Group's Desert to Power Initiative as an imaginative development project to engage the populations of the Sahel (FT Editorial, "*The rapid deterioration of the Sahel*", 1st May 2024).

Climate Change: African countries continue to receive an inadequate share of global climate finance flows, particularly in the area of adaptation. ADF-16 therefore included a strong focus on mobilizing additional climate finance, with climate change used as a lens across all its operations. Overall, the Bank Group is well on its way to reaching its goal of mobilizing US$25 billion in climate finance. In 2023, the ADF increased the share of climate finance to 55% of commitments, compared to 40% in the previous cycle. Finance for adaptation reached 53% of climate finance commitments in 2023. The ADF has met its MTR climate target by supporting 11 countries with the development and implementation of national climate plans. The new ADF Climate Action Window established under ADF-16 has received US$442 million (UA312.64 million) in contributions. The CAW's first call for proposals prioritized adaptation projects, with about 73% of the resources, while the remaining 27% is being allocated through ongoing calls for proposals under the Mitigation and Technical Assistance sub-windows.

Fragility: In an increasingly crisis-affected context, ADF-16 has also prioritized building resilience and tackling long-term drivers of fragility. The ADF has successfully met all its fragility-related policy commitments due by the mid-term review. The Transition Support Facility (TSF) serves as the primary instrument for implementing and advancing the ADF fragility and resilience agenda. In 2023, the TSF operational guidelines were updated and approved, marking a shift towards a programmatic approach that supports both crisis response and long-term prevention, while fostering partnerships with other development actors across the humanitarian, development and peace nexus. The Prevention Envelope, which began operations in 2023, is a transformative innovation, encouraging low-income countries to put forward joint projects with external partners. Additionally, the TSF Response Envelope effectively supported Chad and the Central African Republic during the 2023 refugee influx from Sudan.

Organizational Effectiveness and Efficiency: During the ADF-16 cycle, the Bank Group has launched a range of initiatives to enhance its organizational effectiveness and efficiency. Progress

[1] *ADF-16 Delivery and Results Report provides methodological details on the enhanced approach, where level 2 results are based on contribution rather than the previous practice of attributing results in proportion to the Bank's financing*

was made in developing frameworks to monitor the fitness for purpose of a range of structures, systems and processes that enable the Bank to remain agile, competitive, and relevant. The Delegation of Authority Matrix (DAM) was reviewed and updated in March 2023. The Board of Directors approved an update to the Integrated Safeguards System (ISS), which clarifies roles, responsibilities, and accountabilities to borrowers and clients. The updated ISS aligns more closely with peers on community health and safety, gender-based violence, and stakeholder engagement in high-risk operations. In 2023, the proportion of projects managed from country offices was 75%, compared to 78% in 2022. Across the Bank, the percentage of operations staff based in country offices and regional hubs increased to 55% in 2023, its highest level to date. The share of professional staff based in transition states increased from 5.7% in 2022 to 7.6% in 2023. While progress has been achieved in some areas, the Bank is focused on addressing challenges relating to clarification of roles, right skill mix and limited capacity. Female staff accounted for 40% of total staff, a third of professional staff, and 27% of management staff. Results from employee surveys in 2023 show an improvement in employee engagement from 80% in 2019 to 90% in 2023.

ADF Financial Innovations: The single greatest challenge facing ADF countries in achieving their national development goals is the lack of access to affordable finance. In response, ADF-16 included a number of financial innovations, designed to increase the supply of concessional financing for ADF countries. The Board of Governors approved use of the Fund's accumulated equity to leverage more resources from the capital markets. This has the potential to increase the Fund's commitment capacity by up to UA 4 billion per ADF cycle. The work required to prepare the ADF to borrow from international markets, including obtaining a credit rating, will take place over the course of ADF-17. Any decision to proceed with a bond issue will depend upon prevailing market conditions.

The African Development Fund continues to prove its worth as a provider of quality development assistance and of much-needed concessional finance for ADF Countries. Over the remainder of the ADF-16 cycle, the Bank will continue to push forward with the outstanding policy commitments. The implementation of the ADF-16 Strategic Framework is aligned with the Bank's new Ten-Year Strategy (2024-2033), which refines the Bank's operational priorities under the High 5s and sets out bold new commitments on tackling global and regional crises and mobilizing development finance. These will be key priorities for the Bank as it looks towards a robust ADF-17 replenishment.

Section I. Introduction

1. **The ADF turned 50 during the negotiations of the ADF-16 cycle**. Over the past half century, the Fund has been improving the lives of people in Africa's most vulnerable countries. From its inception in 1972, the ADF has invested more than (UA 33.4 billion (US$45 billion) in delivering sustainable development outcomes in more than 40 countries. The Fund is much more than one of Africa's leading development financiers; first and foremost, it is the partner of choice for ADF countries and has stood with African governments in tackling some of the continent's most complex and pressing development challenges. It has proved to be nimble in adapting to a changing client needs in a volatile global context, helping African countries respond to critical issues such as pandemics, climate change, and conflict.

2. **The negotiations for ADF-16 concluded in December 2022**. The theme for ADF-16 was set as 'Fostering a Climate-Smart, Resilient, Inclusive, and Integrated Africa', with two pillars: (i) sustainable, climate-resilient quality infrastructure; and (ii) governance, capacity building and sustainable debt management. Two cross-cutting themes – gender and private-sector development – complement the ADF-16 strategic framework, while fragility and climate adaptation serve as lenses across all ADF-16 operations. The theme was anchored in the Ten-Year Strategy (TYS 1.0) and the High 5 operational priorities. Deputies and Management agreed on the need to strengthen partnerships and promote debt transparency and sustainability, and on the importance of independent evaluation, audit, and safeguards. A set of 33 streamlined, strategic, and impact-oriented ADF-16 policy commitments were agreed, for delivery between 2023 and 2025. The replenishment culminated in a financing package of UA 6.2 billion for the three-year ADF-16 cycle (2023-2025).

3. **During the negotiations, Deputies and Management agreed that the Mid-Term Review will assess progress in implementing the policy commitments and other ADF-related issues.** This ADF-16 Mid-Term Review Progress Report therefore takes stock of progress on implementation of ADF-16 operational priorities, policy commitments, utilization of resources, and results. This main progress report is accompanied by 15 companion papers/presentations referenced throughout the Report: (i) ADF-16 Delivery and Results Report; (ii) Climate Action Window (CAW) Progress Report; (iii) Update on the ADF-16 Financing Framework; (iv) An Update on the African Legal Support Facility; (v) Update on the recommendations of the Ad-hoc Committee on Governance; (vi) Update on the Local Currency Framework; (vii) Update on the Private Sector Credit Enhancement Facility; (viii) ADF-17 Working Group Chair's Report; (ix) Presentation on Grant Compensation Mechanism; (x) Update on the Project Preparation Facility (PPF); (xi) The African Development Bank's Support in Addressing Debt Distress Risks in Africa and Strengthening Public Financial Management under ADF-16; (xii) Partnerships for Effective Development; (xiii) Non-Paper on Regional Operations; (xiv) Non-Paper on the Transition Support Facility; and (xv) Proposal related to Somalia – extending grant access through the end of the ADF-16 cycle.

4. **This progress report contains eight sections**. Following this introduction, Section II describes the ADF-16 strategic direction and commitments. Section III highlights progress in implementing ADF-16 operational commitments under Pillar I and Pillar

II. Section IV discusses progress in implementing ADF-16 operational commitments, taking into consideration the fragility and climate change lenses and the cross-cutting issues of gender, private sector, and youths and jobs. Section V provides a status update on the utilization of ADF-16 resources. Section VI provides an update on the Bank Group's institutional reforms. Section VII highlights the ADF Market Borrowing Option. Section VIII concludes the Progress Report with some observations and recommendations to Deputies. .

Section II. ADF-16 STRATEGIC DIRECTION AND COMMITMENTS

II.1 Context

A. Delivering in a Context of crisis

5. **ADF-16 is delivering in a challenging environment. The ADF-16 Mid-Term review (MTR) takes place** against the backdrop of major global challenges, including heightened geopolitical tensions, political instability, escalating insecurity and conflict, disruption to global supply chains, rising food and energy prices, increasing debt pressures, and the accelerating impacts of climate change. Economic growth in ADF countries, while slowed by multiple crises, has proved resilient. Real GDP growth in ADF countries is projected to rise from 3.1% in 2023 to 3.7% in 2024 and 4.3% in 2025, an improvement from the annual average of 3.6% under ADF-15 (2020-2022). GDP per capita in ADF countries is projected to grow by an annual average of 1% over 2023-2025, which is half a percentage point above the 2020-2022 growth rate. The imperative of strengthening Africa's resilience against multiple challenges and future shocks has never been more pressing.

B. ADF Aligned to the Bank's Strategy and International Agendas

6. **Alignment to wider development agendas:** The ADF-16 priorities were anchored in the longer-term visions of the African Union's Agenda 2063, the 2030 Agenda for Sustainable Development, the Bank Group's Ten-Year Strategy (TYS) 2013-2023, and the High 5 operational priorities. They remain aligned with the new Ten-Year Strategy (2024-2033). The ADF-16 theme is "Fostering a Climate Smart, Resilient, Inclusive and Integrated Africa", with two pillars: (i) sustainable, climate-resilient and quality infrastructure; and (ii) governance, capacity building and sustainable debt management. ADF-16 crosscutting issues are gender and private sector development.

7. **Climate change is elevated as a lens in ADF-16, which also emphasizes the need to mobilize additional climate finance, while leveraging and promoting private sector participation in both adaptation and mitigation in ADF countries.** In addition to the mainstreaming of climate action across ADF operations, ADF-16 incorporated a Climate Action Window intended to accelerate climate-resilient and low-carbon development in ADF countries. Fragility is a second lens for ADF-16 operations, enabling the Bank to identify and design operations that will make the greatest contribution to building resilience and preventing conflict. In this way, AFD-16 projects should make an active contribution to addressing fragility and climate change, while ensuring that gender, youth employment, private sector development and effective governance are integrated across its operations.

8. **Partnerships for Effective Development**. A companion note to this Progress Report is a paper on **"*A forward looking analysis on ADF partnerships approach*,"** which provides an update on the Bank's partnership work in African Development Fund (ADF) countries. It explores key priorities being discussed by MDBs as part of the G20 initiatives and the Viewpoint Note approved by Heads of MDBs during their retreat in April 2024. It also illustrates how the Bank is working with other MDBs and partners. For the Bank Group, enhancing partnerships is embedded in the implementation of the Bank Group's recently approved Ten-Year Strategy (TYS 2.0 for 2024-2033), which is closely aligned with ongoing MDB efforts towards *Working as a System*. Emphasis is placed on partnerships at policy, institutional and operational levels.

II.2 Delivering on ADF-16 Policy Commitments

9. Deputies and Management agreed to 33 streamlined, strategic, and impact-oriented ADF-16 policy commitments for delivery between 2023 and 2025. These offered a tighter strategic focus, when compared to the 92 commitments agreed under ADF-15. The companion paper ***"ADF-16 Delivery and Results Report: Delivering Greater Impacts through Transformative Investments*,"** provides details on ***development*** results performance at mid-term with an updated matrix of policy commitments for the three-year ADF-16 cycle.

10. **ADF-16 became effective in June 2023.** Of the 33 policy commitments due to be delivered over the ADF-16 cycle, 25 are due by the MTR. All but one of these have either been delivered or are expected to be delivered before year end.

Section III. FOCUS AREAS AND CROSS-CUTTING PRIORITIES

III.1 Pillar I: Sustainable, Climate-resilient and Quality Infrastructure

11. **The ADF-16's first operational pillar – Sustainable, Climate-resilient and Quality Infrastructure** – addresses both soft and hard infrastructure challenges in relation to climate change, agriculture, water, and sanitation, health, and energy in Africa.

III.2 Energy Access and Just Energy Transition

12. **ADF Operations**: Under the High 5 operational area 'Light Up and Power Africa', energy access is a top priority for the ADF. Fund-supported operations completed in 2023 provided 83,653 electricity connections, benefiting nearly half a million people. ADF projects also helped deliver 10,486 km of new or rehabilitated power distribution lines – over three times the target – and 1,393 km of new or improved power transmission lines. Under ADF-16, a total of UA 396.86 million has been approved for power projects in Ethiopia, Eritrea, The Gambia, and Mozambique as well as 4 multinational operations—Eastern Africa Power Pool, Mali-Mauritania power interconnection project, Desert to Power Regional Technical Assistance Project for the Sahel to ECOWAS and IGAD. The approved operations also include policy-related multi-sector programs for Comoros and Madagascar. The ADF has invested in renewable energy to accelerate energy transition. For example, the Mali-Mauritania power interconnection project combined with the development of solar power plants

will accelerate progress towards universal access to electricity for the two Sahel countries (Box 1).

13. **Policy Commitments**: Progress is being made in implementing ADF-16 policy commitments related to energy access. Of the four commitments due at MTR, three have been met or are on track to be delivered by year end. By the MTR, several operations have been approved to support sustainable on-grid and off-grid electricity access in ADF countries. The ADF has partly met the commitment to support Just Energy Transition in ADF countries through the development of five inclusive, gender-responsive Transition plans **(PC1**). Two plans, Senegal's Just Energy Transition Partnership and Uganda Integrated Resource Plan, have been developed with support from SEFA, while the remaining plans are expected to be launched at the Africa Energy Summit in early 2025.

Box 1: The Desert to Power Initiative

Light Up Africa: The Multiregional Desert to Power Initiative – 225 KV Mauritania-Mali Power interconnection and Related Solar Power Plants Development Project — is funded through a UA 227.7 million ADF loan, alongside grants from the Green Climate Fund and the Climate Investment Funds. Its objective is to increase solar energy generation and evacuation capacity and promote electricity access by constructing a transmission interconnection between the two countries. It is the first section of the trans-Sahel spine aimed at linking Mauritania to Chad via Mali, Burkina Faso and Niger. The project will establish a high-voltage electrical interconnection over 1,373 km, with a 600-megawatt (MW) transfer capacity and a 50 MW solar power plant in Kiffa, Mauritania, while connecting 100,000 new households to the power grid in surrounding areas. The project will also create opportunities for young people and women to establish agricultural and service businesses.

III.3 Agriculture and Food Security

14. **ADF Operations**: Under the ***Feed Africa Strategy***, as part of its commitment to enhancing resilience and food security, the Bank has spearheaded a range of interventions to tackle malnutrition and improve living conditions for vulnerable populations. ADF-supported operations completed in 2023 bolstered agricultural value chains by supporting 11 million farmers with improved inputs, providing 1,167 tons of improved agricultural inputs, enhancing 5,966 hectares of land with improved water management, and constructing 634 kilometers of feeder roads to enhance rural connectivity and access to markets.

15. **Over UA 922 million in ADF-16 lending for agriculture and agri-business has been approved since June 2023 or scheduled for approval by end of September 2024**. These resources are helping to leverage and co-finance other investments under the Bank's Feed Africa Strategy. Following the Dakar-2 High-Level Summit on Feed Africa, held in Dakar, Senegal, in January 2023, the Bank, working together with the African Union (AU) and other development partners, is galvanizing pledges to fund Food and Agriculture Delivery Compacts.

16. The Bank’s support for Special Agro-industrial Processing Zones (SAPZ**s)** expanded to a total of 11 countries by the end of June 2024, including ADF countries such as Mali, Guinea, Togo, Liberia, Côte d’Ivoire, Senegal, DRC, Ethiopia, Mozambique, and Madagascar. The **Technologies for African Agricultural Transformation Program (TAAT 1)** facilitated the adoption of climate-resilient agricultural technologies and practices in 31 countries across Africa, leading to a 44% rise in cereal production and a 68% increase in income for beneficiaries, while creating job opportunities for 262,937 people. It has helped accredit 100 seed companies and 5,000 suppliers and deployed 208 new agricultural technologies. Through 10,000 outreach campaigns, TAAT 1 reached nearly 25 million individuals (including 10.9 million farmers using improved inputs), of whom 31% were women, offering them climate-adaptive technologies and innovations.

17. Further catalyzing investment, the **Agri-food SME Catalytic Financing Mechanism (ACFM)** is the Bank’s first blended finance facility targeting Agri-SMEs and includes an Investment Facility and a Technical Assistance Facility, for gender-oriented, climate-smart Agri-SMEs, and supporting project preparation and sharing of best practices. The ACFM is poised to catalyze over US$100 million in investments in 2024. The Bank created **The Africa Emergency Food Production Facility** in mid-2022 to cushion against the adverse effects of the Three Cs— climate change, COVID-19, and conflict—and to avert a looming agricultural and food crisis on the continent (Box 2).

18. **The Bank has met the policy commitment due at MTR focusing on improving ADF countries food self-sufficiency** with several operations being approved in support of this objective. The Enabling Sustainable Regional Extension (ENSURE) multinational project seeks to improve agricultural productivity in the East African Community (EAC) Partner States by strengthening extension systems through innovative private sector-led approaches and conducive policy environment. This will be achieved through digital extension technologies that enable farmers to access advice and information and adopt climate-smart technologies. Overall, the project will reach 3 million farmers through improvements in agricultural extension services.

Box 2: The Africa Emergency Food Production Facility

The Bank created the Facility in mid-2022 to cushion against the adverse effects of the Three Cs— climate change, COVID-19, and conflict—and to avert a looming agricultural and food crisis on the continent. Some of the results include:

- 92% of the target volume of certified seeds have been distributed
- 36% of the target volume of fertilizers have been distributed
- 6.6 million farmers (33% of the target) have benefited
- 22% of the food production target has been reached
- 18 countries have operational ICT platforms; other countries’ platforms are in process.
- The Technologies for African Agricultural Transformation is introducing climate-smart agricultural technologies in 24 countries, conducting seed assessments, and supporting policy reform for seed systems in 33 countries.

19. The ADF also provided additional financing for Chad and the Gambia as part of Project 2 of the Program to Strengthen Resilience to Food and Nutrition Insecurity in the Sahel (Box 3).

Box 3: Multinational Program to Strengthen Resilience to Food and Nutritional Security in the Sahel

As part of its commitment to enhancing resilience and food security in Africa, the ADF has spearheaded interventions to tackle malnutrition and improve living conditions for vulnerable populations. One such intervention is the Program to Build Resilience to Food and Nutrition Insecurity in the Sahel (PC3). With UA122.2 million (US$165 million) in ADF funding, the program contributed to reducing malnutrition and improving living conditions for vulnerable households across Burkina Faso, Chad, Gambia, Mali, Mauritania, Niger, Senegal, and Chad. Targeting 180,000 farms and SMEs, including small-scale producers, herders, agro-pastoralists, and artisanal fishermen, the program supported nutrition interventions benefiting 450,000 mothers and children. Providing essential services and infrastructure such as water management, irrigation facilities, and pastoral support enhanced the capacity of vulnerable communities to withstand shocks and adapt to climate change, thereby reducing poverty and enhancing food and nutrition security. The program significantly increased average sorghum/millet yields by 24%, rice by 59%, annual grain production by 25%, and improvements in vegetable and animal production, doubling household incomes.

III.4 Water, Health and Sanitation Infrastructure

20. **ADF Operations***:* Health, water and sanitation are key to the Bank's efforts to tackle poverty and fragility in ADF countries, where nearly 75% of jobs and livelihoods depend on access to water and water-related services. ADF-supported operations completing in 2023 improved access to health care, clean water and sanitation across the continent. The Fund greatly exceeded planned results on access to water, with nearly one million people benefiting from new or improved access, and an additional 16,500 million gained new or improved access to sanitation services. In 2023, close to 2.8 million people gained access to better healthcare services, with more than 1.3 million women benefiting.

21. **Access to Water and Sanitation**: Providing Africans with safe and dependable access to water and sanitation remains a key priority for the ADF. Overall, ADF-16 financing approved by mid-term has reached UA 374 million, and will play an instrumental role in the provision of improved water services for an estimated 11.5 million people (51% women), to basic sanitation for an estimated 10 million people (50% women), and jobs for 46,000 people (50% women).

22. **Quality Health Infrastructure:** The Bank is implementing the Strategy for Quality Health Infrastructure in Africa (SQHIA), to accelerate the development of quality healthcare infrastructure among African countries. Under this strategy, the Bank aims to ensure that individuals and communities receive the health services they need without financial hardship. Increased access to quality health services for the people of Africa will contribute to the achievement of Sustainable Development Goal 3 and

the African Union's Agenda 2063 health-related goals. Under ADF-16, the Bank committed to deliver 3 SQHIA projects by MTR. At mid-term, a total of 7 operations (against the target of 3 operations), totaling UA99.08 million (US$138.12 million) spread across 8 ADF countries, had been approved, all involving rehabilitation and/or construction of health infrastructure.

23. Under the High 5 on **Improve the Quality of Life**, the Bank is promoting human development in Africa by supporting education and skills development, entrepreneurship and the creation of decent jobs, including for young Africans. One of our flagship pan-African programs to promote youth entrepreneurship and employment is Coding for Employment, which has trained over 90,000 youth (47% female) in information communication technologies.

24. **Policy Commitments**: Investing in quality health infrastructure and increasing access to resilient health services are among the ADF-16 policy commitments that have been fully delivered. As noted above, investments in 7 operations, against the target of 3 operations have been made in support of this commitment. For example, the ECOWAS Quality Health Infrastructure for tackling Neglected Tropical Diseases (NTDs) in Burkina Faso, Niger and Mali seeks to improve the diagnosis, prevention, and treatment of NTDs among vulnerable populations in cross-border communities of the three countries. Another example that enhances the resilience of vulnerable communities through improved health access is the UA19.26 million (US$26 million) Multinational Emergency Project to Support the Stabilization and Recovery of Refugees and Host Communities in the Lake Chad Basin. The Fund has also invested in operations that will provide sustainable, inclusive and pro-poor access to climate-resilient water and sanitation services in ADF countries, including Malawi and Mozambique.

III.5 Regional Integration

25. **ADF Regional Integration Operations**: ADF-16 has prioritized the development of regional infrastructure by financing cross-border transport and energy systems. In 2023, the ADF's completed operations facilitated the construction of vital infrastructure for regional integration, including 163 km of cross-border roads and 1,303 km of cross-border transmission lines. It also contributed to providing 2.5 million people, including 1 million women, with improved access to transport.

26. **Policy Commitments**: The Fund has achieved significant progress on regional integration commitments during the ADF-16 cycle. The first commitment – allocating at least 15% of the regional operations envelope to projects in Sahel, Lake Chad Basin, and Horn of Africa regions – has been exceeded. By the end of 2023, 19% of resources from the RO envelope were approved, including the Mali-Mauritania power interconnection project that will connect 100,000 new households. Under the 2nd commitment on support for the Program for Infrastructure Development in Africa (PIDA), the Bank has successfully delivered a transformative regional infrastructure program of unprecedented scale and impact. The Multiregional Tanzania, Burundi and Democratic Republic of Congo (DRC) Joint Standard Gauge Railway Project II, co-financed by the AfDB, ADF and TSF, was approved in 2023 with a total resource envelope of UA646 million (US$872.9 million) to construct 650 km of rail

infrastructure linking the three countries (**Box 4)**. Other examples of ADF work to expand transport infrastructure includes the Kazungula rail and road bridge, which promotes trade in the Southern Africa region, and the Cote d'Ivoire, Liberia, Sierra Leone, and Guinea Regional Power Interconnection Project, linking the four countries, which has yielded important outcomes for the Mano River Union (MRU) countries.

Box 4: Multiregional Tanzania/Burundi/Democratic Republic of Congo (DRC)

The Joint Standard Gauge Railway Project Phase II (Tanzania-Burundi Section), supported through a mixture of loans and partial credit guarantees from ADF and ADB for the two countries, will improve transport connectivity along the Central Corridor to enhance regional integration and trade and incentivize large-scale mining and farming through improved access to high-capacity railway transport. Tanzania, Burundi, and DRC are developing a phased standard gauge railway around the Port of Dar-es-Salaam and the Central Corridor to carry mining, agricultural, and general cargo. Mine operators, farmers, and the general population will benefit from access to efficient transport services, and the governments of Burundi and Tanzania will benefit from the commercial exploitation of previously untapped mineral wealth. Similar large-scale projects are in the pipeline for the Lobito Rail, between Zambia and Angola, and Kano-Maradi Rail, between Nigeria and Niger.

III.6 Pillar II: Governance, Capacity Building and sustainable Debt Management

Governance and Capacity Building

27. In line with the Strategy for Economic Governance in Africa (SEGA) (2021-2025), the Bank's Capacity Development Strategy (CDS 2021 – 2025), the Multidimensional Action Plan for the Management and Mitigation of Debt Distress Risks in Africa (Debt Action Plan) 2021-2023, and the Sustainable Borrowing Policy 2022, **the Bank Group has accelerated programs to enhance the policy environment in RMCs** through tailored policy dialogue, technical assistance, institutional support projects and support for reforms through program-based operations and results-based financing.

28. **ADF governance projects completed in 2023 achieved 100% of their targets across all the indicators in the pillar.** These projects contributed to enhancements in governance, macroeconomic policy management and the business regulatory environment. A key measure of success is improvement in the CPIA scores for the quality of policies and institutions. Guinea-Bissau, DRC and Somalia, which all benefitted from support to public financial management (PFM) reforms under ADF, have registered gradual improvements in their overall CPIA governance scores. Through these projects, a total of 90 public sector officials were trained to improve their skills in PFM, of whom a third were women. Four ADF countries were supported to improve their business enabling environment and registered improvements in their CPIA business regulatory environment scores, these included: DRC, Guinea-Bissau, Cote d'Ivoire, and Lesotho.

29. **During the first half of the ADF-16 period, the Bank delivered 14 ADF and 6 TSF-financed operations** for a total volume of UA 216.5 million addressing core areas of economic governance, including public expenditure management, domestic resource mobilization, sustainable debt management and enhancing the enabling environment for private sector-led economic recovery and resilience. Across these operations, a sustained effort has been made to increase the focus on areas such as transparency and accountability, combatting corruption, illicit financial flows and demand-side governance. Mainstreaming and addressing governance across sectors, as well as in other cross-cutting areas, has also been a focus.

30. **Policy Commitments**: The Bank has delivered the two policy commitments related to strengthening governance and sustainable debt management due at the mid-term of the ADF-16 cycle. Several investments have been approved to support implementation of policies that promote macroeconomic stability and ensure the effective, accountable, and transparent management of public finances in ADF countries. These investments will also strengthen their capacity to manage debt productively and transparently, using instruments such as Program Based Operations (PBO) and Institutional Support Projects.

31. Under ADF-16, the Bank committed to addressing infrastructure and natural resource governance by promoting institutional and regulatory reforms in critical sectors, such as energy, manufacturing, and agriculture, while also addressing climate change. In Sao Tome and Principe, a PBO approved under ADF-16 included a component aimed at strengthening energy sector governance and the transition to renewable energy. Under ADF-16, at least seven countries have already benefited from governance operations that included policy actions in support of climate action.

IIII.7 Sustainable Debt Management

32. **According to the IMF, as of Feb 29, 2024, of the nine low-income countries globally that are in debt distress, seven are in Africa and six are ADF countries**. Of 25 low-income countries at high risk of debt distress, 12 are ADF countries. Altogether, 18 ADF countries are in debt distress, or at high risk of falling into debt distress: Burundi, Cameroun, Central African Republic, Chad, Comoros, Djibouti, Ethiopia, Gambia, Ghana, Guinea Bissau, Kenya, Malawi, Mozambique, Sao Tome and Principe, South Sudan, Sudan, Zambia, Zimbabwe. An accompanying paper on "The Bank's Support to Addressing Debt Distress Risks in Africa and Strengthening Public Financial Management under ADF-16" sets out the Bank's support to ADF countries in the area of debt management and transparency.

33. **The composition of debt owed by African countries continues to trend toward more non-concessional commercial debt**. At the end of 2023, 49% of Africa's debt was privately owned, and this is expected to reach 54% in 2024. Debt servicing payments will reach US$74 billion in 2024, up from US$17 billion in 2010. As a result, development finance is heavily constrained, just when it is needed the most. The critical importance of increasing concessional financing for low-income countries, particularly in Africa, cannot be overemphasized, as ADF countries cannot sustainably finance their national development through commercial debt. There is a

need for a significant increase in concessional financing across all multilateral development banks.

34. Under the ADF- 16, the ADF has financed country-level policy reforms and institutional and capacity support for enhanced debt management amounting to approximately UA 142 million across 11 countries,[2] as well as partial credit guarantees to assist with mobilizing sustainable commercial financing on competitive lending terms. In addition, the Bank Group is implementing several regional and multi-country projects that address debt management-related issues, including the UA 3 million Transition Support Facility Pillar III and Fund for African Private Sector Assistance (FAPA) financed project, "Strengthening the Capacity of Transition States for Effective Management and Mitigation of Debt Distress Risks," which covers 22 Transition States (Box 5).

35. **Sustainable Borrowing Policy**: The Bank's efforts to strengthen debt management in ADF countries is further buttressed by the new Sustainable Borrowing Policy, approved in 2022. The policy strives for greater complementarity, harmonization and alignment with the World Bank and IMF and enhanced support for sustainable borrowing practices by recipients of ADF resources (ADF–only and Blend countries). In line with this policy, for all ADF-recipient countries at high and moderate risk of debt distress, PBOs include agreed policy actions (APAs) linked to debt management and transparency, to help incentivize policy reforms. APAs have been piloted across five PBOs approved for ADF countries in 2023: Sao Tome and Principe, Mozambique, Kenya, Gambia and Ghana – all countries in debt distress or at high risk of debt distress. The Bank is developing implementation guidelines to further promote the inclusion of APAs in line with the policy.

36. As part of its implementation of the Multidimensional Action Plan for the Management and Mitigation of Debt Distress Risks in Africa (Debt Action Plan) 2021-2023, the Bank has delivered on several other initiatives as part of its comprehensive response to addressing debt challenges on the continent. These are highly complementary to ADF-16 financed operations. This includes the launch of the Africa Debt Managers Initiative Network, which will support the sharing of knowledge and experience and networking amongst the continent's debt managers. A maiden dialogue and learning session of this Network held in June 2024 was focused on Developing and Deepening the Domestic Debt Markets in Africa.

[2] ADF countries benefitting from Institutional Support Projects since 2023 include Central African Republic, Comoros, Djibouti, Gambia, Ghana, Mauritania, Mozambique, Sao Tome and Principe, Sierra Leone, Somalia, Zimbabwe.

Box 5. Transition Support Facility (TSF) Pillar III Project: Strengthening the Capacity of Transition States for Effective Management and Mitigation of Debt Distress Risks

In April 2023, the Bank approved a grant of UA 2 million from Pillar III of the Transition Support Facility (TSF). An additional UA 781,000 is expected from the Fund for Africa Private Sector Assistance (FAPA). The project will cover 22 transition countries in Africa, focusing on those in or at high risk of debt distress. It has an overall objective of enhancing the capacities of Transition Countries to manage their debt effectively, transparently, and responsibly, to minimize the risk of falling into debt arrears and to enable them to raise sustainable debt financing for productive purposes.

The Project will scale up the capacity of existing programs, such as country debt-related policy frameworks, policy dialogue on debt management and sustainability, and coordination and partnership with bilateral donors and multilateral development banks (MDBs), including the IMF and the World Bank. It is also expected to strengthen capacity for debt management and transparency (including PFM and debt statistics).

37. **ADF support to economic and financial governance contributed to Somalia's journey towards reaching the Heavily Indebted Poor Countries (HIPC) Completion Point in December 2023.** The Bank supported Somalia to clear its arrears in 2020, which paved the way for reaching the HIPC Decision Point in March 2020. The Economic and Financial Governance Institutional Support Project Phase II strengthened macroeconomic management and enhanced transparency and accountability in the use of public resources. Notable outcomes include a significant increase in domestic revenue collection, with the tax-to-GDP ratio rising from 1.2% in 2013 to 3.1% in 2023. Seven proposed policy measures were executed, contributing to improved fiscal management. The project also increased the budget allocation for social sectors from 2.8% to 17%. On the 13 December 2023, Somalia reached the HIPC Completion Point, which provided the country with a total debt savings of US$4.5 billion, hence reducing the total Debt to GDP ratio from 64% in 2018 to 6% at end 2023. Despite being reclassified as a moderate debt distress risk country following the arrears clearance operation, Somalia faces many challenges in attaining economic development, making it premature to provide financing for the country on loan basis even at concessionary terms. Similarly to what has been decided during the IDA-20 mid-term review (6th – 8th December 2023), it is proposed that <u>Somalia be considered to continue accessing ADF funding on grant basis until the end of ADF-16 cycle</u>. This proposal will enable the country to sustain the reform momentum (See the accompanying Technical Note on "***Somalia: Justification to extend Grant Only Access under the ADF until the end of the ADF-16 period to 31 December 2025***").

III.9 Domestic Resource Mobilization

38. One of the keys to addressing the fiscal challenges facing ADF countries is enhancing their capacity to mobilize domestic revenues. This is particularly important for countries in transition. Transition states need to raise revenues to fund their core functions and provide public services, in order to build trust and confidence in government. Transition states are less likely to have well-functioning systems for

collecting, recording, and accounting for tax and non-tax revenues. They also suffer more from a lack of skilled personnel.

39. The Fund has devoted particular attention towards capacity building in transition states, including by optimizing human resources, codifying procedures, building systems and institutions, and developing integrated IT systems that can optimize revenue collection. Over the past decade, 18 of the 19 countries categorised as transition states have been supported under ADF, in most cases over many years. For example, in South Sudan, ADF supported the establishment of the National Revenue Authority, Non-Oil Revenue Mobilization and Accountability Project (NORMA) (Box 6).

40. Countries benefitting from ADF support on DRM under the ADF-16 cycle included Sao Tome and Principe, Central African Republic, Mozambique, Somalia, Ghana, and Gambia. In 2024, a new phase of the NORMA project is being prepared for South Sudan, while second phases of PBOs are also being prepared for Mozambique and Sao Tome and Principe.

Box 6: ADF's Support to the Modernization of Tax Systems in South Sudan

Following South Sudan's independence in 2011, the Bank embarked on various interventions to bolster state capacities, including in domestic resources mobilization, and to enhance transparency and accountability in public financial management. Through a UA 4.8 million Institutional Support to PFM and Aid Coordination (PFAID) project, completed in 2017, the Fund helped South Sudan to diversify its public revenues and reduce dependence on oil resources, which account for over 90% of total revenues. The intervention focused on establishing the National Revenue Authority (NRA), which consolidated domestic and customs tax revenue collection under a single agency. In 2017, the UA 10.65 million Non-Oil Revenue Mobilization and Accountability (NORMA) project was approved, to consolidate the work of PFAID by supporting the NRA to improve its tax collection capacities. NORMA is scheduled to be completed in December 2024, and a second phase was approved under ADF-16 in June 2024. The establishment of the NRA, introduction of the electronic tax system, and training of tax officers, amongst other measures, has improved non-oil revenue collection from US$27 million in 2020/21 to US$186 million in 2022/23. To consolidate fiscal and debt sustainability, the Fund also supported the preparation of the Debt Management Policy Framework and Medium-term Implementation Strategy (2022-25) to strengthen public debt management.

III.10 Transparency, Accountability and Combatting Corruption and Illicit Financial Flows

41. Under ADF-16, a particular focus has been given to ensuring that new governance operations include measures to enhance transparency and accountability in public financial management, and to combat corruption and illicit financial flows. ADF-16 has reached the target of supporting at least seven countries to combat corruption and illicit financial flows: in addition to CAR and Mozambique, these include Somalia, Sao Tome and Principe, and South Sudan.

42. The Bank will continue to dedicate increased attention to addressing illicit financial flows under the Bank Group Action Plan to combat Money Laundering and Illicit Financial Flows in Africa (2024-2026), approved in 2024. The action plan supports implementation of the policy for the prevention of IFF, approved in 2017. Other recent

initiatives have included a joint initiative with the UK Government to establish the Africa Beneficial Ownership Transparency Network (AfBOTN), launched in response to a G7 commitment on increasing support to African partners to counter IFFs by setting up 15 additional beneficial ownership registers and providing additional expertise and funding for FATF-style regional bodies (FSRBs), as well as capacity development for existing FSRBs in Africa.

III.11 A Comprehensive Approach to Capacity Development

43. The Bank's Capacity Development Strategy (CDS 2021 – 2025) provides a comprehensive framework for the Bank's capacity development work, shaped around four objectives: (i) ensuring the sustainability of Bank interventions by improving managerial and technical capacity for project implementation; (ii) enhancing capacity for public financial management and economic policy management; (iii) enhancing institutional capacity for effective knowledge brokerage and policy dialogue; and (iv) positioning the Bank as a premier partner for capacity development.

44. In order to scale up its support for addressing capacity constraints across RMCs, the Bank has delivered several executive and non-executive capacity development programs through its new Public Finance Management Academy (PFMA), covering themes such as domestic revenue mobilization, prudential public budgeting, debt recording, management and sustainability, macro-fiscal modelling and forecasting, public-private partnerships in PFM, and enhancing accountability, transparency and curbing corruption and illicit financial flows. These courses have attracted around 145 participants from 45 countries. The first cohort of the PFMA PFM Executive Training Series graduated in December 2023, with 51 officials from 26 countries certified as Public Finance Management Experts.

45. **The African Legal Support Facility:** The objective of the ALSF is to ensure equitable, bankable, and sustainable agreements between African countries and investors that deliver maximum economic value to countries while protecting their sovereign rights. Since commencing operations in 2010, ALSF has provided more than UA92.6 million (US$125 million) to support 389 projects in 50 African countries. By the end of 2023, the ALSF had cumulatively approved 156 projects worth over UA50.4 million (US$68 million) in 21 Transition States. ADF-16 allocated UA 20 million to the ALSF through Pillar III of the Transition Support Facility, to enable it to provide advisory services and capacity building initiatives (a separate update on ALSF is provided).

Section IV Fragility, Climate Lens and Cross-Cutting Issues

IV.1 Fragility Lens: Addressing Fragility and Building Resilience

Enhanced Impact and Strategic Alignment of TSF in ADF-16

46. **During the ADF-16 negotiations, Management and ADF Deputies agreed to realign the TSF** by shifting its focus from the provision of supplemental funding to Transition States to offering flexible, programmatic support targeting the root causes of fragility and conflict at subnational, national, and regional levels. The agreed changes include stricter eligibility criteria for upfront allocations from TSF Pillar I,

now aligned with the World Bank's criteria for Fragile and Conflict-Affected Situations (FCS), resulting in the progressive graduation of some Transition States from upfront allocations.

47. **The TSF's evolution under ADF-16 has also entailed the introduction of a new programmatic approach**, making the unallocated reserve available for interventions in any ADF country. The bulk of these resources are allocated for preventative efforts through a dedicated 'Prevention Envelope,' while a portion is used to respond to emerging crises and turnaround situations, through a 'Response Envelope.' Three thematic areas were identified for the 'Prevention Envelope' in alignment with the Fragility Strategy: gender equality and women's empowerment, climate change adaptation and mitigation, and private sector development. This approach ensures that resources are directed towards impactful initiatives that anticipate crises and address the most pressing needs.

ADF-16 Fragility Agenda: Progress and Policy Commitment Status

48. ADF-16 replenishment discussions resulted in several fragility-related Policy Commitments (PCs) aimed at enhancing operational flexibility and increasing the impact of Bank interventions in the most vulnerable countries. These commitments include preparing revised TSF Operational Guidelines to improve effectiveness (PC #22), undertaking four joint fragility-related activities by the mid-term review and expanding this to eight by the end of the cycle (PC #23), and allocating 50% of resources towards programmatic interventions in transition states (PC #24). There is also a commitment to roll out MSME support programs in at least three transition states (PC #26) and to enhance the private sector enabling environment through upstream sovereign investments and technical assistance programs (PC #27).

49. **The Bank has successfully delivered on all of its fragility lens-related policy commitments due at the mid-term of ADF-16**. TSF guidelines for operationalizing the revised eligibility and programmatic approach were updated and approved by the Board in 2023. The Bank has actively engaged with partners across the humanitarian-development-peacebuilding nexus. In 2023, the Bank signed two memoranda of understanding: with the International Committee of the Red Cross and with Interpeace's Finance for Peace Initiative and the Stockholm International Peace Research Institute (SIPRI). Additionally, the Bank held fragility-related activities jointly with UN agencies in Central Africa Republic, Chad, and SADC.

50. Following extensive internal consultations involving an inter-departmental working group, Management developed the 2023 Revised TSF Operational Guidelines, which were approved by the Boards of Directors and published in June 2023. These guidelines reflect the TSF evolution agreed during the ADF-16 replenishment negotiations, including adjusted eligibility criteria for country upfront allocations and the introduction of a new programmatic approach within the TSF Unallocated Reserve. In line with the need to enhance selectivity and increase support to the most vulnerable countries, Management applied the new country eligibility criteria agreed on during the replenishment to determine the 19 countries that would access TSF Pillar I country allocations during the cycle. The approval of the TSF Operational Guidelines and the TSF country eligibility in the first half of 2023 paved the way for the

operationalization of the innovations introduced in the TSF during ADF-16, including the revised TSF Pillar I Upfront Country and the rollout of the programmatic approach (PC #22).

51. Innovations introduced in the TSF, including the competitive calls for proposals under the Prevention Envelope, have expanded the Bank's scope to collaborate with diverse partners across the humanitarian, development and peace nexus. In line with PC #23, the Bank has engaged in joint programming with partners such as Interpeace, co-financed with entities like the United Nations Development Program (UNDP), the World Food Program (WFP), and the World Bank, and co-implemented projects with organizations including the United Nations High Commissioner for Refugees (UNHCR), the International Labour Organization (ILO), and the Food and Agriculture Organization (FAO).

52. Allocations from the TSF Prevention Envelope underscore a strategic focus on fostering critical institutional and private sector development in transition states. The outcomes of the first call for proposals under the Prevention Envelope reveal that 66% of the funding was allocated to 12 transition states, demonstrating a concentrated effort on these countries and aligning with PC #24. Regarding commitments related to private sector development, the first call for proposals under TSF Pillar III allocated nearly 50% of the funding to support upstream and midstream activities. These activities include critical institutional strengthening and reforms, pipeline development, and early-stage preparatory works, putting PC #27 on track for achievement by the end of the ADF-16 cycle.

53. As illustrated by the SME resilience support project in Guinea (Box 7), these initiatives have proven catalytic and transformational in countries where high risk premiums hinder private sector investment. **Pillar III and the TSF prevention envelope supported MSME programmes in 13 ADF countries**, focusing on entrepreneurship, skills development, and innovation, with emphasis on women-led MSMEs and youth employment. Countries are Burkina Faso, Burundi, Djibouti, Mali, Niger, Cameroon, CAR, Comoros, DRC, The Gambia, Mozambique, Sierra Leone, and South Sudan.

Box 7 – Guinea: Industrial Development and SME Resilience Support Project

Through the TSF Prevention Envelope, the Bank approved a UA 11 million loan to fund a transformative project in Guinea aimed at advancing industrial development and strengthening the resilience of its Small and Medium Enterprises (SMEs). The initiative seeks to enhance Guinea's investment climate, support entrepreneurship and innovation, and address regulatory challenges, especially for SMEs.

The project includes a comprehensive SME growth and resilience support program, with a significant share allocated to women-led enterprises. It will facilitate access to financing for SMEs, ensuring they have the necessary resources to thrive. In collaboration with private investors, the project will establish industrial zones and Special Economic Zones (SEZs), positioning Guinea to better participate and benefit from the African Continental Free Trade Area (AfCFTA).

The expected outcomes of the project include the implementation of gender-sensitive reforms and conducting diagnostics for 10 companies. The project will also provide direct support for

30 SMEs, with 30% of these being women-led. Additionally, it will strengthen three local investment platforms, supporting 100 SMEs, and benefit 200 businesses with capacity-building workshops, promoting economic diversification, job creation, and resilience in Guinea.

Strategic TSF Investments under ADF-16: Anticipating and Preventing Fragility

54. **The Prevention Envelope aligns with the Bank's 2022-2026 Strategy and aims to shift the TSF focus from crisis response to anticipation and prevention** at sub-national, national, and regional levels. By leveraging the Bank's deep understanding of regional dynamics, the Prevention Envelope facilitates early actions to prevent emerging fragilities from escalating. While prioritizing Transition States, the use of competitive calls for proposals enables the TSF to address pockets of fragility in any ADF country.

55. **While the selection process from the second call-for-proposals is ongoing, the first call was rolled out in 2023, allocating UA 263 million to 17 innovative proposals**. These projects show significant potential for co-financing, partnerships, and transformative impacts in addressing fragility and building resilience, attracting complementary financing from non-government entities estimated at 41% of the total amount allocated. These co-financing arrangements demonstrate the commitment of the Bank and its partners to stronger and lasting collaboration in addressing the root causes of fragility and building resilience in ADF countries, particularly in transition states, which received 66% of the resources.

56. **The interventions selected under the TSF Prevention Envelope include projects that seek to strengthen resilience in communities facing significant pressures, and those not eligible for TSF Pillar I upfront allocations**. For example, the UA 20 million TSF-funded Agro-Food Processing project in Togo aims to boost on-site processing capacity from 19% to 36% by 2029, attracting over USD 100 million in agribusiness investments. This initiative seeks to enhance food security, reduce import reliance, and position Togo as a key player in regional agribusiness. Improved employment and livelihood outcomes will build resilience against the spillover effects of Sahel insecurity and minimize the risks of youth radicalization by extremist groups. The UA 15 million grant for Climate Smart Agriculture Value Chains and Waste Management in Sierra Leone is another example that exemplifies the TSF Prevention Envelope's focus on job creation for youth and women. This project aims to empower women and youth through enhanced entrepreneurship skills in sectors like cassava cultivation and fisheries, with women constituting at least 70% of its beneficiaries.

Box 8 – Boosting Agricultural Productivity and Resilience in South Sudan

A TSF grant of UA 30 million from the Prevention Envelope aims to scale up agricultural productivity and food security in South Sudan while building resilience among local communities. Focusing on some of the most deprived and climate-vulnerable regions, also affected by the spillover effects from the war in Sudan, the project has ambitious goals. By 2030, it seeks to raise rice yields to 4.5 tons per hectare, sorghum to 2 tons per hectare, and fish to 70 kilograms per canoe per day. This will boost cereal and fish production from 194,000 tons to 350,000 tons annually, create nearly 180,000 jobs, and establish 200 agribusinesses, thus empowering women and youth and enhancing economic stability and food security.

Expected outcomes include improved food security and economic stability, and better health and well-being through increased production, job creation, and empowerment of women and youth. Enhanced infrastructure and climate-smart practices will boost resilience and agricultural efficiency. Additionally, 100,000 farmers will be empowered with digital services, and 1,385 government staff will be trained to support long-term agricultural growth.

57. These examples of impactful interventions underscore the transformative potential of the TSF Prevention Envelope. The integrated approach of the 17 selected proposals—with their focus on the thematic areas of gender equality, women's empowerment, youth employment, climate resilience, and private sector development—promises lasting benefits across Transition States and ADF countries. These interventions are set to scale up impact, improving the lives of over 11 million people, with nearly 40% of the beneficiaries being women and youth. From the private sector perspective, key expected outputs include support for nearly six hundred thousand SMEs, with 80% led by women and youth, and the creation of approximately 440,000 direct jobs, with over half for women and youth.

58. The climate-focused proposals emphasize resilience and sustainable practices, with the goal of supporting around 2.3 million individuals to adopt climate-smart farming techniques and 3.5 million people to gain access to climate and disaster-risk insurance. Further impacts include providing 66,000 tons of climate-resilient seeds, establishing over 10,000 agribusiness facilities, and significant improvements in infrastructure with nearly 400,000 hectares of land under water management and over 900 km of climate-resilient roads constructed. Additionally, 630,000 youth and women will benefit from skills enhancement and training, to boost their employability and entrepreneurial capacities. A compelling illustration of this impact is seen in the South Sudan project, which targets some of the most deprived and climate-vulnerable regions, with the aims of increasing agricultural productivity and food security while building resilience among local communities.

IV.3 Climate Adaptation Lens

59. **A new climate and green growth strategy**. In October 2021, a new climate change and green growth policy and strategy (2021-2030) were adopted by the Bank, followed by an action plan (2021-2025) in October 2022 as part of a package of measures to support the ADF's alignment with the Paris climate agreement and the mainstreaming of climate action across the ADF's operations. Currently, the Bank is actively implementing its 2030 Strategic Framework on Climate Change and Green Growth, with the aim to complete the implementation of the ongoing action plan by 2025. In 2023, approvals of UA 4.3 billion (US$ 6.6 billion) were allocated as climate finance, accounting for 55% of annual approvals, exceeding the target of 40% **(PC18).** Mitigation finance accounted for 47% of the Bank's 2023 climate finance, and adaptation finance, 53%. These efforts demonstrate the Bank's commitment to working with African countries to increase their share of global climate finance from the current 3% to 10% by 2030, as articulated in the Bank's

climate change strategy 2021-2030. Moreover, in line with the Bank's mandates to mainstream climate change and green growth into all its development interventions in Africa, 97% of its investments in 2023 were based on climate- informed designs, up from 77% in 2016, with the ambition to reach 100% by the end of 2025 **(PC21).**

60. **Circular Economy forms an important focus area of the Bank's Climate Change and Green Growth Strategic Framework 2021-2025 and the Bank's Ten-Year strategy 2024-2033.** To further mainstream circular economy on the continent, the Bank launched a flagship trust fund, the Africa Circular Economy Facility (ACEF) in 2022, funded by the Government of Finland and the Nordic Development Fund (NDF). It also acts as an umbrella to create synergies and enhance complementarities between the various circular economy-related projects financed by the Bank. The Bank's current circular economy program leverages the results of the circular economy study conducted 2020-21 funded by KOAFEC which targeted 3 RMCs (Algeria, Ethiopia and Rwanda) to identify circular economy investment projects in alignment with their NDCs and climate plans.

61. In 2023, **the Bank operationalized the Climate Action Window (CAW)**, established in 2022 as a dedicated ADF instrument to mobilize additional climate finance for adaptation and mitigation in 37 fragile and climate-vulnerable ADF countries. Under ADF-16, the CAW secured UA 312.64 million (US$ 442 million) in seed funding from four ADF donors (Germany, Netherlands, Switzerland, the United Kingdom), alongside UA 10 million (US$ 13.2 million) from the Bank's net income. (Refer to the "Progress report on the Climate Action Window" for further details.)

62. In addition to allocating its internal funds as climate finance, the Bank mobilized external climate finance resources, with more than UA 226 million (US$ 300 million) from global climate funds against the 2023 annual target of UA 154 million (US$ 205 million), including UA 121 million (US$ 160 million) from the Green Climate Fund, UA 96 million (US$ 127 million) from the Climate Investment Funds, and UA 12 million (US$ 16 million) from the Global Environment Facility. The Bank also approved climate co- financing grants and loans totaling around UA 113 million (US$ 150 million) of previously mobilized funds.

63. At the global climate summit, COP28, in Dubai, in December 2023, the African Development Bank mobilized action, resources and global partnerships around innovative programs to tackle climate change, including the UA 19 billion (US$25 billion) African Adaptation Acceleration Program to scale up adaptation action in Africa, the UA 15 billion (US$20 billion) Desert-to-Power to provide electricity for 250 million people, the UA 0.75 billion (US$1 billion) Africa Climate Risk Insurance Facility for Adaptation, and the CAW. These additional resources will help crowd in more global climate finance flows and ensure ADF countries receive their fair share of the UA 75 billion (US$ 100 billion) in annual funding promised under the Paris Agreement and the UA 30 billion (US$ 40 billion) commitment under the Glasgow Climate Pact to double global adaptation finance by 2025. In a strong show of support during COP28, African and global institutions together with the governments of France, Italy, Germany, UK and Japan and philanthropies pledged more than UA 206 million (US$ 275 million) to the Alliance for Green Infrastructure in Africa (AGIA) championed by the Bank.

64. **Policy Commitments**: Three out of the four climate-related ADF-16 policy commitments that were due at the mid-term had been delivered and the other is on track to be delivered by year-end. All ADF-16 operations are now aligned with the Paris agreement's 1.5 degrees target and Paris Alignment building blocks. New indicators have also been established to capture aspects related to biodiversity conservation, restoration and land degradation with plans on track to fully operationalize the indicators through a Bank's nature finance tracking methodology by end of the ADF-16 cycle. Finally, the Bank has met its MTR target by supporting seven countries in developing and implementing their country climate plans in accordance with the Paris climate agreement. These countries include Burkina Faso, Lesotho, Liberia, Mozambique, Uganda, Ethiopia and Zambia.

65. Progress is being made on the policy commitment to increase access to clean cooking solutions. Considerable demand and interest have been demonstrated, with at least nine clean cooking projects submitted for the CAW adaptation call. Two projects, in Kenya and Uganda are proposed for funding and approval by year-end, with additional projects expected from the mitigation call, which closed on July 8, 2024. This ADF commitment is being prioritized to ensure that the targets are met. The update on clean cooking also aligns with the CAW's mid-term policy commitment to support energy efficiency technologies, notably the adoption of modern clean cooking solutions. In May 2024, the Bank co-conveyed the Clean Cooking Summit with IEA, Tanzania, France and Norway in Paris.

66. **Africa NDC Hub** is a partnership platform to leverage development partner institutions to provide technical assistance and deliver NDC targets at scale for all 54 African countries that have ratified their NDCs. Through the Africa NDC Hub, the Bank has partnered with UN agencies on the Climate Promise program for NDC development as well as with the NDC Partnership. The ADF provides ongoing support for the development and implementation of Long-Term Low Carbon and Climate Resilience Visions (LTV) in Liberia, Lesotho, Botswana, Uganda, Mozambique, Ethiopia and Burkina Faso. In addition, 17 ADF countries have received supported to fast-track the preparation of their first Biennial Transparency Reports under the Paris Agreement Enhanced Transparency Framework (ETF) which are due by December 2024.[3] Between US$150-450 million of technical assistance is required to cover climate action capacity-building, including support for LTS development, NDC revision and investment plans.

67. The ADF is already providing NDC Support in Cameroon, Sao Tome and Principe and Uganda to develop bankable projects to implement NDC targets. (**PC16**). Ongoing implementation of a circular economy program funded by the African Circular Economy Facility (ACEF) is supporting the design of circular economy roadmaps for 5 countries (Cameroon, Benin, Chad, Ethiopia and Uganda) and an SME incubation programme for circular businesses has commenced in Ghana, Cote d'Ivoire and Rwanda to benefit 30 startups. To date, all country strategy documents have been reviewed for climate change and green growth considerations: 5 Country Diagnostic

[3] Burundi, Chad, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Rwanda, Senegal, Somalia, South Sudan, Sudan, Sao Tome & Principe and Uganda.

Notes and 5 CSP - MTR conducted, including the East Africa Regional Integration Strategy Paper.

IV.4 Cross-Cutting Commitments on Gender

68. The Africa Gender Index 2023, produced by the Bank and UNECA, shows that African women continue to face a range of formal and informal barriers to reaching their potential. The Bank is addressing the barriers faced by women through several projects in ADF countries focusing on women’s skills development and empowerment. The Bank also supports youth entrepreneurs through skills development, financing, and business development. ADF-16 prioritizes private sector development in ADF countries and Transition States through a range of lending instruments and by leveraging other resources and partnerships, such as the Fund for Private Sector Assistance (FAPA) and the Affirmative Finance Action for Women in Africa (AFAWA), to expand private sector and MSME-related investments.

69. **Policy Commitments**: The Bank has delivered well across the cross-cutting ADF-16 policy commitments due at mid-term, with all delivered or on track to be delivered by year end. The Bank has made progress on gender and youth-related policy commitments. Out of four policy commitments due for MTR, three gender and youth-related commitments are delivered, and one private sector development commitment is on track to be delivered by year end. All sovereign operations were screened and categorized using the Gender Marker System (GMS). The tool assigns each project to one of four categories based on the extent to which it explicitly addresses gender equality and women’s empowerment in its objectives, components, and expected results.

70. **The proportion of Category 1 and 2 projects with direct outcomes benefiting women and girls increased from 44% in 2018 to 63% in 2022, with an increase to 91% in July 2024.** Category 3 projects, which include some gender elements, increased from 12% in 2018 to 39% in 2023. The Bank aims to keep the share of these operations within the 15% limit. Category 4 projects, which have minimal or no gender components, have been kept within the limit of 5%, decreasing from 8% in 2018 to 3% in 2023. With these achievements, the Bank has rolled out the GMS to non-sovereign operations and by July 2024, 69% of approved private sector operations were categorized using the Gender Marker System, above the target of 50% by ADF-16 mid-term, and on track to reaching Bank’s objective of 100% by 2025.

71. In 2023, the Fund’s work on gender equality focused on enhancing women’s empowerment and entrepreneurship. For example, the Rural Enterprises Project III in Ghana helped establish 43,000 women-owned micro and small enterprises and created 51,000 new jobs for women. The Youth and Women Empowerment Project in Zimbabwe challenged traditional gender roles, with 72% of jobs created benefiting women. In the DRC, the Rural Economy Integrated Development Support Project is another example of a cross-cutting project benefiting women and enterprise development. Lastly, the Last Mile Connectivity Project II in Kenya facilitated women’s entrepreneurship through electricity access, enabling the establishment of SMEs such as local cookie/bread baking, hair salons, and small shops, enhancing household livelihoods.

IV.5 Supporting Private Sector Development

72. **The Bank's 2021-2025 Private Sector Development Strategy (PSDS) places a special focus on the private sector in Transition Countries, through accelerated investment in private sector development and non-sovereign operations (NSOs).** In this context, in June 2023, ADF Deputies endorsed the Private Sector Credit Enhancement Facility (PSF) and approved the introduction of new instruments and initiatives, including the possibility of the Facility underwriting funded risk participations instruments; underwriting transactions following a program-based approach; and multiplying its delivery channels through indirect participation in credit risk held by lenders, insurers and investors other than the Bank.

73. **Under the ADF-16 replenishment cycle, an additional UA 50 million allocation was made to the PSF to enhance its underwriting capacity and widen the range of instruments it can issue**. Notably, the PSF will be able to underwrite programs that comprise several transactions and issue funded risk participation instruments. The PSF has been developing and maintaining a portfolio of projects in the riskiest countries in ADF-only and Transition States. The Facility approved three unfunded risk participations during the ADF-16 cycle for a total value of UA 73 million in higher risk transition countries: in the power sector in Mozambique, in the agribusiness sector in Sudan with a regional outreach, and a transport project in Ghana (see the accompanying Paper on Private Sector Credit Enhancement Facility).

74. Private sector development in fragile and transitioning states aimed at improving the business environment and economic governance through the provision of PBO using the ADB Window; and involves various areas of interventions. Upstream activities focus on providing knowledge and support to enhance the macroeconomic framework, with reform programs designed based on country-specific assessments along the fragility continuum. In contrast, midstream activities provide technical assistance to stakeholders from both the public and private sectors, focusing on economic governance improvements and capacity building. Tailored technical assistance and capacity-building initiatives are essential for enhancing governance and promoting stability in these regions. Lastly, downstream activities involve direct investment in private sector projects or companies leveraging a mix of instruments. Under this workstream, the objective of the Bank's intervention in Private Sector is to crowd in commercial financing.

75. **Challenges**: Despite significant business opportunities in key sectors such as energy, transport, natural resources, and ICT, risk (perceived and actual) remains one of the major barriers to attracting private investors in transition and fragile states. The economies in these markets offer smaller investment opportunities with fewer sponsors capable of meeting the scale, standards, and financial backing required by commercial investors and lenders. Furthermore, financial risks are exacerbated by limited risk appetite, constrained by the requirements of AAA-rated entities. The high transaction costs associated with financing smaller-scale projects, combined with the African Development Bank Capital Risk Statement, which caps high-risk capital

allocation at 10%, further hinder investment efforts. These challenges underscore the difficulty of balancing risk and opportunity in these economies.

76. **Support for SMEs**: The new SME Division established in 2023 will continue to lead on efforts to provide technical assistance to SMEs in ADF countries. For example, the *Mauritania Local Content and Job Creation for Youth and Women Project* was awarded to the country's Chamber of Commerce, Industry and Agriculture of Mauritania (CCIAM), and is expected to create at least 150 new jobs, support at least 50 MSMEs to access contracts and financing, and enable 25 MSMEs to attain ISO certification. Another project in the pipeline for funding by FAPA is *Strengthening and Digitalization of the Ethiopia Investment Commission (EIC) to boost Foreign Direct Investment (FDI).* As well as installing a fully-fledged investor database and tracking system, this project is expected to train at least 80% of the EIC staff to assess investment intentions, monitor investment project implementation, and anticipate investors' service requirements.

77. **Policy Commitments**: Under private sector development, the pending policy commitment is the development and operationalization of guidelines for the newly funded risk participation and programmatic approach instruments of the Private Sector Credit Enhancement Facility (PSF). Simulations have been done to determine the right amount of capital to be allocated. A first draft of the guidelines has been shared and discussed with the IRCC. The guidelines will be submitted for consideration by the ADF Board in Q4 2024 and their operationalization is expected in Q1 2025.

IV.6 Youth and Jobs

78. The Bank has integrated skills development for green jobs and climate adaptation for youth in 13 operations approved by the Board in a range of sectors such as agriculture, water, energy and transport (Box 9). The Youth, Jobs and Skills Marker System aimed at maximizing job creation for youth is in the final approval stages. It will further support the implementation of the Bank's commitment under the ADF-16 cycle. A pilot of the system is planned as soon as it receives final approval.

79. To support youth entrepreneurship in Africa, the Bank established the first two Youth Entrepreneurship Investment Banks. This was done in partnership with the French Development Agency and other partners, with support from the Bank's multi-donor Youth Entrepreneurship Trust Fund. The two banks were in Liberia with US$16 million in funding, and in Ethiopia with US$12 million in funding and we are working with several partners to ramp up support to enable the digital and creative sectors to create more jobs.

80. In a significant stride towards gender-inclusive development, the Bank and the Global Center on Adaptation organized the 2023 Youth Adapt challenge, spotlighting female-owned enterprises spearheading Fourth Industrial Revolution technologies. These groundbreaking innovators harness the transformative potential of artificial intelligence, big data analytics, internet of things, quantum computing, additive manufacturing, blockchain, and fifth- generation wireless technologies to drive climate adaptation.

Box 9: ADF Support for Youth and Jobs in Rwanda and Liberia

Rwanda's Centre of Excellence for Aviation Skills Project, financed through a UA 18 million ADF loan, will include the construction and equipping of a new aviation training facility in Kigali. Partnering with higher learning institutions to produce a skilled workforce able to meet global aviation training standards and industry demands, the Centre will boost Rwanda's ambition to become a regional aviation hub and draw international investment from the aviation industry. It is expected to enroll up to 500 students, starting in 2025 when it becomes partly operational, offering training for pilots, maintenance, and cabin crew. There will also be dispatch and ancillary courses, including airport emergency operations. The facility will also provide drone piloting training, recurrent flight simulator training, and other advanced pilot training for specialized missions.

Liberia's Program for Advancing Youth Entrepreneurship Investment, supported through a UA 12 million ADF loan, will establish the first Youth Entrepreneurship Investment Bank (YEIB) across Africa, a pioneering effort aimed at resolving market failures and fragmentation by providing both financial and non-financial services through an ecosystem approach to young entrepreneurs. The program will develop youth-dedicated institutions that will provide sustainable access to finance for MSMEs and deploy comprehensive business-support services to enable youth entrepreneurs to start and grow their businesses. This program is crucial due to Liberia's challenges in employment, access to capital, and entrepreneurship support, particularly among youth and women.

Section V Status Update on the Utilization of ADF-16 Resources

V.1 Resource Available for Allocation and Country Eligibility Under ADF-16

ADF-16 Resources

81. The Sixteenth Replenishment of the Resources of the African Development Fund (ADF-16), which covers the period 2023-2025, was adopted by the Board of Governors on 2 April 2023. Deputies agreed on a resource envelope of UA 6,192 million, comprising (i) donor contributions amounting to UA 3,746 million, (ii) concessional donor loans of UA 427 million, and (iii) an Advance Commitment Capacity (ACC) of UA 2,017 million (see the Update on ADF Financing Framework).

82. In addition to the ADF-16 replenishment resources, the following has been made available during the 2023-2025 period for ADF clients: (i) the unused balance of TSF resources under ADF-15; ii) the carry over resources from late and qualified subscriptions of previous replenishments, and (iii) additional resources from cancellations from previous replenishments. During the 16th replenishment of the ADF in December 2022, the DRC committed to contributing to the ADF-16 in the amount of UA 2.22million (Box 10). The ADF-16 also saw first-time contributions from Morocco and Algeria in the amount of UA 7.29 million and UA 3.65 million, respectively.

Box 10: A much-welcome contribution to ADF-16 from Congo DRC

During the 16th replenishment of the ADF in December 2022, the government of the Democratic Republic of Congo (DRC) agreed to contribute UA2.22 million (US$3 million). This was an exceptional decision, given the country's continuing classification as fragile, its large fiscal deficit of 2.5% of GDP in 2023, and the fact that DRC is currently the largest beneficiary country of ADF resources with a UA 403 million (US$535 million) envelope, representing 10.8% of total ADF resources. Other RMCs, particularly middle-income countries or any RMC that achieves fiscal surpluses for three consecutive years, should also be encouraged to contribute to the ADF, to enhance its long-term financial sustainability.

Country Eligibility at Mid-Term Review

83. The Bank Group's Credit Policy determines RMCs' eligibility to ADF resources only (Category A), ADB resources only (Category C), or a blend of resources from the two windows (Category B, blend countries). At the mid-term of ADF-16, 37 countries are eligible to ADF resources, and 31 are ADF-only, including six classified as gap countries: Comoros, Djibouti, Ghana, Mauritania, São Tomé & Principe, and Zimbabwe. Six countries are classified as Blend: Cameroon, Côte d'Ivoire, Kenya, Senegal, Tanzania, and Zambia.

84. In line with the Operational Guidelines for ADF-16, ADF-only gap countries which are at low or moderate risk of debt distress, blend and graduating countries receive their ADF allocations on loan terms only. The financing terms for ADF-only countries are determined by the IMF/World Bank Debt Sustainability Analysis (DSA) classification for low-income countries. The credit classification and creditworthiness of ADF-eligible countries are in Table 1.

Table 1: Credit status and DSA classification of ADF-eligible countries (September 2024)

African Development Fund Country Classification					
Category A – ADF (31)					Category B (6)
ADF-Only (25)				ADF-Only GAP (6)	Blend (6)
Low Risk	**Moderate Risk**	**High Risk**	**In Debt Distress**		
	Benin Burkina Faso Congo DRC Guinea Lesotho Liberia Madagascar Mali Niger Rwanda Somalia Togo Uganda	Burundi Central African Rep. Chad Ethiopia Gambia Guinea-Bissau Mozambique Sierra Leone South Sudan	Eritrea Malawi Sudan	Comoros Djibouti Ghana Mauritania Sao Tome & Principe Zimbabwe	Cameroon Côte d'Ivoire Kenya Senegal Tanzania Zambia

V.2 Allocation and Utilization of ADF-16 Resources

Use of ADF-16 allocated resources

85. ADF resources available for allocation are revised annually based on estimates of donor payments and contingencies. In 2024, the total resource envelope for the ADF 16 amounted to UA 6,229 million. This comprised donor contributions of UA 3,966 million, concessional donor loans of UA 246 million, and an advanced commitment capacity of UA 2,017 million. As of June 30, 2024, total subscriptions received amounted to UA 3,424 million. In addition to core contributions to ADF-16, the Fund received UA 48 million as payment to the Climate Action Window. The latest estimates of resources available for allocation through the ADF envelopes over the ADF-16 cycle are summarized in Table 2.

86. Performance remains the key driver of the ADF Resource Allocation Framework. While the PBA envelope directly rewards good performers in terms of policies, institutional frameworks, and project portfolio ratings. Overall, 86% of ADF-16 resources are allocated to countries based on their performance through direct PBAs (53%) and PBA-linked set-asides (33%), which include Pillar I of the TSF and the cost-shared regional operations. The allocation system is also responsive to the country's needs as more than two-thirds of resources go to the 15th neediest countries.

87. As at the end of August 2024, 39% of the three main envelopes had been approved by the Board of Directors. The overall utilization rate is expected to reach 61% by the end of October and nearly 70% by the end of December 2024. Moreover, it is worth noting that the total amount prioritized for regional operations in 2023 and 2024 stood at UA 1,239.1 million (or 85.5% of the available resources for the ADF-16 period). In terms of envelopes, the use of PBA, TSF Pillar I resource, and the regional operations envelope are expected at 65%, 52%, and 62% by the end of October 2024. The remaining resources are expected to be fully utilized by the end of the cycle. Table 3 presents the utilization rate by envelope as of August 30, 2024, and the expected utilization rates by October and December 2024.

Table 2: Resources Available for Allocation under the 3-year ADF-16 Cycle*

Item	2024
Total ADF Replenishment (1)	6,229.74
Add Carry-over Resources (2)	621.29
Total Available Resources (3) = (1) + (2)	**6,851.03**
Foreign Exchange and Currency Misalignment (4)	320.25
Qualified and Late Subscriptions (5)	733.08
Deductions for Contingencies (6) = (4) + (5)	**1,054.05**
Resources available for allocation (7) = (3) – (6)	**5,796.98**
Regional Operations (8)	1,449.25
Transition Support Facility (9)	1,244.30
Private Sector Credit Enhancement Facility (10)	50.00
Project Preparation Facility (11)	–
Allocations to Set Asides (12) = (8) + (9) + (10) + (11)	**2,743.55**
Resources for PBA Allocation (13) = (7) – (12)	**3,053.44**

** In UA million based on figures updated in January 2024*

Table 3: Available and utilized ADF-16 resources (UA million)

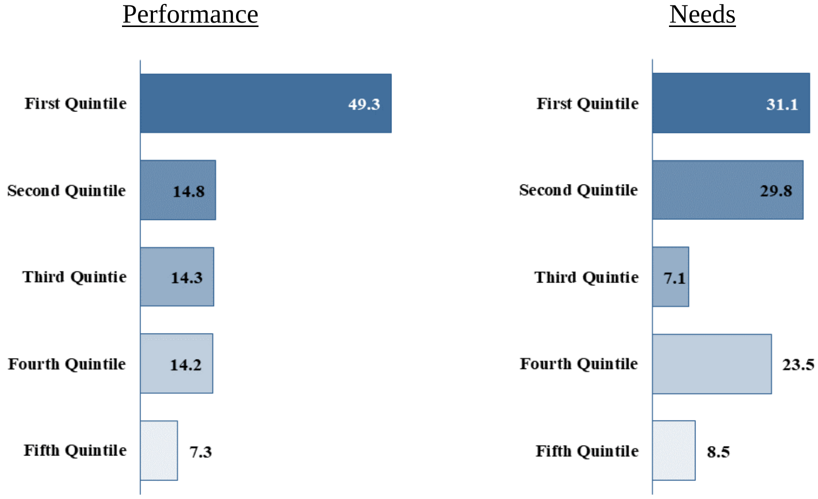
In UA million	**ADF-16 Envelope[1]**	**Actual** *(August 30, 2024)*	**(%)**	**Expected by the end of October**	**(%)**	**Expected by the end of December**	**(%)**
PBA	3053	1239.94	41%	1976	65%	2200	72%
TSF Pillar I[2]	1094	418.94	38%	568	52%	600	55%
RO Envelope	1449	541.94	37%	895	62%	1031	71%
Total	5597	2200.82	39%	3439	61%	3831	68%

[1]Expected Resource under the three main envelopes in accordance with the agreed ADF-16 Resource Allocation Framework.
[2]TSF Pillar I country allocations and the Pillar I unallocated reserves.
[*]TSF Pillar II resources were carried over from previous cycles. TSF Pillar II resources, approvals and balance are not included in the totals to keep an overview of the utilization of ADF-16 resources. The balance of resources available under TSF Pillar II amounts to UA 95.11 million. The PPF has been replenished under the ADF-15 cycle for a total package of UA 75 million. PPF commitments are not counted as part of ADF-16 approvals.

Performance-based resource allocations (PBA)

88. ADF-eligible countries received total country allocations of UA 1,007.5 million and UA 979.86 million in 2023 and 2024, respectively. The final PBAs for 2025 are estimated at UA 979.86 million. Performance-based allocations for 2023 and 2024 confirm the performance principle of the PBA system. As shown in Figure 1, good performers (countries in the first and second quintiles of performance) received 64.1% of PBA resources. Need is also an important criterion, with 60.8% of PBAs channeled towards countries in the first and second quintiles of needs — those with the lowest national income, the highest populations and the lowest access to infrastructure. This confirms the well-balanced allocation of resources generated by the PBA system, as well as its sensitivity to country performance and needs.

Figure 1: Estimated ADF-16 PBA distribution by quintiles of performance and needs



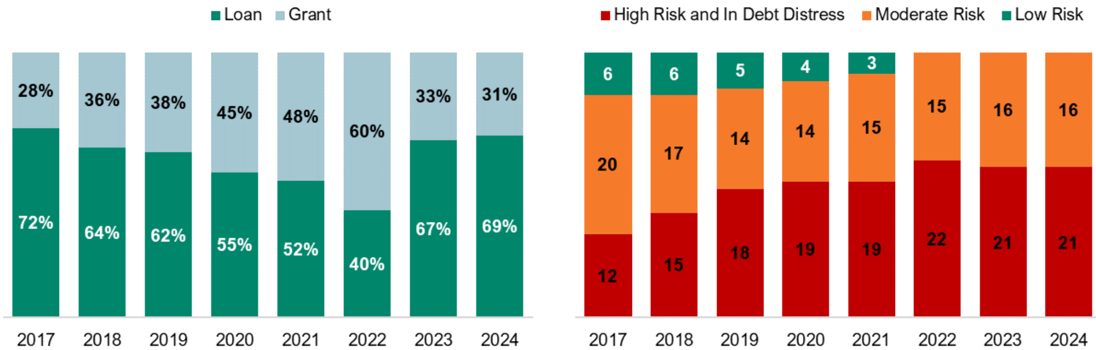
89. The share of PBA made up of loans increased to 67% in 2024, which is up from 52% in 2021 but below the pre-2017 average of 70% (Figure 2). While this decrease in the share of loans was driven by an overall deterioration in countries' debt situation, the improvement seen under ADF-16 was a result of the introduction of highly concessional loans to the benefit of countries which are assessed at moderate risk of debt distress.

90. At the time of the 2023 PBA computation, the World Bank/IMF Debt Sustainability Analysis (DSA) for Somalia confirmed that the country was in debt distress. Consequently, its 2023 PBA and TSF Pillar I allocation were 100% grants. In November 2023, Somalia's DSA as of 31st May 2023 was used in the computation to determine the 2024 PBA and TSF allocation. Hence, the country received its 2024 PBA in the form of grants. Given Somalia's current status with a moderate level of debt distress risk, the 2025 PBA lending term would normally be in the form of 100% highly concessional loans, in line with measures approved by the Board of Governors to strengthen the ADF's long-term financial sustainability[4]. Despite being classified as a country at moderate risk of debt distress , Somalia faces many challenges in attaining economic development, making it premature to provide financing for the country on a loan basis even on concessional terms. It is therefore proposed that Somalia continue accessing ADF funding on a grant basis until the end of the ADF-16 cycle. This proposal will enable the country to sustain its reform momentum. (See the Note on "***Somalia: Justification to extend Grant Only Access under the ADF until the end of the ADF-16 period to 31 December 2025"***).

[4] Report on the Sixteenth General Replenishment of the Resources of the African Development Fund - ADF/BD/WP/2023/11/Approved, paragraph 268.

Figure 2: Shares of PBA loans and grants and DSA distribution over time

(a) Shares of PBA loans and grants (percentage) (b) DSA distribution (number of countries)



91. The Board of Directors approved a total amount of UA 1,239 million (including grant surcharges) from PBA resources by the end of August 2024. This represents 41% of the expected PBA envelope for the ADF-16 period. The total PBAs for 2023 and 2024 included 44% of grant financing and 56% of loans. In terms of operations, PBA approvals for investments, capacity-building, and institutional support programs stand at 75% of PBA commitments. The remaining 25% went for Budget Support operations.

Regional Operations Envelope

92. The Regional Operations Envelope is guided by the ADF Regional Operations Selection and Prioritization Guidelines (ROSPG) [5]. In 2021, the guidelines were revised to better mainstream fragility and resilience considerations. Emphasis was placed on identifying and integrating activities that address regional drivers of fragility, such as poor governance (e.g., in remote border areas), climate change, food insecurity, youth unemployment, and women empowerment. The geographical distribution of resource allocation was also tilted to support the most fragile regions, especially the Horn of Africa, Lake Chad Basin, and the Sahel.

93. **The total amount earmarked for regional operations in 2023 and 2024 stood at UA 1,239 million (US$ 1,644 million). This represents 85% of the available resources for ADF-16.** In terms of projects, Management prioritized 16 regional operations and 12 regional public goods. Management requested resource frontloading of about 35% in 2023 and 45% in 2024. However, the demand for regional operations largely exceeds the resources available for replenishment. It is also worth noting that the average size of projects nearly doubled, going from an average of UA 50 million (2019-2020) to more than UA 110 million (2023-24).

94. In terms of approvals, most of the resources earmarked for projects in 2023 and 2024 are expected to be approved by the end of the year. A total of 19 operations are slated for submission, including 11 regional operations and 8 regional public goods. The anticipated utilization rate, as projected by the ADF-16 MTR, is projected to reach 62% by the end of October 2024, and 71% by the end of year, marking a significant

[5] ADF/BD/WP/2020/100/Rev.1

leap from the 43% recorded during the same period under ADF-15 (31 December 2021).

95. The first half of the ADF-16 cycle witnessed a significant shift in the magnitude of operations funded by the regional envelope, paving the way for innovative financial solutions to bolster large-scale infrastructure projects. During the first two prioritization exercises, the Bank mobilized around UA 3.4 billion (US$ 4.6 billion) in co-financing, including UA 2 billion (US$ 2.7 billion) sourced from markets for various operations, such as the **Tanzania-Burundi Standard Gauge Railway** (see Box 4). This initiative seamlessly integrates non-concessional (AfDB), concessional finance (ADF), and credit guarantees to attract resources from the markets. With a total project size of UA 2.95 billion (US$ 3.9 billion), it exemplifies the impactful synergy achieved through diverse financing mechanisms.

96. Another large-scale infrastructure project is the **Mauritania-Mali Desert-to-Power project**, whose total cost is UA 667 million (US$ 886 million), with the regional envelope contributing approximately UA 215 million (US$ 285 million) (see Box 1). Other large-scale corridor development projects are in the pipeline for 2025, including the **Lobito Rail project connecting Zambia and Angola,** which involves constructing approximately 550 km of rail line from the Jimbe border to Chingola in the Zambian copper belt, along with developing 260 km of feeder roads, significantly boosting mining and agricultural output. The Bank aims to contribute around USD 500 million to this project through a strategic mix of non-concessional resources and derisking instruments, such as partial credit and political risk guarantees. The total cost amounts to UA 1.2 billion (US$ 1.6 billion), with the Bank planning to contribute UA 400 million (US$ 530 million).

97. Additional projects in the pipeline include the Program for Integrated Development and Adaptation to Climate Change in the Zambezi River Basin Riparian Zone II (PIDACC II), the 330 KV Electricity Interconnection Nigeria-Benin Reinforcement Project, the Ethiopia-South Sudan Power Interconnector Project, as well as the Ruzizi Plain Regional Integrated Development Program (PREDIRE), and other promising regional operations. Altogether, demand for the third and final year of ADF-16 is estimated at UA 458 million (USD 608 million), with only UA 248.77 million (US$ 330 million) currently available.

Transition Support Facility (TSF)

98. **The set-aside for the TSF under ADF-16 amounts to UA 1,244.3 million.** This includes UA 694.3 million for Pillar I country allocations, UA 400 million for the Pillar I unallocated reserves (Programmatic Window), and UA 150 million for Pillar III (including UA 20 million to support ALSF). In addition to ADF-16 resources, carry-overs from the ADF-15 cycle included UA 64.7 million for TSF Pillar I (unallocated reserves), UA 95.11 million for TSF Pillar II, and UA 2.65 million for TSF Pillar III. Out of the 37 ADF-eligible countries, 19 are eligible for the TSF country allocations, 24 are eligible for Pillar III, and all ADF countries have access to the Call for Proposals under the TSF Pillar I Programmatic Window.

TSF Pillar I

99. Following Board approval of the eligibility criteria for TSF Pillar I country allocations on June 30, 2023, Management provided UA 694.3 million as country allocations for the benefit of 19 Transition States. Table 4 provides further information on TSF Pillar I resources allocated to eligible countries under ADF-16.

Table 4: TSF Pillar I Country Allocations under ADF-16

	Country	Allocation	*Loan*	*Grant*
1	Burkina Faso	60.00	60.00	-
2	Burundi	22.42	-	22.42
3	Central African Republic	15.00	-	15.00
4	Chad	60.00	-	60.00
5	Comoros	15.00	-	15.00
6	Democratic Republic of Congo	60.00	60.00	-
7	Eritrea	15.00	-	15.00
8	Gambia	15.00	-	15.00
9	Guinea-Bissau	15.00	-	15.00
10	Liberia	19.07	19.07	-
11	Madagascar	60.00	60.00	-
12	Mali	60.00	60.00	-
13	Mozambique	60.00		60.00
14	Niger	60.00	60.00	-
15	Sao Tome & Principle	15.00	-	15.00
16	Somalia	43.93	-	43.93
17	South Sudan	20.66	-	20.66
18	Sudan	60.00	-	60.00
19	Zimbabwe	18.21	-	18.21

100. At the end of August 2024, the Board approved operations amounting to UA 266 million or 38.4% of TSF Pillar I country allocations. This amount is expected to reach UA 600 million (or 86.4% of TSF Pillar I allocations) by the end of December 2024. Management is on track to commit the remaining TSF Pillar I resource before the end of the cycle.

101. In terms of the Unallocated Reserve, three-quarters of the UA 400 million set-aside are allocated to thematic prevention and the remaining quarter for crisis response. This approach ensures that the TSF can effectively respond to emerging crises and changing circumstances during the cycle, while also promoting prevention and early action to address the root causes of fragility.

102. At the end of August 2024, the first call for proposals under the Prevention Envelope allowed to select operations for a total amount of UA 262.75 million (or 87.5% of the Prevention Envelope) to support 17 innovative proposals. Out of this amount, the Board of Director approved UA 123.04 million or 46.8% of the selected proposals. In addition, a total amount of UA 55 million has been prioritized under the

Crisis Response Envelope. As of August 30, 2024, the Board of Directors approved UA 19.96 million while the remaining UA 35.04 million are still under processing. Overall, out of the UA 400 million set-aside for the TSF Unallocated reserves under ADF-16, an amount of UA 317.75 million i.e. 79.4% have been prioritized and UA 143 million i.e. 35.7% have been approved by the Board of Directors. The remaining balance of the unallocated reserves will be allocated and committed before the end of the cycle.

TSF Pillar II

103. The TSF Pillar II is meant to support ADF-eligible countries in chronic arrears. In principle, eligible countries can access the TSF Pillar II resources on a first-come first-served basis. However, following the arrears clearance of Somalia in 2020 and Sudan in 2021, Zimbabwe remains the only country in arears to the Bank Group for UA 587.49 million (end of August 2024). The available resources in Pillar II (UA 95.11 million) are insufficient to clear Zimbabwe's arrears to the Bank Group.

104. Zimbabwe's government has expressed its renewed commitment to the international re-engagement process, policy reforms and the revival of its economy, and has made arrears clearance a priority, including those owed to the Bank. Efforts are ongoing to clear arrears with the African Development Bank Group and with the World Bank Group, to be followed by efforts to clear the arrears to the Paris and non-Paris Club creditors. The Bank stands ready to support the country's arrears clearance program in close coordination with the IMF, World Bank and other development partners.

105. Zimbabwe has demonstrated serious commitment to addressing its arrears clearance process. Since 2021, the Government of Zimbabwe (GoZ) has resumed quarterly token payments, contributing US$ 7.5 million to the Bank, and introduced the 'Arrears Clearance, Debt Relief, and Restructuring Strategy,' aimed at re-engaging with international financial institutions. Building on this, the GoZ adopted the Central Pin Strategy in 2022, reinforcing its focus on economic and political reforms. Although political developments following Zimbabwe's August 2023 harmonized elections temporarily redirected the focus, ongoing technical discussions confirm the government's sustained engagement in its debt resolution efforts. Given this progress, we recommend to maintain the UA 95.11 million in TSF Pillar II to support the Bank's leadership in continued dialogue and support for Zimbabwe's debt resolution.

TSF Pillar III

106. ADF-16 replenishment resulted in the allocation of UA 150 million to TSF Pillar III. At the end of ADF-15 cycle, an amount of UA 2.65 million has been rolled over to the same Pillar under ADF-16, making a total amount of UA 152.65 million available in TSF Pillar III. Of this amount, UA 20 million has been earmarked for indirect support to Transition States through the African Legal Support Facility (ALSF) and UA 81.32 million have been prioritized to directly strengthen institutions and catalyze private investments in Transition States. The total amount prioritized, including the amount earmarked for ALSF, represents 67.5% of TSF Pillar III under

ADF-16. The remaining UA 51.33 million will be allocated to activities before the end of the cycle.

ADF Risk Mitigation Instruments

107. **Since its first guarantee transaction closed in 2013, ADF has approved over UA 517 million in cover across its two risk mitigation instruments: Partial Risk Guarantees (PRG) and Partial Credit Guarantees (PCG)**. The Fund successfully closed a partial credit guarantee transaction for EUR 195 million to enable the **Republic of Benin** to mobilize funding of EUR 350 million from international commercial banks and investors **(**Box 11**).** For **Rwanda**, ADF also provided a Partial Credit Guarantee with a two-tranche structure to mobilize a EUR 200 million loan from the international capital markets to finance projects under Rwanda's National Strategy for Transformation (NST-1) for 2017-2024.

108. The nine guarantees ADF has issued have all performed to date without incident or claim, creating enthusiasm for ADF guarantees among clients and beneficiaries alike. The ADF guarantees pipeline for the second half of ADF-16 also looks very promising. In addition to the above-mentioned Tanzania Railway (Lot 7) and Mozambique hydropower transactions, the Fund is also processing a sovereign ESG Partial Credit Guarantee in support of Togo's Sustainable Financing Framework for up to EUR 200-230 million with more RMCs expected to approach the Fund for similar assistance.

109. **Across the Bank Group, the use of guarantees has increased sharply following the adoption of the new 2020 Guarantees Policy**, resulting in landmark and award-winning transactions in recent years. Over the ADF-15 and ADF-16 cycles, there has been a clear shift in the Fund's guarantees business. Firstly, the size of guaranteed transactions is getting larger. Secondly, the Bank and the Fund are working more closely together to deliver package solutions. The third observable trend is the rise of public sector partial credit guarantees to enhance credit sustainability-linked loans to deliver projects under formal sovereign sustainable financing frameworks.

110. One of the major lessons learned for the Fund in scaling up its guarantees business has been the need to ensure ADF applies to obtain a zero percent risk weighting under the Basel Framework, as this significantly increases its attractiveness to commercial banking partners as well as further improve the financing terms sovereign clients are able to receive, whether for project finance or direct sovereign loans.

Box 11: Benin: ADF Partial Credit Guarantee

The Fund successfully closed a partial credit guarantee transaction for EUR 195 million to enable the Republic of Benin to mobilize funding from an international commercial bank, the proceeds of which are exclusively used to finance green, social and governance projects in compliance with Benin's sustainable development goals (SDG) Financing Framework. Executed in June 2023, it was the first MDB transaction where Africa Co-Guarantee Platform partner ATIDI participated as a second loss cover provider, complementing the ADF first loss guarantee. The ADF's intervention enabled Benin to raise a loan of EUR 350 million from international commercial banks/international investors. The ADF guarantee played an important role in lengthening the maturity from 10 to 12.5 years and enabled Benin to lock-in a much lower interest rate compared to its Eurobond yield curve for similar maturities.

The Project Preparation Facility (PPF)

111. The ADF Project Preparation Facility (PPF) was established in 2000 with an initial amount of UA 19.2 million under the ADF-8 replenishment cycle, as a tool to address the challenges of project readiness in ADF-only and Blend countries, where project preparation costs can be 5-10% of total project costs, depending on the type and complexity of the project. During the first phase (PPF 1.0), between 2000-2018, the Facility approved 46 activities for a cumulative value of UA 27.8 million in 23 RMCs (including 13 classified as Transition States). PPF 1.0 resources benefited ADF countries in the design of transformative projects across sectors, including, agriculture and rural development, social development, agriculture value chains, market development and youth enabling projects.

112. During the second phase (PPF 2.0), ADF-15 allocated a UA 75 million set aside for the PPF. In the reporting period, 14 proposals have been approved totaling UA 29.9 million, including 10 in ADF grant-only/transition countries: Burkina Faso, Chad, Comoros, Guinea (two proposals), the Gambia, Madagascar (two proposals), Mozambique and Somalia. As of end June 2024, 40% of the PPF resources have been utilized (exceeding the utilization target of 30% set for the ADF-16 cycle), with a balance of UA 45.13 million available for use (see the note on an Update on the PPF).

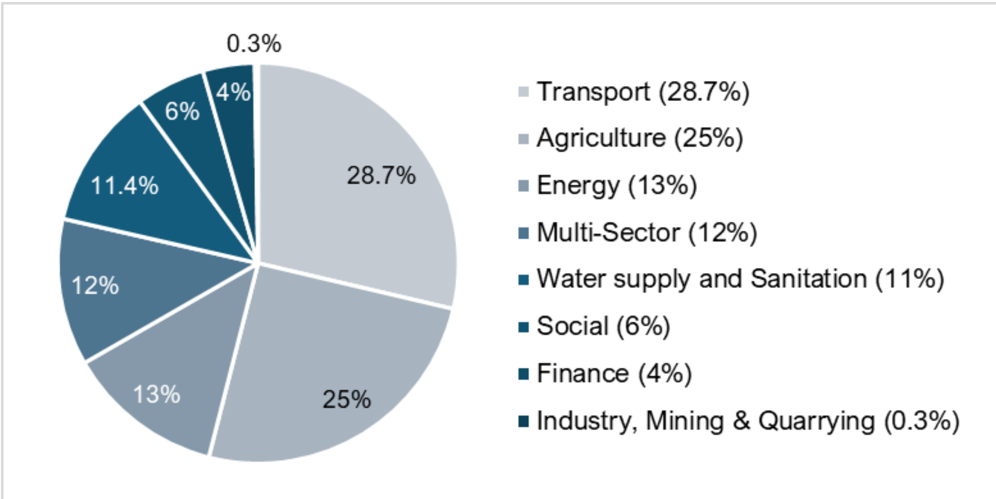
Resources from Cancellations

113. Since 2011, the Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees have provided an opportunity for ADF countries and the Bank to redirect ADF resources from non-performing to better performing operations and to relieve countries of payment of commitment fees levied on undisbursed balances. The revised guidelines allow ADF eligible countries to retain 70% of the resources from ADF operations that have been cancelled. These resources can be reused for commitments to ongoing operations or new activities consistent with the Country Strategy Paper (CSP). The remaining 30% is returned to the ADF general pool of resources for reallocation. This provision has proved to be a useful tool in cleaning up non-performing projects in the active ADF portfolio and thus improving portfolio quality. At the end of August 2024, the total resources available from cancellations amounts to UA 39.19 million.

Distribution of ADF-16 financing commitments by sectors and instruments

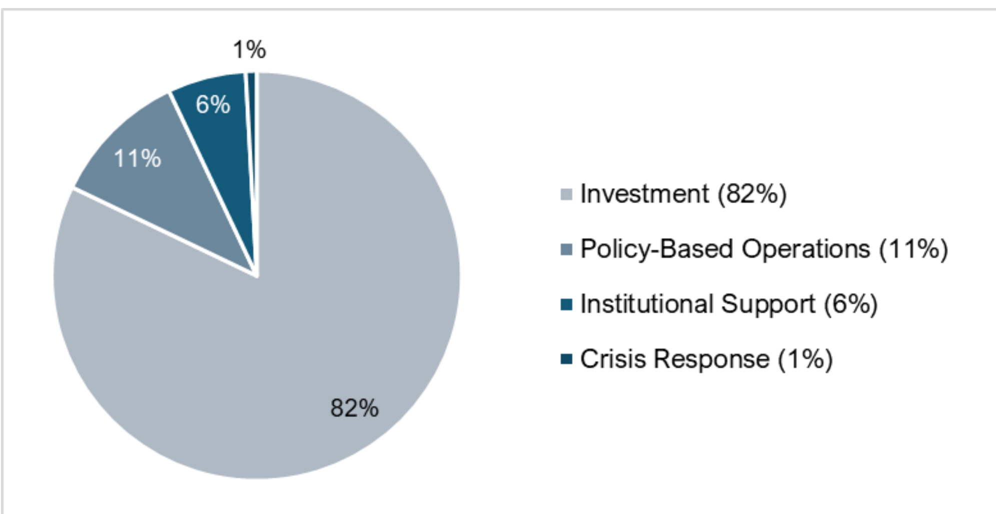
114. In terms of sectoral distribution (Figure 3), approvals and planned operations by the end of the year 2024 will mainly support Transport (28.7%), Agriculture (25%), and Energy (13%). This is distribution is broadly in line with the ADF-16 strategic framework.

Figure 3: ADF-16 Project Approvals by Sectors



115. In terms of financing instruments, the majority are investment projects. The lending program for the ADF-16 period shows a strong demand for sector and general budget support. Management will closely monitor the use of policy-based operations to ensure it remains within the 25% limit of the ADF-16 PBA envelope by the end of the cycle.

Figure 3 (cted): ADF-16 Project Approvals by Financing Instruments



Section VI Institutional Reforms for Development Effectiveness

116. The Bank Group scaled up resource flows to ADF Countries and leveraged its unique position to play a catalytic role in mobilizing additional resources, generating knowledge products, and providing expertise in key areas.

117. **Integrated Quality Assurance Plan:** In 2023, the Bank Group continued to sharpen its focus on results and reached 95% completion of implementation of the Integrated Quality Assurance Plan aimed at enhancing the quality of its operations and increasing development impact. It also stepped up its knowledge and capacity development operations.

118. **New Results Management Framework:** The Bank Group continued the development of a new Results Management Framework (RMF) to evaluate progress in delivering results. Management will submit the Bank Group's RMF for Board consideration and approval in Quarter 4 2024 (PC #33). It aims to enhance the Bank's accountability to shareholders, partners, and RMCs for the results achieved through its operations. The approved RMF will be the basis for supporting new TYS implementation and results reporting.

119. To enhance accountability, compliance, and oversight, Management has been providing regular updates to the Boards of Directors on progress in implementing recommendations from Independent Development Evaluation (IDEV). The percentage of management actions completed or being implemented on time increased from 64% in 2017 to 90% in December 2023. The Aid Transparency Index of the Publish What You Fund named the African Development Bank the Most Transparent Development Finance Institution globally for its sovereign operations.

120. **Integrated Safeguards System (ISS):** The Board of Directors approved an update of the Integrated Safeguards System (ISS), which clarifies the roles, responsibilities, and accountabilities to borrowers and clients. The updated ISS aligns more closely with peers on community health and safety, gender-based violence, and stakeholder engagement in high- risk operations.

Enhancing the Quality of Operations and addressing implementation challenges

121. During the first half of the ADF-16 cycle, significant achievements have been made delivering on ADF-16 commitments and operational results. ADF-16 is on track to commit 70% of its resources by the end of 2024, compared to 58% under ADF-15 at the end of the 2nd year. In particular, 85% of the regional envelope is expected to be committed by the end of 2024, up from 43% approved at the mid-point of ADF-15. Demand for resources from the Regional Operations envelope has been increasing rapidly and this is expected to continue with financing requests exceeding the availability of resources. Notwithstanding these achievements, some challenges remain to be addressed, especially in the area of portfolio performance. In 2023 and 2024, the Bank took several measures to address portfolio performance and the recurring challenges faced by many projects.

122. The Bank Group made progress in implementing institutional commitments and reforms aimed at improving the operational quality and performance of its portfolio, thus maximizing development impact for the people of Africa. The Special Operations Unit of the Bank continued to proactively engage distressed borrowers, as two borrowers cleared all their arrears leading to an improvement in the risk rating of the projects as well as in the Non- Sovereign Operation (NSO) nonperforming loan ratio from 16.9% in 2022 to 15.1% in 2023.

123. **Quality-at-entry**: In some sectors, and particularly in transport, the inadequate quality of technical and environmental studies results in implementation delays and cost overruns. To mitigate this challenge, the Bank often resorts to improving such studies before the start of projects. The Bank will continue to encourage ADF countries to use the Project Preparation Facility to finance quality studies. The Enhanced Readiness Review shows marked improvements in several quality-at-entry criteria across different stages of the project cycle, based on Sovereign Operations reviewed between September 2021 and December 2023. Further measures are underway, including work to strengthen medium-term planning, results measurement, and support to Project Management Units and Executing Agencies in ADF countries with capacity constraints.

124. **Project Start Up Delays**: Recognizing the criticality of timely project commencements, the Bank streamlined grant conditions and worked diligently with authorities to ensure conditions were met prior to Board approval. The Bank Group emphasized training project staff in its rules and procedures, particularly focusing on contract management and PPPs, to address the need for enhanced project implementation capacity.

125. **Procurement and Implementation Delays**: By enhancing the capacity of members of project implementation entities and adopting Performance- Based Contracts, the Bank Group aimed to expedite project delivery. The Bank Group led the assessment of procurement systems in a number of African countries. It also issued Presidential Directive 03/2023 establishing the Procurement Accreditation Program, with the objective of creating a critical mass of Bank staff fully qualified to execute procurement oversight in Bank-funded operations. **Environmental and social capacity building**: The Bank Group boosted environmental and social capacity building and training across the continent, including through a grant of US$ 2.45 million from the Multilateral Cooperation Center for Development Finance. Further, updates on the ISS were disseminated to Bank staff through regional capacity building sessions and through the Bank-wide Policy Week sessions.

126. **Integrated Safeguards System (ISS):** The Board of Directors approved an update of the Integrated Safeguards System (ISS), which clarifies the roles, responsibilities, and accountabilities to borrowers and clients. The updated ISS aligns more closely with peers on community health and safety, gender-based violence, and stakeholder engagement in high- risk operations.

Improving Organizational Efficiency

127. **Cost containment framework:** Management remained committed to maintaining annual budget growth within the trajectory approved as part of the cost containment framework, while continuing to improve the efficiency of its resource allocation processes. Enhancements to budgeting systems and tools included streamlining the definition of and budgeting of special initiatives, improving the coefficient-based approach to budgeting supported by improved reporting and engagement with operations departments, extending the activity time recording system to enable consultants to record their time, and automating the process underlying the sharing of costs among the Bank Group's three lending windows.

128. **Organizational Efficiency**: The Bank Group launched the preparation of several frameworks to enhance organizational effectiveness and efficiency. Progress was made in developing frameworks to continuously monitor the fitness for purpose of structures, processes, and associated systems for the Bank to remain agile, competitive, and relevant. The Delegation of Authority Matrix (DAM) was reviewed and updated in March 2023. Overall, the percentage of operations staff based in-country offices and regional hubs increased from 54% in 2022 to 55% in 2023, its highest level to date. The proportion of projects managed from country offices decreased from 78% in 2022 to 75% in 2023. The share of professional staff based in transition states increased from 5.7% in 2022 to 7.6% in 2023. While progress has been achieved in some areas, the Bank is focused on addressing challenges relating to clarification of roles, right skill mix and limited capacity.

129. **Staff Diversity:** The staff complement has remained relatively stable, ranging between 2,038 and 2,123 over 2019-2023 and stood at 2,084 at the end of 2023. Female staff representation has remained broadly the same since 2022: female staff accounted for 39.2% of the workforce, 32.8% of staff in professional roles, and 27% in managerial positions. In early 2023, the Bank Group obtained the Level 1 EDGE certification (Economic Dividend for Gender Quality), demonstrating its commitment to an inclusive approach to people and talent management in its policies and actions. The Bank Group continued to address vacancy rates, which stood at 6.6% at the end of 2023, compared to 24% in 2016. The attrition rate was 4.2% in 2023, a reduction from 6.2% in 2020 and at par with most sister organisations. The employee engagement index has significantly improved, from the 80th percentile in 2019 to the 90th percentile in 2023. This means that the Bank is among the top 10% high-performing organizations in terms of staff engagement. The Bank Group took part in seven career fairs with the aim of increasing representation of underrepresented countries and improving brand awareness. The Total Compensation Framework (TCF) has been revised and implemented in phases over three years (2021-2023).

130. The Bank employs a Strategic Staffing approach, to ensure that it has the right number and mix of employees to fulfil its mission and workplan, including with incentive measures for staff affected in conflict-affected and transition States. An update and report on the Corporate Strategic Staffing Plan was shared with CAHR/Board in the first half of 2024. Full implementation of a comprehensive strategic staffing cycle will begin in 2025. Updates on the 2025 and 2026 staffing plans will align with the Ten-Year Strategy and the MDB reform agenda, which will

be presented to CAHR in the fourth quarter of 2024. This will ensure that Strategic Staffing is fully aligned to the Bank's priorities and business needs under the new TYS and will help the Bank to deliver on its mandate.

131. **Integrity and Anti-Corruption:** In 2023, the Integrity and Anti-Corruption Department finalized and launched the pilot phase of the Screening Tool, a due diligence screening solution for sanctions lists, adverse media, and politically exposed persons. The Tool's full deployment will strengthen the mainstreaming of Anti-Money Laundering and Combating the Financing of Terrorism Due Diligence (AML/CFT) measures in Bank operations and activities. During the year, the Board of Directors approved the new Whistleblowing Policy, which applies to Bank Elected Officers, Staff, Short Term Staff, Bank employed consultants, external parties, and development partners.

132. PIAC continues to promote integrity culture in the Bank and its Operations, in fulfillment of its risk-based approach. The risk-based approach has been adopted across PIAC workstreams and this has strengthened its preventive work. In conducting Proactive Integrity Reviews on Bank funded projects, PIAC adopted an integrity risks-based methodology, and this has been positively received by stakeholders. PIAC initiated the procurement of a sanctions screening tool that is being deployed as part of implementing the Bank's due diligence guidelines and anti-money laundering screening procedures.

Zero tolerance for sexual exploitation, abuse, and harassment (SEAH).

133. **The Bank has committed to reinforcing zero tolerance for sexual exploitation, abuse, and harassment (SEAH), by strengthening its administrative measures for tackling the issue.** A revised Presidential Directive prohibiting sexual exploitation in the workplace and in Bank-funded projects was published in May 2021, with clear guidelines for dealing with breaches of the zero-tolerance policy. In January 2020, a staff survey on SEAH was conducted. This was followed by a joint campaign with the Ethics Office (PETH), to roll out the Bank's provision on SEAH, as well as approval and dissemination of SEAH policy to all Staff. Since then, SEAH has been built into capacity building and awareness raising training and regularly delivered as part of PIAC's training workstreams in Bank Headquarters, Regional and Country Offices and to external stakeholders. To date, PIAC has received very few complaints related to Sexual Harassment, compared to other types of misconduct. PIAC is committed to intensifying the awareness campaign, to constantly educate staff and stakeholders, to prevent the occurrence of SEAH, while equipping potential victims of SEAH with information on how to report incidents. The "SPOT" system was developed, to facilitate the safe and anonymous reporting of harassment, abuse of power and discrimination, and new Directives on *Sexual Exploitation, Abuse, and Harassment (*SEAH) were published.

Section VII ADF Market Borrowing Option

134. The 'ADF Market Borrowing Option' has been endorsed by the ADF Board of Directors and approved by the Board of Governors during the 2023 Annual Meetings. The Board of Governors passed a resolution subject to a ratification process on the amendments to the ADF Agreement, a process that is ongoing.

135. The ADF Market Borrowing Option will augment the reach of past and current donor contributions to the ADF, with the potential to increase the Fund's commitment capacity by up to UA 4 billion per ADF cycle through non-concessional borrowings in international capital markets. Based on current projections and assumptions, the Market Borrowing Option has the potential to provide additional resources of UA 20 billion over a 15-year period, starting from ADF-17.

136. **It should be noted that leveraging ADF's equity will not fundamentally change the mandate or character of the ADF.** The Fund will remain a concessional window focused on Africa's poorest countries. Nonetheless, the Fund will need to modernize its business model, to reflect the evolving needs of ADF countries. Donor grant contributions through periodic replenishments will remain central to its sustainability and ability to offer concessional finance.

137. **Amendments to the ADF Agreement:** During the Bank Group's 2023 Annual Meetings, the Board of Governors approved the ADF Market Borrowing Option and passed a Resolution, which is subject to a ratification process by ADF participants, on the amendments to the ADF Agreement that are required to enable the Fund to engage in non-concessional borrowing and lending. In accordance with Article 51 of the Fund Agreement, letters were sent to all the Governors of the Bank requesting their acceptance or rejection of the amendment, with the deadline set to 31 October 2023. By that deadline, only 17 countries had communicated their acceptance of the amendment to the Secretariat. The deadline was therefore extended to 31 December 2024. As of August 2024, letters of acceptance were received from countries representing a total of 28.1% of the voting power. When three-quarters of participants, holding 85% of the voting power, have accepted the proposed amendment, the ratification process will be completed and the process of amending the ADF charter will commence. This is expected to be completed by June 2025.

138. **Update of ADF policies, regulations, revision of guidelines, frameworks and financial modelling:** The operationalization of the ADF Market Borrowing Option will require important preparatory work, including a review of all the Fund's policies, regulations and guidelines regarding risk and financial management (including its Capital Adequacy Framework). An alignment of such policies with best practice for highly rated entities will also be required, taking into account the specificities of the ADF and its mandate. The review of the activities is expected to commence in the second semester of 2024.

139. **Ensure readiness of ADF for capital market activities:** The operationalization of the Market Borrowing Option will also require that the Fund obtains a credit rating. A triple-A rating is targeted and once conferred, will allow the Fund to raise affordable resources. In so doing, the Fund will benefit from the processes, policies, procedures, and broad experience that the Bank has built up over the years as a triple-A financial

institution. The Fund will also seek to apply for the inclusion of ADF on the Basel list of multilateral development banks with 0% risk-weight under the Basel Capital Adequacy Framework. The Fund will also need to establish financial relationships with key counterparties to support future borrowing and hedging activities. Finally, comprehensive borrowing documentation will need to be drafted and a program of investor outreach established and put in motion.

Section VIII CONCLUSION

140. The negotiations for ADF-16 concluded in December 2022 with a replenishment level that was significantly higher than the previous cycle, in support of its two pillars of sustainable, climate-smart and quality infrastructure and governance, capacity development and debt sustainability. It set an ambitious but focused agenda of 33 policy commitments. All but one commitment due at the mid-term review is either delivered or expected to be delivered before year-end.

141. **Important progress has been made in approving projects for both pillars, and in addressing fragility and climate change and crosscutting issues.** The Climate Action Window created within ADF-16, after an initial period of preparation, has been successfully launched and its initial projects should be approved by year end. The Bank's efforts to accelerate socio-economic development in ADF countries have been endorsed by international sources, including the *Financial Times*.

142. Throughout 2023, the Bank worked towards finalizing its new Ten-Year Strategy (TYS 2.0). The strategy will maintain the High 5s as its operational priorities for the next decade, as they are central to the achievement of the African Union Agenda 2063, the Sustainable Development Goals and the climate Paris Agreement agenda. It will take on board the G20 Leaders' call for an international development finance system that is fit for purpose, with Multilateral Development Banks (MDBs) at the center of solutions to global challenges. It will reflect the Heads of MDBs agreement to strengthen collaboration in five critical areas: scaling up financing capacity, boosting joint action on climate, enhancing country-level collaboration, strengthening co-financing, and catalyzing private sector engagement.

143. **In summary, the ADF continues to prove its worth as a source of high-quality development cooperation and much-needed concessional finance.** It is a trusted partner for its Regional Member Countries, with strong relationships with governments and international development partners. Under its new Ten-Year Strategy, it has a clear strategic direction for the next decade.

144. ADF continues to be hampered by lack of adequate capacity in some of its countries of operation, especially in those in fragile situations, and by an overall lack of resources, at a time when its member countries face growing rising debt pressure and fiscal constraints. To address these challenges, ADF has introduced innovations to leverage its assets through a borrowing option for an implementation in ADF-17, and it constantly aims to complement its own resources with that of partners through co-financing and partnerships.

145. Deputies are invited to take note of this report and provide their views and guidance on the progress achieved, and challenges encountered, in the implementation of operational priorities under ADF-16.

In addition, Deputies are urged to approve the following recommendations:

- It is recommended that the Somalia be considered to continue accessing ADF funding on grant basis until the end of ADF-16 cycle. This proposal will enable the country to sustain the reform momentum (see the accompanying technical note for more details) ; and
- It is recommended to maintain the UA 95.11 million in TSF Pillar II to leverage the Bank's leadership in facilitating continued dialogue and support for Zimbabwe's debt resolution when the conditions will be met.