

AFRICAN DEVELOPMENT FUND



ADF - PROJECT PREPARATION FACILITY (PPF) OPERATIONAL GUIDELINES

CENTRAL OPERATIONS DEPARTMENT (OCOD)

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1. Introduction

1.1 Background

1.1.1 The Technical Assistance Fund (TAF) has been designed to finance large and medium scale project preparatory activities. These activities include up-stream sector studies, structural adjustment studies, project cycle activities and institution capacity building programmes. However, TAF does not have the flexibility to provide financing for small and project-specific priority operational activities, which usually occur at the preparatory phase of the project cycle. These preparatory activities of limited scope include: updating of economic studies, baseline data surveys, final project designs, revision of tender documents, EIA and studies on cross-cutting issues amongst other project preparatory activities.

1.1.2 The experience of the Bank Group indicates that the quality of projects at entry depends to a large extent on the level of preparation in terms of the validity of the appraisal documents. It is noted that project preparation is the responsibility of the Borrower. However, the experience of the Bank and other donors confirm that most of the Executing Agencies do have the human and financial resources to prepare quality projects. In view of the above, the RMCs require the assistance of the Bank in the preparatory phase of projects. However, unlike other donors, the Bank has no specific resources provisioned for financing the preparatory phase of activities particularly for the revision of economic feasibility, detailed engineering design studies and tender documents before appraisal missions in order to promote quality at entry.

1.1.3 It was in the above context and the need to promote quality of projects at entry, that the Bank Management proposed the establishment of the Project Preparation Facility (PPF) as a financial instrument to expeditiously provide resources targeted to the preparatory phase of priority projects, studies and programmes. The ADF Deputies endorsed the idea that there is need for the establishment of the PPF as a complementary facility.

1.1.4 The experience of the World Bank and other donors in the use of the PPF confirms that it has been a demand-responsive facility and very effective in generating quality projects at entry. In addition, the high level commitment of the Government required before approval of the PPF advances promotes Government's ownership and participation in project preparation and implementation. Additional information on World Bank experience on the PPF is given in annex 5.

1.2 Objectives of the Policy Guidelines

The objective of these policy guidelines is to develop rules and procedures which will guide Bank staff and the Borrowers in regard to the preparation of proposals, processing of applications, approval of advances and re-financing or repayment of advances.

1.3 Organization of the Paper

- 1.3.1 Section 2 of the paper presents succinctly the difference between the TAF and the proposed PPF. This section also proposes the various types of project preparation activities which qualify for funding under the facility. The estimation of the fund required for the PPF is incorporated in section 3. Also in section 3, the modalities for implementation of the PPF including the utilization of resources, ceilings for advances and repayment arrangements are proposed. Also incorporated in this section are the conditions for suspension of disbursement. Section 4, summarises the operational procedures for preparation, processing, approval and re-financing or repayment of advances. The requirements for preparing and execution of the Letter of Agreement with the Borrower have also been developed in section 4.
- 1.3.2 Section 5, proposes the reporting arrangements necessary to timely inform the Board of the ADF about the operational details on the various activities and financial commitments under the facility. Finally, section 6 of the paper articulates conclusions and recommendations for the consideration of the Board.

2. Role and Application of the Project Preparation Facility

2.1 Role of the PPF

- 2.1.1 The PPF is designed as a complimentary facility to TAF with a distinct role in financing of project preparatory activities. It therefore will not duplicate TAF. The significant differentiation is that while TAF is applied to the entire project cycle activities with more emphasis on upstream studies, the PPF will be tailored to urgently address only the project preparatory activities of the RMCs with very high probability of generating projects to enrich the Bank Group pipeline of projects in terms of quality at entry. The PPF resources are targeted only to preparatory activities of limited scope required to validate data and revise documents before project appraisal and execution. These important preparatory activities to be financed under the PPF are discussed in para. 2.2.
- 2.1.2 In terms of access, studies and programmes to be financed under TAF require longer programming period to qualify for consideration. On the other hand, the PPF is flexible and provide quicker access in response to viable demand from the RMCs to support project-specific operational activities with limited scope required to enhance project quality at entry. The PPF therefore is considered, to some extent, as a stand alone facility designed to respond to changes in project scope and revision of designs at the preparatory phase of the project cycle.
- 2.1.3 The PPF would enhance the quality of the Bank's operations in the following ways:
- a) The PPF is targeted to the promotion of quality at entry in the preparatory phase of projects and programmes.
 - b) PPF is a reimbursable facility for providing advances to the Governments of Regional Member Countries (RMCs) for advancing the preparation of priority projects and programmes with high probability of implementation by the recipient Government.
 - c) PPF has higher capacity to promote Government ownership and participation in project preparation, required to generate more quality projects at entry.

- d) PPF is a quick access and demand-responsive facility which will enable the Bank to respond timely to changing investment programmes of the RMCs which is consistent with the new vision of the Bank.

2.2 Category and Limited Scope of Operational Activities proposed for Financing under the PPF

The priority activities that can benefit from the use of PPF resources are given below.

2.2.1 *Feasibility Studies and Detailed Design*

PPF resources will be applied to undertake limited feasibility studies and designs. It will also cover baseline data surveys including beneficiary surveys. The PPF will provide resources required to facilitate the preparation of technical specifications and the revision of out-dated project preparation studies which are considered incomplete for project appraisal.

2.2.2 *Environmental Impact Assessments, Gender Studies and other studies on Cross-Cutting Issues.*

In line with the Bank's commitment to promote sustainable environmental development and gender issues particularly at the stage of project design, PPF facility should be applied to the financing of studies on EIA, Gender and other studies on cross-cutting issues and also in up-dating of studies provided that the implementation of such studies does not exceed six months and that the studies are targeted to specific project proposals.

2.2.3 *Pre-contract Services Including Revision of Tender Documents*

The PPF will finance the cost of consultancy services required to carry out extra work of revision of designs and tender documents, processing and evaluation of tenders before commencement of construction activities. Pre-contract services also include assistance to the EAs in bid evaluation for selection of contractors and down-stream activities such as pre-qualification exercise. It is also proposed that the duration of pre-contract activities to be financed under the PPF be limited to a maximum of six months.

2.2.4 *Other Related Project Preparatory Activities*

PPF resources can also be applied to promote participatory approach in project formulation and design. In this regard, the costs of development and presentation of workshops, seminars and conferences involving stakeholders in the targeted project qualify for assistance under the facility. The PPF advances could be applied to other unforeseen preparatory activities unique to the targeted project provided that sufficient justifications are made by the PPF mission.

3. Modalities for Implementation of the PPF.

3.1 Estimated Amount of Total Fund Required to Establish the PPF

The PPF instrument is structurally designed as a revolving and self-sustaining fund. The resources for the establishment of the PPF will be drawn from the total provision allocated to TAF under the ADF VIII Replenishment. It will be recalled that an aggregate sum equivalent to 7.5% of the actual amount of resources available for operations under the eighth replenishment has been allocated to TAF operations. Currently, the actual resources available for ADF lending operations amount to UA 1.71 billion. Out of this amount, 128 million has been allocated to TAF operations. It is estimated that 15% of the above amount (UA 19.20 million) would be used to establish the PPF.

3.2 Country Eligibility

In accordance with the ADF VIII lending policy guidelines, the use of TAF-related resources including the PPF, is restricted to RMCs in categories A and B countries only. It was also determined that due to the demand-responsive nature of the facility, PPF advances should be approved on the basis of need on a first-come first-serve basis. However, management would take necessary measures to avoid marked imbalances in the approval of resources as far as countries and regions are concerned.

3.3 Foreign Exchange and Local Cost Financing

The PPF advances will be applied to finance both foreign and local cost elements of the project subject to the requirement that the Borrower should demonstrate commitment by providing at least 5% of the local cost component. The PPF advance will be utilized to finance 100% of the foreign exchange costs and up to a maximum of 95% of the local costs in accordance with the Bank's guidelines for the use of TAF related resources.

3.4 Procurement of Goods and Services

The procurement of goods and services under the PPF facility shall be carried out in accordance with the Bank's Rules of Procedures for the Use of Consultants and for Procurement of Goods and Works. Considering the relatively small amounts of the contracts expected from this facility, the following procurement modes are proposed for Goods and Services:

- a) for consultancy services, procurement will be on a basis of competition by shortlist of firms approved by the Bank. The selection criteria will be based on technical quality with price consideration;
- b) the procurement of items of goods such as computers, equipments and limited number of vehicles will be based on International Shopping or National Shopping depending on the mode agreed by the Bank and the Recipient Government; and
- c) audit Services for activities under the PPF will be procured on the basis of a shortlist of individual consultants approved by the Bank.

3.5 Terms of Financing

The PPF advances are made only to Governments of the RMCs to facilitate project preparation. These advances are treated as receivables in the books of the Bank up to the time the advances are reimbursed. The payment of service charge of 0.75% per annum is not applied until the advances are re-financed or repaid which ever is applicable. Re-imburement or repayment of advances shall be made in the currencies disbursed by the Bank. Advances provided under the facility shall not attract any interest charges. The terms of financing under the PPF are guided by the provisions and conditions incorporated in the Letter of Agreement and its three attachments (Annex 4).

3.6 Ceiling for Advances, Approval Responsibility and Disbursement

3.6.1 *Ceiling for Advances*

The estimation of the ceiling required for financing the preparation activities presented in para. 2.2 is based on the costs for preparation of similar projects and studies previously undertaken in the RMCs using TAF resources. It is therefore proposed that a floor of UA 20,000 and a ceiling of UA 500,000 be considered to accommodate the financing of the various categories of activities.

3.6.2 *Approval Responsibility for Advances*

Since the PPF is a demand-responsive facility, it has to be a quick-access facility so that, it can be readily applied to project/programme preparation directed to guide the Bank's intervention regarding priority needs of the RMCs. It is therefore necessary that approval of resources under the facility be expeditious and client responsive. The Board may therefore wish to delegate to the President, authority to approve PPF advances up to a limit.

3.6.3 In the above regard, it is proposed that the President approves PPF advances below UA 250,000 with immediate notification to the Board and that the Board approves advances above UA 250,000 up to UA 500,000 on a 10 days Lapse-of-time basis with the document provided in English and French.

3.6.4 *Disbursement*

The PPF advance should be disbursed through a revolving fund domiciled in the capital of the RMC and operated under the terms and conditions stated in annex 4. In order to further ensure effective financial control, it is proposed that PPF advances approved for a project be disbursed into the special account in two to three tranches on a pro-rata basis in consideration with the work done. Direct payment arrangements could be applied provided that agreement was reached with the Borrower and that the amount exceeds UA 20,000.

3.7 Re-financing and Re-payment of PPF Advances

3.7.1 The modalities for re-financing and re-payment of PPF advances are illustrated in Annex 7. There are two scenarios a) re-financing of PPF advances apply when the preparatory activity leads to project appraisal and subsequently to an ADF loan. The re-financing is due on the date of loan effectiveness when the advances would be re-imbursed using the proceeds of the loan.

- 3.7.2 In situations where the preparation efforts do not result in project loans or are unrelated to loans, the Government would re-imburse or repay the advances. It is proposed that such re-payments be settled through savings from other ADF loans or grants made to the country. In exceptional situation, where there are no such savings, Government should be required to settle advances with its own resources.
- 3.7.3 The terms and conditions for re-financing and re-payment of the advances are stated in the Financial Provisions Applicable to PPF Advances attached to the letter of Agreement with the Borrower given in Annex 4. The agreement also incorporates the exact date for the reimbursement of advances in cases where loans have not been made. Re-financing deadlines for advances are due on the date of loan effectiveness for each targeted project. If there is a slippage in the date of loan effectiveness specified in the Letter of Agreement, the Bank may consent to the request of the Borrower to extend the date of re-financing provided that adequate justifications are provided.
- 3.7.4 Re-financing of the advance involves allocation of an amount equal to the principal plus service charges in a separate disbursement category provided in the Bank loan. In practice, during project appraisal, TAF components would be incorporated for re-financing of advances for the categories of preparatory activities covered under the PPF. If there are excess funds remaining in this category after re-financing the PPF, it will be applied to other disbursement categories. In case of re-payment of advances, the Borrower is required to make good the advance plus the service charge in three installments within one calendar year. In case of advances of UA 20, 000 the payment should be made in one installment within 60 days. The detailed information on the re-payment of advances is given in Annex 4.

3.8 Suspension of Disbursement

PPF resources are subject to the standing Bank rules on suspension of disbursement for projects and studies. However, the Letter of Agreement incorporates the following clauses; a) that the Bank may suspend disbursement of funds where it is satisfied that the withdrawn amounts are not being used for the agreed purpose or standards; and b) that sanctions due to default in servicing of any other loan will cause PPF advances to be suspended.

4. Processing of PPF Advances.

4.1 Requirements for PPF Proposals

- 4.1.1 The requests for the utilization of PPF resources will originate from the national Government, or Regional Economic Communities in case of multi-national projects. The content of such a proposal should clearly address the following issues:

- objectives of the project or programme, project description and economic justification;
- the detailed preparatory activities to be undertaken with the PPF advance;
- the Terms of Reference (TOR)
- the detailed cost estimates.
- Implementation schedule for commencing and completing the preparatory activity.
- the brief on the capacity of the EA which will implement or co-ordinate the preparatory activities.
- Evidence of Government's commitment that the preparatory activities are targeted to generate priority projects/programmes or have high probability of doing so.

4.1.2 On receipt of the proposal, the Country Department (CD) is required to carry out a desk review of the proposal to determine if the proposal is viable. If the proposal is viable, the CD should mount a mission, if necessary, to the particular RMC to discuss with Government and the EA on all aspects of the preparatory activities, re-financing and repayment conditions and other conditions in the Letter of Agreement. Thereafter, the Bank staffs are required to prepare a memorandum for the utilization of PPF advance for the preparatory activities relating to the project, study or programme. The format to guide Bank Staff in preparation of the PPF memorandum is given in Annex 2. The flow chart illustrating the processing procedures is presented in Annex 6.

4.2 Review Committee

In order to ensure transparency and enhance the quality of the memorandum, the CD Director is required to review the draft memorandum with the Review Committee composed of: the project team, concerned division manager, OPVP's Adviser, representatives of CLEG, FLAD, FPRU and OCOD in a formal Interdepartmental Working Group Meeting. If the committee adjudges the memorandum acceptable, the letter of Agreement and its attachments will be endorsed to CLEG for formal clearance, thereafter the PPF memorandum will be forwarded for the consideration of the President or the Board of Directors as applicable.

4.3 Signing of the Letter of Agreement

On approval of the PPF advance, the concerned CD will arrange for the formal signing of the Letter of Agreement by the Minister of Finance of the RMC and the Vice President OPVP or any other designated officials of the Bank in accordance with the Bank's Delegation of Authority Matrix.

5. Reporting Arrangements/Project Audit

5.1 Reporting Arrangements

5.1.1 The Borrower is required to submit to the Bank quarterly reports on the physical and financial status of the implementation of preparatory activities financed under the PPF. On the basis of these reports and information derived from field supervision reports, the CDs are required to prepare and submit to OPVP quarterly progress reports on all approved PPF advances for which disbursements have been made. These reports should provide physical and financial performance of

the preparatory activities, problems if any, and any likelihood of achieving the objectives.

- 5.1.2 Management will submit to the ADF Board on a bi-annual basis progress reports on the implementation of the PPF facility.

5.2 Project Audit

The advances released under the PPF are subject to project audit at the completion of the preparation activity. It is proposed that the cost of audit services be incorporated into the cost estimates in line with current Bank guidelines. In regard to advances between UA 20,000 and UA 100,000, it is proposed that subject to availability of staff, Bank officials should undertake the auditing of such operations.

6. Conclusions and Recommendations

6.1 Conclusions

- 6.1.1 The establishment of the PPF as a complimentary facility to the TAF financing instrument is a fruitful approach to promote the preparation of projects, studies or programmes and consequently it will address the disturbing issue of low rate of project generation from several studies previously executed under TAF resources.
- 6.1.2 The performance of the Bank Group portfolio depends largely on the quality of projects at entry into the investment pipeline. In the above regard, the level of preparation is considered critical. The PPF will promote the quality of projects at entry into the Bank's lending programme through the provision of funds to facilitate preparatory activities for projects, studies and programmes.
- 6.1.3 As a quick-access and rapid disbursing fund, the PPF is considered a functional facility structurally designed with a high degree of flexibility to respond to the frequent changes in investment priorities of the RMCs and the associated preparatory needs. The PPF resources will promote Government commitment, participation and ownership of targeted projects or programmes. In terms of sustainability, the PPF is, to a great extent, a self-sustaining fund readily available for project preparation.
- 6.1.4 The experience of the World Bank and other donors confirm that the PPF is operationally feasible and has a positive impetus in the drive for generation of quality projects at entry. In terms of providing support for project/programme preparation in the RMCs, the PPF has been found to be very effective by other donors.
- 6.1.5 It is therefore envisaged that the establishment of the PPF will promote the competitiveness of the Bank in terms of timely response to the needs of the client which is one of the key foci of the Bank's new Vision.
- 6.1.6 In conformity with the Fund Agreement, the financing of all TAF-related resources require the approval of the Board of Directors. Therefore, all PPF advances, in

principle, require the approval of the Board. However, in order to expedite the processing of PPF operations and considering the small size of the contract packages, the Board of Directors may wish to delegate authority to the President to approve PPF advances up to a limit in order to promote competitiveness through quick delivery of priority services to the client RMCs. In the above regard, it is proposed that the President approves PPF Advances below UA 250,000 with immediate report to the Board and that the Board approves Advances above UA 250,000 up to UA 500,000 on a 10 days lapse-of-time basis with the document provided in English and French.

6.2. Recommendations

The ADF Board is invited to consider, for approval, the establishment of the PPF under the terms and conditions discussed in these operational guidelines.

PROJECT PREPARATION FACILITY REQUEST FORM
(to be completed by Borrower)

1.	Title of Project/Study or Programme	:	_____
2.	Country	:	_____
3.	Borrower	:	_____
4.	Executing Agency	:	_____
	a) Name	:	_____
	b) Address	:	_____
5.	Description of the preparatory activities	:	_____
6.	Rationale for the preparatory activities	:	_____
7.	<u>Project Cost Estimates:</u>		
	a) Foreign Exchange	:	_____
	b) Local Currency	:	_____
	c) Total amount	:	_____
8.	<u>Financing Plan</u>		
	a) ADF	:	_____
	b) Government	:	_____
	c) Total	:	_____
9.	<u>Proposed Mode of Procurement</u>	:	_____
	a) Services	:	_____
	b) Goods (if applicable)	:	_____
	c) Others, including Training of local staff	:	_____
10.	<u>Implementation Plan</u>	:	_____
	- Schedule of implementation to be attached		

11. Evidence of Government Commitment to Implement the targeted Projects/Study or Programme :
- a) explain and rate the probability that Government will implement the targeted project/study or programme: : _____
- b) provide name and designation of Government official who will sign the Letter of Agreement : _____
- c) provide name of Project Co-ordinator who will be in-charge of monitoring the activities and the use of advances : _____
12. Name of the Permanent Secretary of Ministry of Finance : _____
13. Signature/Stamp of the Ministry of Finance of the Regional Member Country (RMC) :

Permanent Secretary, Ministry of Finance (MOF)

Date: _____

PROJECT PREPARATION FACILITY (PPF)
FORMAT FOR PREPARATION OF PPF MEMORANDUM
(To be used by Bank staff - PPF Mission)

1. Introduction

1.1 Background Information

1.2 Project/Study or Programme Objectives

1.3 Justification for the use of PPF advances:

- are there no other alternative sources of financing for the preparatory activities?
- what is the probability that the activities are project targeted?
- what are the economic justifications and rationale for the targeted project/study programme?

2. Project Description

2.1 Description of preparatory activities for which advances are requested

2.2 Description of the expected outputs and their linkages to the targeted project or programme
(if applicable)

3. Cost Estimates for the Preparatory Activities

3.1 Detailed cost estimates (broken down into foreign and local costs)

3.2 Financing plan

3.3 Cost estimates by components

4. Mode of Procurement of services and limited goods (if applicable)

4.1 Mode of Procurement of Services

4.2 Mode of Procurement of Goods

4.3 Mode for Procurement of Training activities

5. Implementation Schedule

6. Financing Arrangements (to be discussed and agreed with Government)

6.1 Re-financing and repayment of Advances

6.2 Suspension of disbursement of PPF advances

6.3 Letter of Agreement and its annexes:

- purposes, terms, and conditions of Advances;
- special deposit account;
- financial provisions applicable to advances for PPF

7. Conclusions and Recommendations for Bank's Consideration

7.1 Conclusions

7.2 Recommendations

8. Annexes:

- 1) Evidence that Government is committed to implement the targeted project or programme in form of duly signed Request Form from Ministry of Finance.
- 2) Letter of Agreement duly cleared by CLEG.
- 3) Other relevant annexes including maps etc.

N.B PPF Memorandum is limited to a maximum of 20 pages including annexes.

SAMPLE PROJECT PREPARATION FACILITY PROCESSING
FLOW CHART FOR ADVANCES

Adv. N°.	Name of Country	Project/Study or Programme Title	Amt. Requested in UA	Date of Receipt of Request from the Borrower	Deadline for Desk Review and Approval or Disapproval by CD Director	End of Mission	Deadline for Submission Of Report to CD Director	Deadline For Review Committee	Deadline for Submission to OPVP or President	Approval or * Disapproval and Communication to the Borrower	Deadline for * Signing of Letter of Agreement
1	A	Revision of Economic Feasibility and detailed Engineering design for Rehabilitation of Road from M-K	UA 50,000	The date of Receipt is coded as "X"	X + 5	X + 24 Working days	X + 30 Working days	X + 35 Working days	X + 40 Working days	X + 50 Working days	X + 60 Working days

NB* Note that if the PPF advances required Board Approval, the PPF Memorandum would follow the standard Bank's processing schedule after OPVP's approval. The above schedule would not be applicable in that case.

Date

Honourable Minister of Finance,
Ministry of Finance,
Republic of -----
City, Country

Dear Minister:

*Subject: Advance for Preparation of Proposal for -----Project
Letter of Agreement*

I am writing on behalf of the African Development Bank to indicate the Bank's agreement to grant to the Republic of -----, herein referred to as the Recipient an Advance in an amount not exceeding UA -----(the Advance). The purpose of the Advance is to finance certain expenditures required for the preparatory activities, that would assist in the implementation of components of the proposed project, study or programme the execution of which the Recipient has requested the financial assistance of the Bank.

The Advance is granted for the purposes and on the terms and conditions set forth in Attachments hereto. and the Recipient hereby represents, by confirming its agreement hereunder, that it is authorised to contract, withdraw, and repay the Advance for the said purposes and on the said terms and conditions.

The amounts of the Advance withdrawn shall carry a service charge at the rate of 0.75 percent per annum as per paragraph 5 of the Letter of Agreement Financial Provisions Applicable to Advances for Project Preparation.

The granting of this Advance does not constitute or imply; any commitment on the part of the Bank to assist in the financing of the project for the preparation of which the Advance is granted.

Please confirm your agreement with the foregoing on behalf of Government, by signing, dating, and returning to us the enclosed copy of this letter. This agreement will become effective on the date of countersignature.

Sincerely,

AFRICAN DEVELOPMENT BANK

By

Vice President, Operations -----

OR

President -----

Date -----

AGREED

THE REPUBLIC OF -----

By:-----

Minister of Finance
Republic of -----

Date:-----

**Sample - Attachment I to Letter of Agreement:
Purposes, Terms, and Conditions of Advance**

1. The activities required to complete the preparation of the project for which the Advance is granted may involve any of the following categories of preparatory activities described in para. 2.2.

- (i) Feasibility Studies and Detailed Designs;
- (ii) Environmental Impact Assessment Studies;
- (iii) Studies on Gender and Cross-Cutting Issues;
- (iv) Pre-contract services including revision of designs ad documents; and
- (v) Other related project preparatory activities.

2. Expenditures to be financed with the Advance are:

Category	Amount of the Advance to be financed (UA Million)			
	ADF		Govt.	
	<u>FE</u>	<u>LC</u>	<u>FE</u>	<u>LC</u>
(a) Consultant Services for Baseline data and Beneficiary Surveys				
(b) Preparation of feasibility Studies and Detailed Designs	-----	-----	-----	-----
(c) Studies on Cross-Cutting Issues				
(d) Pre-contract Services and Revision of Tender Documents	-----	-----	-----	-----
(e) Other Related Project Preparatory Activities	-----	-----	-----	
<u>Total</u>	-----	-----	-----	
FE - Foreign Exchange		LC - Local Currency		

The Recipient shall: (i) carry out the project preparation activities outlined above with due diligence and efficiency; (ii) promptly provide the funds, facilities, services, and other resources required for the purpose; (iii) furnish to Bank all information covering such activities and the use of the proceeds of the Advance as the Bank shall reasonably request; and (iv) and from time to time exchange views with Bank's representatives on the progress and results of such activities.

3. To facilitate the carrying out of the said project preparation activities, the Recipient may open a special deposit account (the Special Account) in US\$ in a commercial bank acceptable to the Bank according to the terms and conditions set forth in Attachment II. The depository bank of the Special Account shall confirm in a form acceptable to Bank that the funds in the Special Account will be segregated as a special deposit for the specific purposes for which the Advance is granted and that the funds are not subject to claims of setoff, seizure, or attachment.

4. The Recipient shall employ consultants acceptable to Bank on terms and conditions satisfactory to the Bank. The consultants shall be selected in accordance with principles and procedures satisfactory to the Bank and on the basis of the Bank's *Guidelines for Use of Consultants* (December 1996). No substitution of such consultants or modification of the terms and conditions of their employment *shall* be made except with the prior approval of Bank. Procurement of goods will be carried out in accordance to Bank's Rules of Procedures for the procurement of works and goods (December 1996).

5. Withdrawal, use, and repayment of the Advance shall be made in accordance with the Financial Provisions Applicable to Advances for Project Preparation (the Financial Provisions) set forth in Attachment III.

6. The Advance shall carry a service charge as provided in paragraph 5 of the Financial Provisions.

7. The date -----is hereby specified for the purposes of paragraph 6 of the financial Provisions. No withdrawals of the Advance shall be made after said date, and any amount of the Advance then remaining unwithdrawn shall be cancelled, unless the Bank shall establish a later date for the purposes of paragraph 6.

8. The Minister of Finance shall sign withdrawal applications for the Advance on behalf of the Recipient, or any person designated in writing by said authorised Government Official. Authenticated specimen signatures of the designated persons shall be provided with the first application.

* Note that the date to be inserted in item 7 above is the date of effectiveness of this agreement i.e. the date the Letter of Agreement is counter signed by the Minister of Finance of the Recipient.

Attachment II to Letter of Agreement:
Special Deposit Account

1. For the purposes of this Attachment:
 - (a) the term "categories" means categories of items to be financed out of the proceeds of the Advance as set forth in paragraph 2 of Attachment I;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the project preparation activities to be financed out of the proceeds of the Advance; and
 - (c) the term "Authorised Allocation" means an amount not less than UA20,000 to be withdrawn from the Advance and deposited in the Special Deposit Account (the Special Account) pursuant to paragraph 3 (a) of this Attachment.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.
3. After the Bank has received satisfactory evidence that the Special Account has been duly opened, withdrawals of the Authorised Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorised Allocation, the Recipient shall furnish to the Bank a request or requests for a deposit or deposits that do not exceed the aggregate amount of the Authorised Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, deposit in the Special Account such amount out of the proceeds of the Advance as requested by the Recipient.
 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals, as the Bank shall specify.
 - (c) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, deposit into the Special Account out of the proceeds of the Advance such amount as requested by the Recipient and shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures.
4. For each payment made by the Recipient out of the Special Account, the Recipient shall (at such time as Fund shall reasonably request) furnish to Fund such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, the Bank shall not be required to make further deposits into the Special Account:

- (a) if at any time, the Bank determines that all further withdrawals of the Advance should be made directly by the Recipient; or
- (b) once the total unwithdrawn amount of the Advance equals the equivalent of twice the amount of the Authorised Allocation.

6. (a) if the Bank determines at any time that any payment out of the Special Account was:

- (i) made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or
- (ii) not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank:
 - (i) provide such additional evidence as Bank may request; or
 - (ii) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified.

Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

- (b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.
- (c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.
- (d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b), and (c) of this Attachment shall be added to the un-withdrawn amount of the Advance.

Attachment III to Letter of Agreement:
Financial Provisions Applicable to Advances for Project Preparation

1. In these Provisions, the term " Bank" means the African Development Bank Group (the African Development Fund).
2. The Bank shall disburse funds to the Recipient (Republic of -----) of a project preparation advance (the Advance) to meet expenditures specified in the Letter of Agreement for the Advance. The Recipient should submit a written application for withdrawal in the form specified by the Bank. The application shall be signed by an authorised representative of the Recipient and accompanied by evidence of the expenditures made or, if the Bank shall so agree, to be made.
3. The Advance shall be disbursed in the currency agreed to by the Bank and the Borrower in accordance with the Bank's rules of disbursement.
4. Withdrawals shall be made only for expenditures for services supplied from, or goods produced in' countries eligible under the Bank's *Guidelines for Procurement of works and goods*.
5. As specified by the Bank in the agreement letter for the Advance, the amounts of the Advance withdrawn and not repaid shall carry a service charge of 0.75 percent per annum.
6. The amount of the Advance withdrawn, together with the service charge accrued thereon, shall be repaid by the Recipient to the Bank as follows:
 - (a) If by or before the date agreed upon for this purpose by the Recipient and the Bank in the Letter of Agreement for the Advance, a loan shall have been granted by the Bank, for the purpose of assisting in the financing of the project for the preparation of which the Advance was made, then the full amount of the Advance withdrawn and outstanding shall be repaid to the Bank. Such payment shall include the accrued service charge on the Advance to the date of repayment. The repayment shall be made by means of a withdrawal of the proceeds of such loan in accordance with the provisions of the agreement providing therefor, as soon as such agreement shall have become effective.
 - b) If by the date referred to in paragraph (a) above, no such loan or grant shall have been made, or if by such date or at any time thereafter, the agreement providing for such loan or TAF grant shall have been terminated without becoming effective, then:

- (i) if the amount of the Advance withdrawn does not exceed UA 20,000, such amount shall be repaid by the Recipient to the Bank, together with the accrued service charge thereon to the date of repayment, on such date as the Bank shall specify in a notice to the Recipient; such date shall in no event be earlier than 60 days following the date of dispatch of such notice; and
- (ii) if the amount of the Advance withdrawn shall exceed UA 20,000, the aggregate of such amount shall be paid by the Recipient to the Bank in three equal annual instalments of principal, together with service charges accrued on such aggregate outstanding amount from time to time in the amounts and on the dates specified by the Bank in a notice to the Recipient; in no event shall the first instalment date be earlier than 60 days following the date of dispatch of such notice.

7. All payments to the Bank shall be made in the currency of which the Bank disbursed the Advance or equivalent sum in another currency agreed to by the Bank and Borrower in accordance with the Bank's disbursement rules.

8. The Bank may, by notice to the Recipient, suspend at any time further withdrawals of the Advance if any of the following events of suspension shall have occurred: (a) funds withdrawn have not been used for the purpose agreed between the Recipient and the Bank; (b) the preparation activities are not carried out in accordance with the standards or methods agreed between the Recipient and the Bank; or (c) the right of the Recipient, or any other entity to which the Bank has granted a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with Bank or any TAF grant agreement with Bank shall have been suspended.

9. At any time after withdrawals of the Advance shall have been suspended pursuant to these provisions, the Bank may, by notice to the Recipient, cancel any amount of the Advance remaining unwithdrawn.

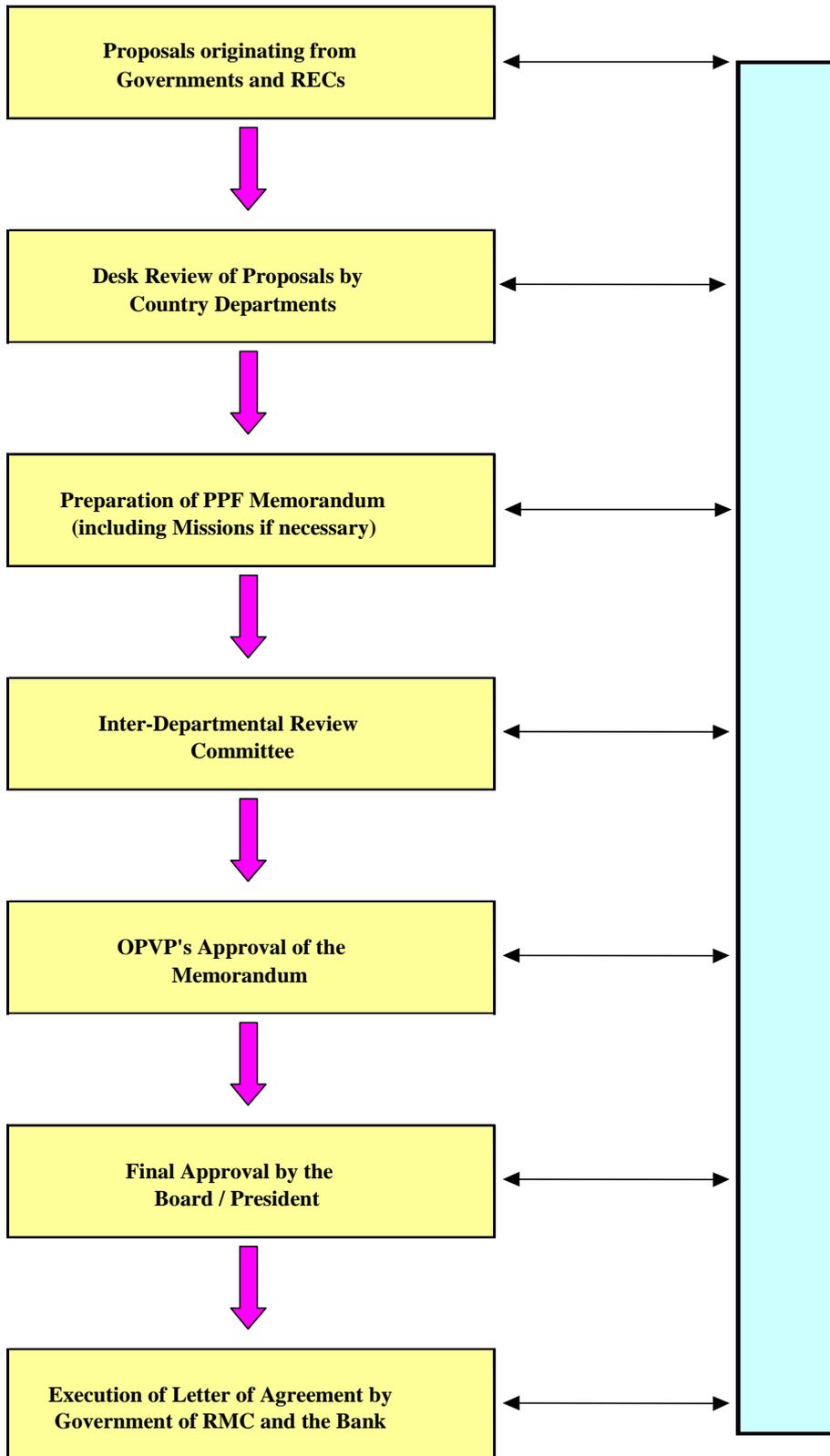
Summary of the Experience of the World Bank in the Utilisation of the PPF Facility

Discussions were held with relevant officials of the World Bank missions in Côte d' Ivoire and Uganda. In brief, the generic lessons on PPF application in the two countries are as follows:

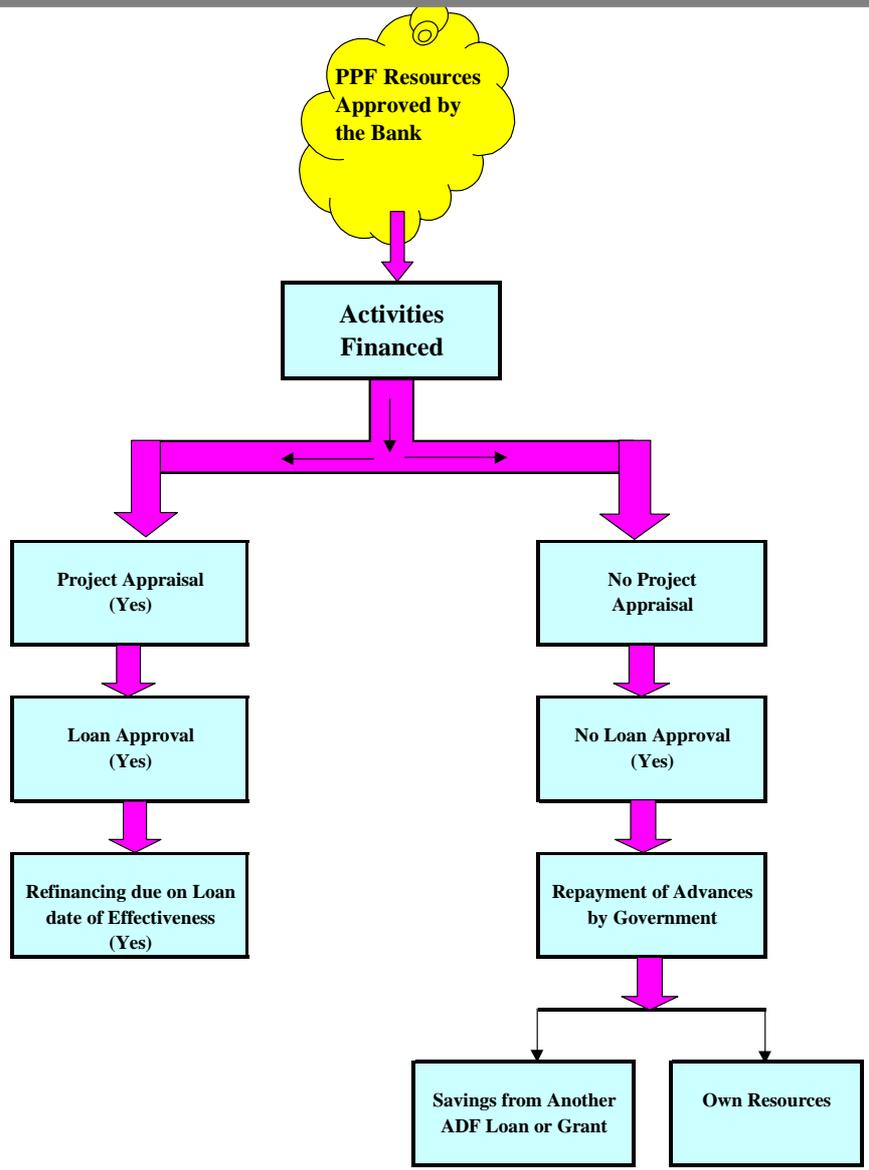
- that the PPF facility is effective in facilitating preparatory activities for projects , programmes , adjustment operations and capacity building;
- the requirement for government commitment at very high level before approval of advances, enhances Government participation and increases the probability that projects would be generated;
- PPF advances are effective to carry out studies required to support Government's efforts to re-structure ministries such as Works and Transport and to create an Autonomous Road Authority as well as a Road Fund. In the same vein, PPF advances were found to be applicable to various sector improvement programmes and studies required to facilitate policy reforms.
- In Uganda, the PPF facility was extensively used by the IDA to prepare the "Ten Year Road Sector Programme" which the ADF and other donors are co-financing. The advance has been applied to support the Road Agency Formation Unit (RAFU) which is a transitional arrangement before the Road Agency is fully operational.
- In regard to ceilings for advances, the IDA has a minimum limit of \$50,000 and no maximum ceiling. The amount of advance is based on the nature of the project and the detailed cost estimates prepared by operational staff. **Approval of PPF advances are vested on the Country Director.**
- Generally, the PPF facility was adjudged to be demand responsive and functional in executing preparatory activities targeted at project generation and capacity building. The facility could also be applied to support studies aimed at promoting privatisation and policy reform efforts. It could also be employed to assist Regional Economic Communities (RECs) in studies and institutional support programs required to promote regional integration.

PROJECT PREPARATION FACILITY (PPF)

PROCESSING OF PPF ADVANCES



REFINANCING OR REPAYMENT OF PPF ADVANCES



A. Refinancing → PPF Advances are re-financed in a situation where an ADF loan is made and it is due on the date of loan effectiveness.

B. Repayment → Where the preparation efforts do not result or apply to a loan, the Government would reimburse or repay the advances.

List of Reference Documents

1. Summary Record of the Third Consultative Meeting on the Eighth General Replenishment of the African Development Fund, Abidjan, Côte d'Ivoire, 24-25 September 1998.
2. Study on Efficiency and Effectiveness of the ADF/TAF Operations, Final Report, OPEV, African Development Bank, 1998.
3. Road Development Program Phase I Project – World Bank Aide Mémoire, Republic of Uganda, March 12 1999.
4. Road Sector Institutional Support Technical Assistance Project, World Bank Mission Uganda, March 1999.
5. Road Development Program Phase I Project, World Bank Mission Uganda, March 1999.
6. PPF Letter of Agreement and attachments, Road Sector Development Programme – Government of Uganda and World Bank, December 1996.
7. Project Preparation Facility – Operational Guidelines, World Bank Washington, D.C.
8. The Eighth General Replenishment of the Resources of the African Development Fund, ADF/BD/WP/99/18.
9. Proposed PPF Advance for the Haryana Highway Upgrading (HHU) Project – Refr. p 224 INDIA, World Bank, Washington, D.C.