

African Development Bank Group

African Development Bank (AfDB)

FY2002 Appropriation	FY2002 Scheduled Request	FY2003 Arrears Request	FY2003 Total Request
\$5.1M	\$5.1M	\$4,473	\$5,004,473

For FY2003, the Administration is requesting a total of \$5.1 million for the African Development Bank (AfDB) for the fourth of eight equal annual U.S. payments under the AfDB's fifth general capital increase (GCI-5) and \$4,473 to clear one-third of U.S. arrears to the AfDB.

In 1998, the Bank's shareholders agreed on a 35% general capital increase (GCI-5) designed primarily to strengthen financial ratios and improve corporate governance through changes in the Bank's charter and voting rules. Under this agreement, the total U.S. commitment is \$40.8 million spread over 8 years (FY2000-2007), or \$5.1 million per year.

AfDB's Institutional Mandate

The African Development Bank's mission is to promote sustainable economic growth and development and reduce poverty in Africa. To achieve these goals, the Bank provides support for relevant public sector projects and also strengthens the private sector in Africa by emphasizing the development of small and medium-size enterprises (SMEs). In addition, the AfDB provides enclave lending to public/private entities in countries, otherwise not eligible to borrow from the Bank under its Credit Policy, in exceptional circumstances when these entities have a demonstrated capacity to generate foreign exchange. As part of the general agreement under AfDF-9, the Bank proposed expanding its technical assistance program aimed at public/private partnerships in order to spur privatization in Africa.

The Bank lends at market-based rates to middle-income African countries with limited access to capital markets. Lines of credit for private financial institutions have strengthened the Bank's role as a catalyst for providing longer-term funds to SMEs, including recently privatized public enterprises, and in assisting local private financial institutions to finance infrastructure projects. Currently, the Bank is working on a strategy for promoting the development of strong and dynamic private sectors in the Bank's member countries. This strategy will include plans for restructuring the Bank's private sector department to be more responsive to the challenges and needs of private sector development.

Key Facts

- The U.S. has been a member of the AfDB since 1983. The U.S. is the largest non-African shareholder, with 6.6% of the total votes, and the second-largest shareholder overall. Nigeria is the largest shareholder with 9.3% of the total votes.

- Since its establishment in 1967, the AfDB has approved \$25.3 billion in loans. It is the only multilateral development financial institution specifically devoted to Africa.
- In 2001, the AfDB approved a total of \$1 billion in public and private loans, special operations, equity investments, and loan guarantees, a 17% increase over 2000 lending.
- Operations, as a percentage of loans and grants, approved in 2001 supported various sectors including:
 - 18.7% for multi-sector structural adjustment, capacity-building, and poverty reduction
 - 2.9% for projects in the social sector
 - 32.3% for the finance sector
 - 4.8% for agriculture and rural development
 - 23.4% for transportation
 - 5.3% for power
 - 12.6% for various projects dealing with industry, water supply, sanitation, communication, and the environment
- The AfDB Group joins other multilateral and bilateral creditors in participating in the enhanced Heavily Indebted Poor Countries (HIPC) initiative. Total costs of AfDB Group debt reduction under the HIPC program are expected to be about \$2.83 billion in net present value terms for 32 countries, with \$370 million to be provided from internal resources. In 2001, the Board of Executive Directors approved HIPC decision points for 9 member countries (Chad, Rwanda, Madagascar, Sao Tome et Principe, Malawi, Zambia, Gambia, Guinea, Niger), which will result in AfDB Group debt reduction of \$767 million in 2001.

Supporting U.S. Objectives

The AfDB continues on a positive path of internal institutional reform following five years of comprehensive restructuring and reform programs. Important progress has been made in enhancing the quality and effectiveness of the Bank Group's operations and strengthening the management of the Bank's financial and human resources. As a result, donor support is widespread. In 2001, S&P revised upward its outlook for the AfDB to stable and affirmed its AA+ rating, citing strong membership support for the Bank Group's mandate. The U.S. has used its role as the largest non-regional shareholder in the AfDB to shape the reforms of the Bank. Today, the U.S. continues to affect change in the AfDB primarily by being the leading advocate in identifying ways to improve the Bank's development effectiveness.

Enhancing Development Effectiveness

- In 2001, the Bank Group began a new effort to implement an evaluation framework as a first step toward a more comprehensive measurable assessment of the Bank Group's development effectiveness.

- Also, in 2001, the Board of Directors approved a new organisation structure designed to increase the strategic policy focus of the Bank, enhance its intellectual capabilities, and allow for better synergy and cross-fertilisation of ideas and identification of best practices.
- The Bank's re-organisation plan, set in motion in late 2001, includes a bottom-up approach for soliciting staff input on planning, and measures to change corporate values and behavior.
- Important work is underway by an outside consultant to assess the Bank Group's skills/competencies mix that will then feed into plans to build capacity and train officials in those areas critical to the Bank's mission and strategic focus. As these reforms take hold, it is expected that the Bank's efficiency and productivity will increase.

Combating Terrorism

- In response to a request from the U.S., the AfDB strengthened its due diligence procedures to ensure that no funds go inadvertently to terrorists. The President of the AfDB Group established an Anti-Terrorism Task Force to advise on comprehensive measures to be taken by the Bank to combat terrorism.
- A list of terrorist groups and persons was sent to regional member countries and distributed to Bank staff. This list of proscribed entities will soon be published on the Bank Group's website. The President instructed that these terrorist organizations and individuals should not benefit from resources at the Bank Group.
- In consultations with other MDBs, the Bank is working on the development of a comprehensive Policy on Terrorist Organizations and Individuals, targeted at disbursements and procurement of goods and services.
- Meanwhile, the Bank's Treasury Department is developing a certificate to be signed by correspondent banks stating they have no dealings with terrorist organizations or individuals.

Increasing Productivity

AfDB's operations continue to improve both in quality and effectiveness.

- The AfDB Group allocates an increasing proportion of its resources to a list of strategic priorities in which the Bank is currently identifying its comparative advantage vis-à-vis other MDBs, e.g., agriculture, education, health, and governance.
- In 2001, projects in all sectors were designed in a more participatory manner, with clearer poverty reduction objectives and more specific monitorable indicators than in the past.

- The Bank has increased its efforts to put poverty reduction at the center of its Country Strategy Papers – its primary planning tool – and continued to prepare these strategy papers using participatory approaches and promoting strategic partnerships between the country, its stakeholders and other members of the donor community.
- In 2001, the Bank continued a new review process aimed at ensuring project quality upon initiation and also strengthened its project monitoring and post-evaluation activities. The AfDB finalized good practice standards for the evaluation of public sector projects.
- The AfDB prepares an Annual Portfolio Performance Review that serves as the basis for identifying potentially problematic projects and projects in need of more intense supervision.
- In 2001, the Operations Evaluation Department (OPEV), which reports directly to the Board of Directors, was mandated, under the new organizational structure of the Bank, to strengthen its evaluation of the quality and development impact of Bank Group activities. It was also mandated to collaborate its efforts with other development partners.
- OPEV began fulfilling this mandate by developing a new approach to evaluation, called Results Based Management (RBM), aimed at making the evaluation process more forward-looking by ensuring that expected results during appraisal are properly defined, best practices and lessons learned are taken into account in project design, and quantifiable results are systematically monitored during project implementation.
- RBM will constitute a substantial change within the Bank by shifting emphasis to the quality of interventions and measurement of the Bank's development effectiveness as opposed to evaluation of the operational and administrative performance of projects.
- In 2001, the Committee on Development Effectiveness (CODE), the Board's oversight committee, focused more of its attention on this work by OPEV and other improvements by the Bank Group in enhancing its development effectiveness.
- Rural development indicators are already being used jointly by the World Bank and the AfDB to monitor performance of projects in the agriculture sector. Also, the Bank is using newly developed performance indicators for the transport and water and sanitation sectors. Work is underway to develop measurable indicators for all other sectors.
- In 2001, using a model developed by the World Bank, the AfDB Group was able to more concretely measure effects from the Fund's operations on poverty reduction. Preliminary results from this exercise are:
 - in 2000, \$1 billion of AfDF lending reduced the number of people in poverty by 456,000; and
 - an additional effect of AfDF-induced growth from \$1 billion invested is an increase in primary school enrollment by about 3.3 million pupils.

- As requested by the U.S., the AfDB is working to establish an independent inspection function by end 2002. An inspection mechanism will provide recourse to local communities and individuals that believe that they have been adversely affected by AfDB projects.

Improving Financial Management

- The AfDB's financial standing has been strengthened since the adoption of the GCI-5 agreement in 1998. Over the past four years, annual operating income has remained well above \$125 million. Also, by end-2001, the Bank's reserves to loan ratio increased to an estimated 30% and loan loss provisions increased to 7.25% of public sector loans. Finally, with the adoption of the AfDB's new Credit Policy, chronic arrears have leveled off.
- As of December 15, 2001, 12 countries owed a total of \$1.4 billion in arrears to the Bank Group. Over half of the countries in arrears as of December 15, 2001, accounting for about 88% of total AfDB arrears, are countries in conflict or emerging from conflict situations.
- In 2001, as part of a concerted effort with the international community, the AfDB began to tackle its problem of chronic arrears by developing, jointly with the World Bank and IMF, a plan to clear the Democratic Republic of Congo's arrears which account for about 30% of the arrears to the AfDF and 50% of the arrears to the AfDB.
- AfDB continues to monitor closely its new lending to ensure that it is directed to borrowers on terms and conditions that accurately reflect their repayment capacity. In addition, the Bank will need to take into account a country's relative weight in the Bank's outstanding loans rather than just the country's risk rating. Continued loan expansion to borrower countries must be balanced against the risk of portfolio concentration. Currently, the Bank's Finance department is working on a new methodology that links the country exposure ceiling to the risk-bearing capacity of the Bank.
- The Finance department continues to deepen and consolidate financial reforms by strengthening asset and liability management. In 2001, it borrowed in external markets at attractive rates to support the lending activities of the Bank, thereby playing a key intermediation role and preserving the Bank's credit rating in the capital markets.

Fostering Private Sector Development

- AfDB is a catalyst for private sector-led growth in Africa and in achieving this goal has at its disposal a range of loan products including single-currency loans, loan guarantees and lines of credit to local commercial and development banks that support small and medium-sized enterprises (SMEs).
- In 2001, the AfDB approved a \$55 million loan to help finance the 200-megawatt Bujugali Hydroelectric Power Project in Uganda, which will provide energy needs for

private sector industrialized commercial development. It also approved five lines of credit for a total of \$331 million to banks in Tunisia, Namibia, Mauritius, Egypt, and Nigeria to support lending to SMEs.

- The Bujugali hydro project and the five lines of credit amounted to about 30% of total AfDB financing in 2001. By working through financial intermediaries that on-lend to private SMEs, the AfDB strengthens commercial banking sectors, facilitates longer lending maturities for African businesses, and places responsibility for overseeing projects with experienced project finance institutions.
- Looking forward, the Bank's new private sector strategy, which will be considered by the Board in 2002, will include recommendations for expanding the Bank's direct lending to the private sector.

Special Relief Fund Lending Operations

- AfDB uses a portion of its net income to provide up to \$500,000 for emergency grant assistance under its Special Relief Fund to countries emerging from conflictive situations or requiring assistance following natural disasters. In 2001, the AfDB approved three such grants totaling \$1.5 million, including:
 - Democratic Republic of Congo to finance an Emergency Humanitarian Assistance Program; and
 - Malawi and Mozambique for Humanitarian Emergency Relief Support for the Victims of the 2001 floods.

Improving Procurement Policies and Practices

- In 2001, the Bank continued to improve its procurement policies and practices through a variety of initiatives, including:
 - The Bank's procurement policy documents were harmonized and reprinted for distribution to Bank and Borrowers' staff.
 - The AfDB and World Bank commenced close cooperation in the production of future Country Procurement Assessment Reports (CPAR) and the preparation of two country CPARs were initiated.
 - The Bank collaborated with other MDBs in harmonizing its standard bidding documents for use in master standard bidding documents.
 - The Bank continued to review closely the procurement processes followed by borrowers and, as a result, in 2001 two joint venture firms that performed poorly were suspended from Bank projects.

Information Disclosure

- In general, the Bank Group has a relatively open information disclosure policy that allows for all loan documents, Country Strategy Papers (CSPs), and policy papers to be made available to the public upon Board approval.
- The Public Information Center is meeting the growing demand for AfDB Group information in areas such as procurement rules, policies, guidelines, and project documents. The Center bears primary responsibility for the release of hard copy documents and information material to the general public.
- At U.S. urging, the AfDB continues to develop its Internet web site (www.afdb.org) and ensure wider distribution of information by making all draft policy documents and CSPs available on the web site in a timely fashion.

IFI Collaboration

- In 2001, AfDB entered its second full year of the Memorandum of Understanding (MOU) with the World Bank, which includes joint project appraisals and supervisions, training activities, economic and sector work, and other forms of collaboration. Presently, independent consultants are evaluating progress to date under this MOU.
- Under the MOU, governance and regional integration have been identified as areas of cooperation in which the African Bank has a comparative advantage and is expected to take the lead.
- As part of the AfDF-9 negotiations, the Bank Management agreed to additional MOUs with other multilateral institutions present in Africa, such as the United Nations Development Program (UNDP) and International Fund for Agricultural Development (IFAD).
- The Joint Africa Institute (JAI), a training institute run by the World Bank and the AfDB, was in full operation in 2001. Training courses are offered in areas such as project management, macroeconomics, and adjustment programs.