

African Development Bank Group

African Development Bank (AfDB)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$4,067,200	\$5,018,416	\$619,934	\$5,638,350

For FY06 the Administration is requesting a total of \$5.6 million for the African Development Bank (AfDB) for the seventh of eight annual U.S. payments under the AfDB's fifth general capital increase (GCI-5).

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. The agreement also increased the influence of the non-regional shareholders, including the United States. The total amount of the capital increase was approximately \$7 billion, of which, the U.S. share is 5.8%. The total U.S. paid-in capital commitment is \$40.8 million spread over 8 years (FY00-FY07), or \$5.0 million per year. The Administration request for FY06 is \$5.0 million for the scheduled contribution and \$0.6 million to clear a portion of U.S. arrears.

The AfDB'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. On an exceptional basis, the AfDB also provides enclave lending to public/private entities in countries otherwise not eligible to borrow from the Bank under its Credit Policy, provided these entities have a demonstrated capacity to generate foreign exchange. As part of the general agreement under AfDF-9, the Bank Group will expand its technical assistance program aimed at public/private partnerships in order to better 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. The Bank has just finalized a new strategy for promoting the development of strong and dynamic private sectors in its member countries and exploring ways to leverage its assistance to support private sector development in Africa.

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 9.0% of the total votes.

- Since its establishment in 1967 through the end of 2004, the AfDB has approved \$29.1 billion in loans. It is the only multilateral development financial institution specifically devoted to Africa.
- The AfDB approved in 2004 a total of \$1.2 billion (excluding HIPC debt relief) in public and private loans, special operations, equity investments, and loan guarantees. While this was a drop in dollar terms from 2003, it was an 8% increase in terms of the AfDB's Unit of Account (UA=SDR).
- AfDB loans and grants approved in 2004 were directed as follows:
 - 46% for transportation
 - 19% for the finance sector, including for on-lending to private sector
 - 7% for water supply and sanitation
 - 4% for agriculture and rural development
 - 1% for industry and mining
- 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 \$3.4 billion in net present value terms for 32 countries, with \$682 million to be provided from internal. In 2004, five countries reached their HIPC completion points. Thus the Board of Executive Directors approved AfDB Group debt reduction of \$467 million in nominal terms in 2004

Supporting U.S. Objectives

The AfDB continues on a positive path of internal institutional reform following seven years of comprehensive restructuring and reform programs. The U.S. continues to use its role as the largest non-regional shareholder in the AfDB to shape further reforms at the Bank and, today, is the leading advocate in identifying ways to improve the Bank's development effectiveness.

Enhancing Development Effectiveness

- The Bank is now in the midst of implementing its 2003-2007 Bank Group Strategic Plan aimed at achieving greater development effectiveness through greater selectivity in operations and non-operational activities.
- To monitor and manage the Strategic Plan's implementation, the Bank has developed and refined a Balanced Scorecard (BSC). The design and development of the BSC was undertaken in collaboration with sister institutions.
- Over 2004, a Bank-wide process helped to establish the strategic indicators and identify data sources for those indicators. Once those indicators are finalized with managers, a pilot roll out is expected in early 2005.

Results-Based Management

- A conceptual results-based management (RBM) model, including detailed steps on how to realign the institution towards RBM, is being finalized.
- After working with the UN and the EBRD, the AfDB has now established 59 strategic indicators to measure the institution's performance and results on a Balanced Score Card (BSC).
- During a pilot phase from February – June 2005, the Bank will roll out a corporate version of the BSC in a pilot phase for all Vice-Presidents, Department Directors, Unit Heads and Division Managers. The experience and feedback from this pilot phase will then be used to adjust the BSC for Bank-wide use.
- On the operational side, all Bank Group operations are to contain results-based matrices summarizing the objectives of operation, the expected or targeted impacts and their timeframe, and the critical assumptions or risk factors to be monitored.
- This results-based logical framework is to be the basis for the Bank Group's new operations supervision reporting format by the end of 2005.
- 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.

Increasing Strategic Focus

- The AfDB Group continues to allocate an increasing proportion of its resources to a number of strategic priorities where the Bank determines that it has a comparative advantage vis-à-vis other MDBs. In particular, the AfDB is taking the lead in support of good governance and regional economic integration.
- Demand for multinational operations has substantially increased, particularly in the areas of regional infrastructure and agricultural and rural development. In 2004, the Bank prepared guidelines to better focus the Bank Group's future regional assistance projects and programs.
- While continuing to give high priority to agriculture and rural development, the Bank is giving greater emphasis to water and sanitation in rural and suburban areas in the continent's poorest countries, and to human capital formation through primary education and health services.

Increasing Productivity

- The Project for the Creation of Sustainable Tsetse and Trypanosomiasis-Free Areas in East and West Africa will support an ambitious, but attainable objective: the eradication of the tsetse fly from the African continent. Achieving such an objective would free 10 million square kilometers in 37 African countries, allowing the land to be inhabited – easing land

scarcity - and put to productive use through increased agriculture. There would also be improved health of both farmers and livestock, greater rural incomes, and increased food supply – especially of livestock - all of which would enhance productivity and contribute significantly to poverty reduction.

- In September 2004, the Bank approved financing for the Tandjieskoppe Green Scheme in Namibia, a project designed to increase productivity and raise living standards of small-scale farmers. The project will provide: credit for agricultural inputs, farmer training, marketing support and maintenance of the irrigation infrastructure and farm machinery.

Fostering Private Sector Development

- The Bank approved a new Private Sector Development Strategy in late 2004 to ensure that private sector development activities are incorporated into all aspects of the Bank's operational activities.
- The Bank provides direct and indirect support to private sector development covering a variety of operations.
- In 2004, loans to the private sector totaled \$250 million, with nearly all of this assistance provided through financial intermediaries. In 2004, these included credit lines to Kenya Commercial Bank (KCB), the National Development Bank (NDB) of Botswana and an Agency Line to Support the Franchising Program in South Africa.
- Technical assistance packages were provided in parallel with the lines of credit to KCB and NDB – to strengthen their capacity in the areas of credit risk, portfolio management, and environmental policies.
- The Nigeria, Benin and Togo: CEB-NEPA 330kV Power Interconnection Project is a good example of a collaborative effort to stabilize power supply, reduce energy production costs, and boost productivity – all critical elements to support private sector development. In addition, the project will generate employment opportunities and reduce time and resource loss in searching for fuel woods. The Bank's loan, together with financing from other sources, will be used to: construct a 70 km long transmission line from Nigeria to Benin; expand one substation and build another; and provide the associated telecommunication, protection, metering and other sub-station equipment. When completed, the project will drastically reduce power outages in Togo and Benin during drought periods and thus limit economic disruptions.
- South Africa: Developing SMEs through Franchising. In 2004, the Bank approved a promising \$7M pilot project to support minority and women entrepreneurs seeking to establish themselves in the private sector through franchising. The program would provide support to potential franchisees and mitigate the high perceived risk of lending to this group, through guarantees and generous financing terms. If successful, this program may be replicated elsewhere in Africa.

Internal Controls

- The AfDB has been receptive to U.S. calls for greater accountability and, in late 2004, is finalizing its proposals for a new Anti-Fraud and Corruption Unit, incorporating whistleblower protections for staff.
- Also at U.S. urging, the AfDB is working to establish the COSO internal control framework to enhance corporate efficiency and effectively manage and control internal risks.
- As requested by the U.S., the AfDB is establishing an Independent Compliance Review and Mediation Unit / Inspection Panel, which will focus on issues of non-compliance by the African Bank Group with its operational policies and procedures in the design, implementation and supervision of AfDB-funded projects and programs
- The AfDB continues its efforts to improve project quality upon entry. It is enforcing an enhanced review process and is implementing a compliance framework to make sure that its projects and programs comply with operational policies and guidelines.

Improving Financial Management

- The AfDB's financial standing has been strengthened since the adoption of the GCI-5 agreement in 1998.
- Cost containment measures taken between 1994 and 2004 have meant that, despite the costs associated with the 2003 temporary relocation of the Bank from Abidjan to Tunia, an overall increase in staff remuneration of 60% over the period, and the Bank's expanding scope of development work, the compounded annual increase in the Administrative Expenses Budget was only 3.66%.
- Operating income has increased from UA 54M in 1994 to UA 234M (\$362M) in 2004, the highest level ever. Projections for operating income in 2005-2008 are approximately UA200M per year.
- Since the AfDB's successful US \$1 billion 3.25 percent Global Bond issue in 2003, the AfDB has once again enjoyed the highest possible ratings from all major credit ratings agencies, allowing it to borrow in capital markets at highly competitive rates.

Information Disclosure

- Pursuant to the AfDF-9 agreement, the Bank Group updated its Information Disclosure Policy in 2004 to facilitate broader stakeholder participation.
- In this updated policy, the Bank Group will make considerable information available to the public regarding proposed projects, strategies and policies.

- Prospective project briefs for public sector projects are to be made publically available at least six months prior to presentation to the Board.
 - The AfDB will also make available on its website environmental assessments for projects that could have a significant impact on the environment.
 - All draft policy papers and country strategy papers are to be released via the AfDB website at least 50 days prior to formal Board consideration.
- In addition, pursuant to this policy, the AfDB agreed to publicly release the summaries of decisions of Executive Board discussions, a significant advance at U.S. urging.

Combating Terrorism

- The AfDB has responded to the danger that money laundering (ML) and the financing of terrorism (FT) may establish a foothold in the fragile financial systems of African countries.
- The AfDB has been developing a Strategy and Plan of Action to assist regional member countries (RMCs) in combating ML and FT and strengthen the Bank's internal controls, with a view to safeguarding Bank funds. In 2004, the AfDB created an internal Anti-Money Laundering Group (chaired by the Policy and Review Department) to follow up on all AML/CTF issues of relevance to the Bank.
- The AfDB is a full member of the Financial Action Task Force (FATF) and ensures that pertinent AML/CTF information gets to Bank staff. The AfDB's ongoing collaboration with other organizations is reflected in its recent collaboration with an IMF team in the East African Community countries; the AfDB is expected to contribute to an IMF study on the functioning of African remittance transfer intermediaries and their prospective linkage to ML and/or FT.
- Also, in the near future, the Bank will help establish FATF-type regional networks on AML/CTF in Africa. It will also support capacity building, exchange of information, and collaborative approaches to assist African countries in the establishment of effective legislative frameworks and their enforcement.

Opportunities for U.S. Businesses

- In 2003, firms in the US won contracts totaling \$14.3M financed by the AfDB. This is more than a 50% increase from 2002.