

The African Development Bank: A Renaissance for Regional Development?

By Nora Snee, HARAMBEE TODAY

The African Development Bank is a regional multilateral institution with 78 member countries from Africa and around the world. Its goal is to reduce poverty and improve the quality of life in Africa by providing access to funding for projects that will promote economic and social development.

“AFRICA MUST THINK BIG.



WE CAN'T AFFORD TO
HAVE LOW ASPIRATIONS
FOR AFRICA”

- Akinwumi Adesina
AfDB President

AfDB Role and Funding

The AfDB has identified five priority areas as critical to the continued growth and development of the region: infrastructure, regional integration, private sector development, skills and technology, and governance and accountability.¹

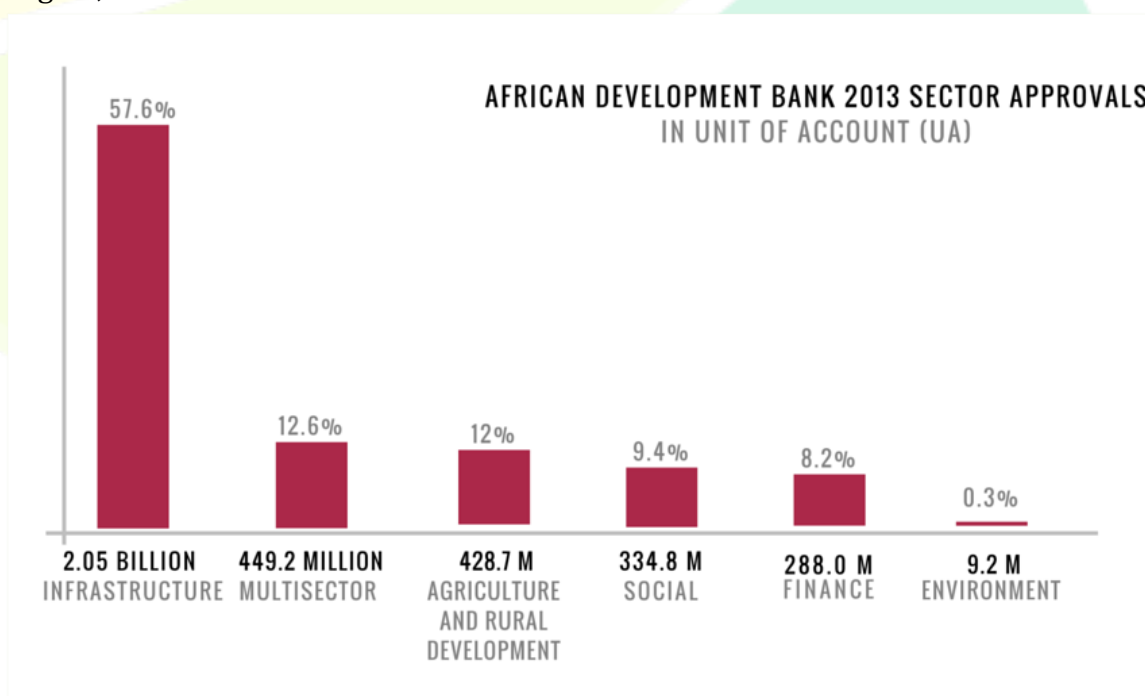
Of these sectors, the bank has prioritized infrastructure funding and development as most vital to economic growth and social expansion. Typical foreign direct investment in African economies are more individual-focused and highly concentrated in areas like education and medicine. While the education and health sectors are still largely underfunded in

¹ “Annual Development Effectiveness Review 2015 (Executive Summary).” African Development Bank.



Africa, infrastructure is much needed as well and is not as well funded. This is due mainly to the super high-risk involved and because benefits are hard to measure, unlike investments in medicine, education, and food and agriculture.

Infrastructure has been the priority of the AfDB since 2006,² and it continues to receive the bulk of AfDB funding.³ The AfDB is currently the largest funder of infrastructure projects in the region,⁴ with a total of \$2.05 billion in 2013.⁵



Source: African Development Bank, "About Us"

Special attention is being paid to the sub-Saharan region, which lags far behind other developing regions in terms of transport infrastructure, like roads, railways, airports, and ports. Since 2012, the AfDB has built almost 4,000 miles of road, improving access to transport for 32 million people.⁶ Most recently, the bank has approved a \$123 million loan to Kenya for a project that will improve a key highway that connects the port of Mombasa

² Adams, Paul. "Bank to the Future: New Era at the AfDB."

³ "About Us." African Development Bank.

⁴ "Risk on." The Economist.

⁵ "About Us." African Development Bank.

⁶ "Annual Development Effectiveness Review 2015 (Executive Summary)." African Development Bank.

in Kenya with landlocked Uganda, Rwanda, Burundi, and the Democratic Republic of Congo.⁷ The Enugu-Bamenda Road, a similar transnational highway, was a \$423 million project linking trade partners Cameroon and Nigeria and has been cited as one of the AfDB's most successful infrastructure projects.⁸

In addition to transport infrastructure, the AfDB also focuses heavily on the development of the power and energy sectors. Access to a secure and stable supply of electricity for both individuals and companies is critical to alleviate poverty and continue economic growth and development. There have been foreign initiatives to improve access to electricity, most notably President Obama's PowerAfrica program, to which the U.S. committed over \$7 billion in support.⁹ The AfDB has spent \$4.5 billion in the past 20 years, approximately 12 percent of its funds, to increase electricity generation and improve rural access to power.¹⁰ It has funded over 1.3 GW of power generation capacity, and provided 10 million people with access to electricity, as part of its focus on sustainable power development, including solar, wind and hydro power.¹¹ Recently, the development of an Ethiopia-Djibouti transmission line has enabled Djibouti to import up to 60 MW of electricity, earning Ethiopia an estimated \$1.5 million per month, and lessening Djibouti's reliance on fossil-fuel power plants and generators.¹² The AfDB is also a major funder for the Lake Turkana Wind Power Project in Kenya, which hopes to be the largest wind power project in Africa.¹³

The bank also identifies and tries to address issues in regional integration, private sector development, skills and technology, and government and accountability, as part of their goal to promote sustainable economic growth and reduce poverty in Africa. Many projects are cross-sector; the development and maintenance of transnational highways helps to promote regional integration through trade and economic interdependence, while creating jobs and skill development for youth and the unemployed.

⁷ "Facilitating Regional Integration in East Africa-AfDB Supports Mombasa-Mariakani Highway Project."

⁸ "Enugu-Bamenda Road, Tool of Regional Integration and AfDB Success Story." African Development Bank.

⁹ "FACT SHEET: Power Africa." White House Briefing Room - Office of the Press Secretary.

¹⁰ "AfDB Annual Report 2014." African Development Bank Group.

¹¹ "Annual Development Effectiveness Review 2015 (Executive Summary)." African Development Bank.

¹² "Djibouti-Ethiopia Power Interconnection: Hydro-Powering East Africa." African Development Bank.

¹³ "Lake Turkana Wind Farm: Enhancing Access to Clean, Affordable Energy in Kenya." African Development Bank.



Agriculture

Newly-elected president of the AfDB, Akinwumi Adesina, has called agriculture “the bane of Africa’s economy.”¹⁴ A huge percentage of African citizens are involved in rural agriculture-based livelihoods as a form of subsistence living. An estimated 70 percent of the population is dependent on subsistence-based agriculture, and it is the main source of income for 90 percent of rural populations.¹⁵ This industry accounts for a huge percentage of the labor force and suffers from endemic underutilized arable land.

In Africa, unlike in other economies, agriculture has not improved or industrialized, has very low productivity, and dominates labor resources.¹⁶ Growth will be dependent on untapped potential in terms of both technology and land accessibility. Stability, especially in terms of food and water security, is also of paramount importance.

Structure of AfDB

The AfDB is part of a grouping of similar banks, called Regional Development Banks which includes the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.¹⁷ These banks are institutions that have similar, regionally-based functions as the AfDB; they provide financial assistance to developing economies in their sphere and focus on funding infrastructure, agriculture, resource management, and governance initiatives.

The AfDB is composed of shareholders: 54 regional member nations and 26 non-regional nations. They are represented by 20 executive directors (13:7 regional: non-regional ratio). The largest shareholders are Nigeria (9.6%), USA (6.6%) and Japan (5.5%), followed by Egypt, South Africa, and Algeria.¹⁸ The bank was established in 1964, and membership was

¹⁴ frontiers article economist

¹⁵ “Annual Development Effectiveness Review 2015 (Executive Summary).” African Development Bank.

¹⁶ “Annual Development Effectiveness Review 2015 (Executive Summary).” African Development Bank.

¹⁷ Ottenhoff, Jenny. “CGD Brief Regional Development Banks.”

¹⁸ Adams, Paul. “Bank to the Future: New Era at the AfDB.”



expanded to non-regional members in 1982.¹⁹ When the Bank was founded, only independent African countries could become members. Non-regional membership was opened due to growing demand for investments, for which the AfDB lacked sufficient financial resources.²⁰ This is not unique to the AfDB; all four RDBs have non-regional membership. The U.S. is the largest shareholder of both the EBRD and IDB, and along with Japan, is a top shareholder in the ADB.²¹

TOP SHAREHOLDERS OF REGIONAL DEVELOPMENT BANKS (RDBS), 2011

	AFRICAN DEVELOPMENT BANK (AFDB)		ASIAN DEVELOPMENT BANK (ADB)		EUROPEAN BANK FOR RECONSTRUCTION & DEV. (EBRD)		INTER-AMERICAN DEVELOPMENT BANK (IDB)	
1	NIGERIA	8.88	JAPAN	15.57	U.S.	10.10	U.S.	30.30
2	U.S.	6.44	U.S.	15.57	FRANCE	8.61	ARGENTINA	10.76
3	JAPAN	5.49	CHINA	6.43	GERMANY	8.61	BRAZIL	10.76
4	EGYPT	5.14	INDIA	6.32	ITALY	8.61	MEXICO	6.93
5	SOUTH AFRICA	4.56	AUSTRALIA	5.77	JAPAN	8.61	VENEZUELA	5.76

Source: Center for Global Development, *RDBs Brief*

Each member country has representation on the AfDB's Board of Governors, the bank's highest decision-making body. The board elects the president, who is responsible for the bank's management under the supervision of the Board of Directors.²² The AfDB gets its funding from subscriptions by member countries, borrowing on international markets, and loan repayments.²³ For 2014, the bank had \$66.98 billion in authorized capital, 60 percent from regional members and 40 percent from non-regional members.²⁴

¹⁹ Adams, Paul. "Bank to the Future: New Era at the AfDB."

²⁰ "Frequently Asked Questions." African Development Bank.

²¹ Ottenhoff, Jenny. "CGD Brief Regional Development Banks."

²² "Frequently Asked Questions." African Development Bank.

²³ "Frequently Asked Questions." African Development Bank.

²⁴ Adams, Paul. "Bank to the Future: New Era at the AfDB."



The bank also has an Independent Review Mechanism. Richard Bissell, former Roster of Experts member of the IRM, told HARAMBEE TODAY the IRM is a recourse mechanism for those who identify a specific or systemic harm occurring in their environment or community as a result of AfDB projects.

African Development Fund

The AfDB, similarly to other RDBs, has two main funds generally referred to as soft and hard lending windows. Hard lending windows are non-concessional loans, which are loans that are on market-rate terms. While soft lending windows provide grants or long-term concessional loans, such as loans with low interest rates and long payment periods. These windows are funded through different sources – the hard lending windows borrow on international capital markets, while soft lending windows are financed directly by contributions from richer member countries.²⁵ The AfDB has a specific concessional fund, called the African Development Fund, which has 27 contributing countries and 40 ADF-eligible countries.²⁶

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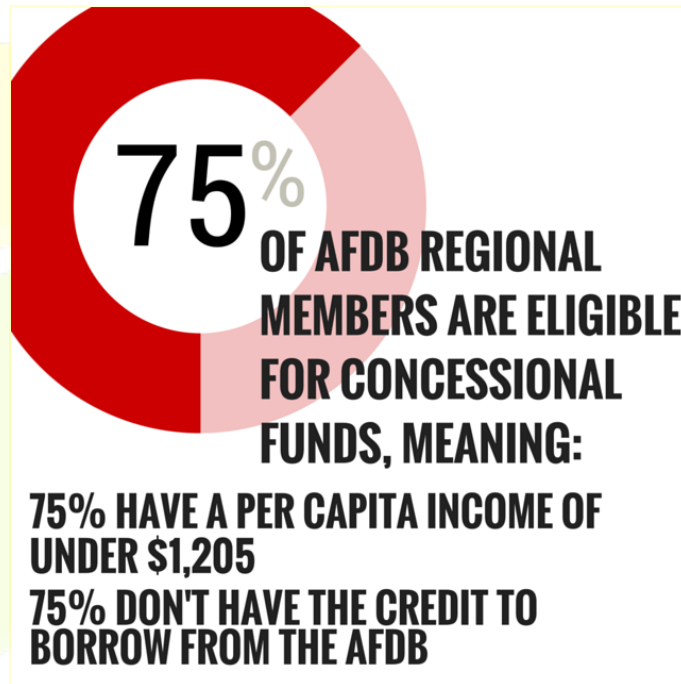
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²⁵ Ottenhoff, Jenny. "CGD Brief Regional Development Banks."

²⁶ "About the ADF." African Development Bank.

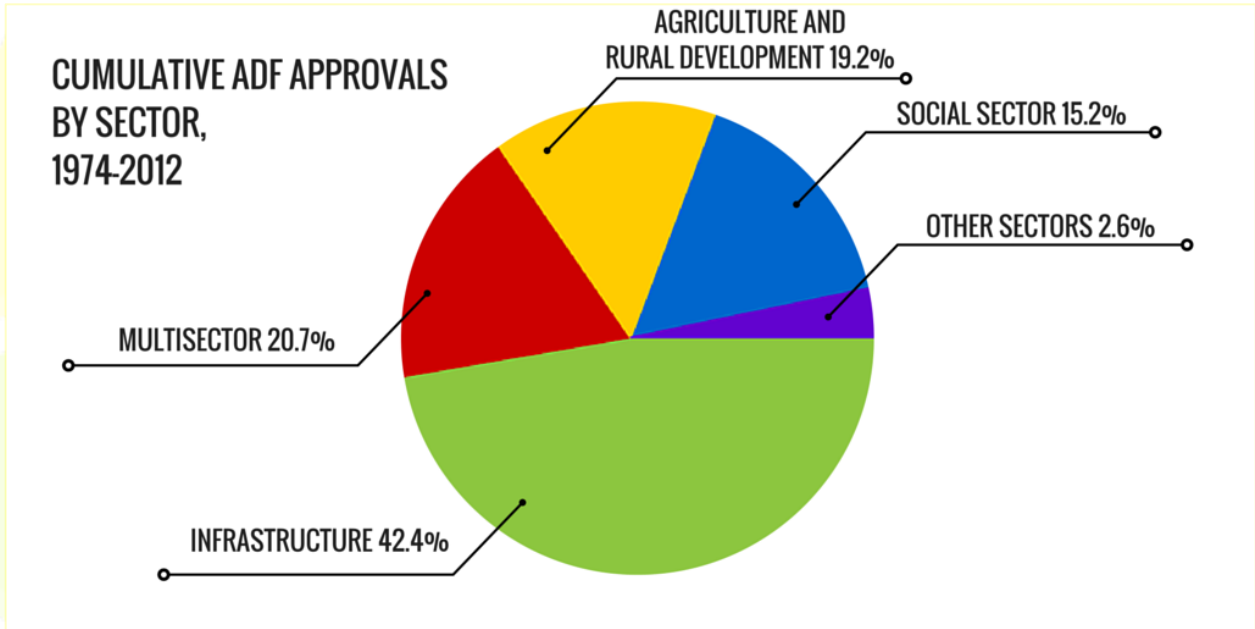




The ADF faces several challenges. Of the 54 client nations, 40 qualify for ADF concessional funding which has to come from wealthier countries, such as the U.S. To be eligible, nations must meet the International Development Association's criteria for concessional funding which means a per capita income of \$1,205 in fiscal year 2013-2014, and lack creditworthiness to borrow from the AfDB.²⁷ AfDB non-concessional funding is also not provided to countries determined to be fragile states for reasons like financial instability or ongoing insurgency. "The ADF has the challenge of having nearly half its client countries as fragile states, and facing a situation where even stable economies can become fragile due to a single internal or external shock,"²⁸ the bank's website states.

²⁷ "ADF Recipient Countries." African Development Bank.

²⁸ "About the ADF." African Development Bank.



Source: ADF's Investments by Sector, African Development Bank Group

ADF priorities are parallel to those of the AfDB and it has identified infrastructure as a primary funding need in ADF-eligible countries. Since 1974, it has concentrated on concessional funding, \$26.2 billion as of 2012, primarily in loans and grants for infrastructure development projects.²⁹

AfDB's Recent Changes

In May of this year, the Board of Governors elected a new president of the AfDB, Akinwumi Adesina, who took over in September 2015. He is the successor to Donald Kaberuka, who has been credited with providing the bank with strong leadership and its recent successes.³⁰ Adesina was the former Nigerian Agriculture Minister, and his recent election has garnered much media attention about his aspiration for his term.³¹

²⁹ "ADF Activities." African Development Bank.

³⁰ Adams, Paul. "Bank to the Future: New Era at the AfDB."

³¹ Keeler, Dan. "This Week on the Frontiers: Africa's Big Thinker."

In an interview with *The Economist*, Adesina laid out his vision for the AfDB saying he plans to prioritize electric development, improve the agriculture sector, and diversify ties beyond Chinese-owned businesses.³² He also hopes to challenge the degree of risk, which often deters investment in Africa's infrastructure. Adesina identified the increase of loan guarantees as a way to offset this inherent risk, and as a way of creating more capital for the bank's investments and funding.³³

At its founding, the bank was located in Côte d'Ivoire, but during the 2003 civil war the bank relocated to Tunisia. The bank relocated back to the Côte d'Ivoire in September 2014, which took up much of its effort and resources.³⁴ Côte d'Ivoire encouraged and facilitated the bank's move as part of the country's effort to rebuild and recover in their post-conflict period.³⁵ Previous AfDB president Donald Kaberuka said that "the return to Abidjan ... is a symbol of the renaissance of the Ivorian economy after a decade of recession, and a symbol of the reconstruction of Ivorian society."³⁶ At the time, he also expressed the bank's commitment to fund and support the reconstruction of the country, which is expected to benefit the region as well.

The bank's move back is a strong symbol of its role in improving and incentivizing development in sub-Saharan nations, especially those that are in desperate need of basic infrastructure and recovery programs.

Challenges Facing the Continent

The bank is operating in the context of a rapidly changing and more dynamic Africa. The African economy has experienced strong GDP growth over the past decade - 14 out of 22 countries whose economies are projected to double in 10 years are in Africa.³⁷ By 2013,

³² Keeler, Dan. "This Week on the Frontiers: Africa's Big Thinker."

³³ Keeler, Dan. "This Week on the Frontiers: Africa's Big Thinker."

³⁴ "Flag-raising Ceremony Marks AfDB's Return to Its Official Headquarters in Côte D'Ivoire." African Development Bank.

³⁵ "Flag-raising Ceremony Marks AfDB's Return to Its Official Headquarters in Côte D'Ivoire." African Development Bank.

³⁶ "Donald Kaberuka Reiterates AfDB Confidence in Côte D'Ivoire to the Press." African Development Bank Group.

³⁷ Marlier, Sebastien. "Investing in African Infrastructure."



Africa had become the second fastest-growing economy in the world,³⁸ and many people see huge potential in the rapid growth and development seen in the region. Africa is also rich in untapped natural resources - there is an estimated \$82 trillion in discovered natural resources.³⁹

China in particular has been a leader in investing in Africa, and the U.S. is a close second. In a nod to the ascendancy of the African economy, President Obama, in August 2014, hosted the unprecedented Africa Leaders Summit in Washington, D.C. The summit welcomed 50 of the 54 heads of states in Africa to discuss trade, investment, and security in the continent. Many trade deals and international agreements resulted from the summit. Although this summit and many similar events celebrate the rising strength of the African economy, it is both easy and dangerous to over-generalize economic gains happening on the continent.

“Africa rising” is evocative, but can be misleading. There are many challenging vulnerabilities hindering growth in Africa such as regional inequality, demographic changes, climate change, and good governance.

There are huge inequality gaps between the 54 nations. The average GDP income of the top five African nations is over 30 times the GDP income of the lowest five, and there are similar gaps in personal incomes, wealth, and quality of life for the citizens in these countries.⁴⁰

Additionally, African countries are also facing huge shifts in demographics, especially a rising youth bulge. A 2014 report by UNICEF predicts that by 2050 the number of Africans 18 or younger could reach approximately one billion.⁴¹ Youth population growth will be a challenge for the region as greater demand for education and job opportunities increases. If there is not strong economic growth comparable to the population growth, many of these young people will be living in poverty, which creates greater social instability. This example can be seen in the recent rise of Boko Haram in Nigeria. The country has a large youth

³⁸ Adams, Paul. “Bank to the Future: New Era at the AfDB.”

³⁹ Keeler, Dan. “This Week on the Frontiers: Africa’s Big Thinker.”

⁴⁰ Keeler, Dan. “This Week on the Frontiers: Africa’s Big Thinker.”

⁴¹ Soni, Diptesh. “Africa’s Youth Bulge a Big Burden.”



population, but little access to education and social mobility, creating an environment that can provide a large recruitment pool for extremist groups.⁴²

Climate change and sustainable development is also a source of vulnerability. Current trends have serious implications for development in African economies, and will affect the livelihoods of many citizens. Many industries, agriculture in particular, are less resistant to the effects of climate change such as droughts, floods, and storms than other regions. Rain-fed agriculture in Africa contributes to approximately 30 percent of the GDP and 70 percent of the population, and is the main form of subsistence for people in poor, rural areas.⁴³ Increasing frequencies of drought or flooding will damage the ecosystems and threaten the food security of these populations.

Establishing and maintaining good governance is fundamental to continued growth, and is a perennial problem for the continent with an international reputation for a preponderance of life presidents. Richard Bissell, in an interview with HARAMBEE TODAY, said that he considers governance to be the biggest need – “good, honest, effective governance.” It is hard to complete a project where there is not good governance in practice. If there is not good governance, it is hard to effectively fund, develop and implement a project - much effort and money would be lost in corruption or inefficiency, he said.

⁴² Soni, Diptesh. "Africa's Youth Bulge a Big Burden."

⁴³ "Making Development Climate Resilient: A World Bank Strategy for Sub-Saharan Africa." The World Bank - Climate Change and Africa.





GOOD, HONEST, EFFECTIVE GOVERNANCE

- Richard Bissell

Is the AfDB critical to growth in Africa?

The bank faces challenges in establishing a space for itself, in a sphere where there are many and varied types of funding and development projects. China and the U.S. amongst other nations, and international organizations all participate in funding Africa, with either aid or development projects. For example, the World Bank is a major lender in the region, and has given much more concessional funding than the AfDB has to countries in need.⁴⁴

This is due in part to the structure and priorities of the AfDB, and it limits the bank's ability to give funding to poorer countries that are unable to borrow at market-rate interest levels, creating a concentration of AfDB funding in richer African nations. The ADF only is funded by 27 countries, in contrast to the 40 countries drawing from the fund and due to the long repayment period, needs greater replenishing than the non-concessional funds. There is obviously a great need for concessional funding windows in African nations, arguably more so than in other developing regions, and finding ways to replenish soft funding should be a priority for the bank moving forward.

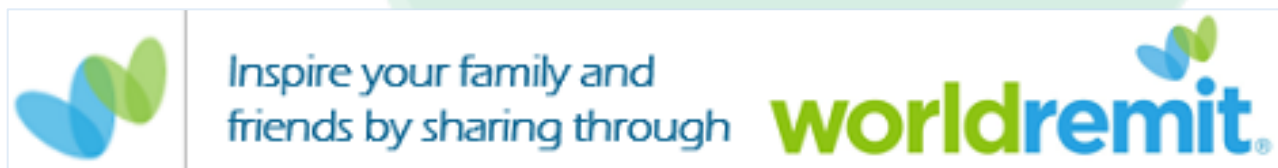
⁴⁴ Adams, Paul. "Bank to the Future: New Era at the AfDB."



Currently, the 40 nations that are eligible for ADF funds are countries where it is too high risk for foreign investors or other international institutions to invest in projects or to loan at market rates. The cyclical nature of this challenge means that the level of risk will not abate without significant external funding to raise standards of living and basic quality of life for citizens, and establish the infrastructures for basic economic development. Many international funders see Africa as a region that urgently needs concessional, grant-based funding but much of that funding is concentrated in medicine, education, and social development issues. The AfDB, however, is one of few development funders that have expressly identified infrastructure development as crucial to the continued development of African nations.

Bissell, when asked about what makes the AfDB unique in the African funding space, said that many people are asking that question, but we don't know yet, and more importantly, there's no right answer.

The bank is in a nascent stage of development and individuation, much like the region that it funds. The new leadership of Akinwumi Adesina, the relocation to the Ivory Coast, and the vision the bank has for itself, and for Africa, will be vital to the region's economic growth and successes. "Africa must think big. We can't afford to have low aspirations for Africa,"⁴⁵ Adesina said in an interview with WSJ Frontiers shortly after taking over his new role last month.



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⁴⁵ Keeler, Dan. "This Week on the Frontiers: Africa's Big Thinker."



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