

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The text is centered within the hourglass shape.

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*The African Development Bank Group*

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March 28, 2008

**Abstract.** The African Development Bank (AfDB) Group is a regional development bank currently based in Tunis, Tunisia. It comprises three lending facilities: the market rate facility, the AfDB; a concessional lending facility, the African Development Fund; and a trust fund established by Nigeria to lend to low-income African countries. The Bank has 53 African members, as well as 24 non-regional members, including the United States.

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# The African Development Bank Group

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*Prepared for Members and Committees of Congress*

## Summary

The African Development Bank (AfDB) Group is a regional development bank currently based in Tunis, Tunisia. It comprises three lending facilities: the market rate facility, the AfDB; a concessional lending facility, the African Development Fund; and a trust fund established by Nigeria to lend to low-income African countries. The Bank has 53 African members, as well as 24 non-regional members, including the United States. This report, which incorporates material originally written by Raymond W. Copson, will be updated as events warrant.

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## Introduction

The African Development Bank (AfDB) Group is a regional development bank (RDB) “dedicated to combating poverty and improving the lives of people of the continent.”<sup>1</sup> In February 2003, the Bank temporarily relocated to Tunis, Tunisia from its permanent location in Abidjan, Côte d’Ivoire due to political instability in that country.

## Structure

The AfDB Group comprises three lending facilities:

- The **African Development Bank** (the Bank), created in 1964, is a regional development bank that provides grants, loans and technical assistance. It seeks to promote sustainable economic growth and reduce poverty in the Bank’s 53 African member countries.<sup>2</sup> The Bank also participates in a wide variety of international programs including the Heavily Indebted Poor Country (HIPC) Debt Relief Initiative, the more comprehensive Multilateral Debt Relief Initiative (MDRI), and the New Partnership for Africa’s Development (NEPAD).<sup>3</sup> As of May 2007, total subscribed capital is U.S. \$33 billion.
- The **African Development Fund** (AfDF, the Fund) is a concessional lending/grant making facility for low-income African member countries created in 1972. There are currently 38 AfDF borrower countries. The AfDF is primarily financed by 24 non-regional countries including the United States, Canada, and several European and Asian countries. Every three years, donors agree on a replenishment agreement for the next three fiscal years. In December 2007, negotiations concluded for the eleventh replenishment of AfDF resources (AfDF-VI) that will provide financing of \$8.9 billion during 2008 to 2011.
- The **Nigeria Trust Fund** is a fund, created by Nigeria in 1976, to provide financing on terms between those of the AfDB and the AfDF to low-income regional member countries. As of December 31, 2005, total Trust Fund resources amounted to almost \$600 million. Following the end of the Trust Fund’s thirty year term in April 2006, the Nigerian government has requested that the Bank Group begin winding down the Trust Fund’s operations.

For FY2008, the Bush Administration requested \$2.0 million to clear the outstanding arrears on U.S. payments to purchase shares of the most recent global capital increase (GCI) of AfDB resources in 1998. For the AfDF, the Bush Administration requested \$135.7 million for the final installment of a three-year commitment under the agreement for the tenth replenishment of the AfDF (AfDF-10) and \$4.9 million to pay a portion of outstanding U.S. arrears to the AfDF. The

<sup>1</sup> More information is available at the Bank’s website: <https://www.afdb.org>.

<sup>2</sup> Like the market rate facilities of the World Bank and the other RDBs, AfDB’s funds are raised on the international capital markets and then re-lent at a small premium to member countries. Countries borrow from the World Bank and the RDBs for a variety of reasons including their extensive technical assistance and advisory capability.

<sup>3</sup> For more information, see CRS Report RL33073, *Debt Relief for Heavily Indebted Poor Countries: Issues for Congress*, by Martin A. Weiss; CRS Report RS22534, *The Multilateral Debt Relief Initiative*, by Martin A. Weiss.

U.S. total three-year commitment for AfDF-10 is \$407 million, which contributes to a \$5.4 billion total replenishment. P.L. 110-161, the *Consolidated Appropriations Act, 2008*, provides the full request of \$135.7 million to the AfDB.

For FY2009, the Administration has requested that Congress authorize U.S. participation in the three years of AfDF 11 (2009-2011) and contribute \$156.055 million in budget authority for the first of three installments of the U.S. contribution to the eleventh replenishment (AFDF-11) covering the period 2009-2011. The Administration is again requesting \$2 million to clear arrears to the AfDB general capital.

## Background

The Bank was founded in 1964 as an exclusively African institution. Most African countries had just become independent amid great optimism about the continent's economic prospects. However, poor African economic performance during the Bank's early years soon made it clear that an exclusively African membership would be unable to achieve a level of creditworthiness for AfDB bonds sufficient to generate adequate resources. Consequently, in 1973, the United States and other donor countries from outside Africa were invited to join the Bank's concessional lending facility, the AfDF. The non-concessional lending facility, the AfDB, was still restricted to African countries. The United States declined to join the AfDF until 1976. For several years, Canada was the largest donor country.

In 1980, the AfDB opened itself to membership by countries outside Africa. Today, the Bank has 53 African members, including both the North African and the sub-Saharan countries, and 24 non-regional members. The latter include all of the major donors of development aid to Africa. The Fund has 27 contributing members, including 25 non-African countries and South Africa.

## Voting

In the AfDB Group, every member state is represented on the Board of Governors, typically by the state's finance minister. The Board of Governors is the highest decision-making body. Day-to-day management of the AfDB Group is handled by the Boards of Directors. The Board of Directors (also known as the Executive Board) of the AfDB is composed of 18 Executive Directors (EDs). Twelve members are elected by the Governors of regional countries and six by the Governors of non-regional member countries. Directors are elected for three years terms that are renewable once.

The Board of Directors of the AfDF is composed of twelve EDs. Non-regional donor nations select six EDs. Thus, while African EDs hold a majority of the votes on the AfDB board, 12 of 18 (60%), in the AfDF, voting is evenly split between the six African and six non-African EDs.

**Table I. Composition of the AfDB Group Executive Boards**

	Total Number of EDs	Number of African EDs	Number of Non-African EDs
<b>AfDB</b>	18	12 (60%)	6 (40%)
<b>AfDF</b>	12	6 (50%)	6 (50%)

Members' voting power within the AfDB and AfDF Boards of Directors is largely determined by the size of their contribution to the Bank's financial resources. In the AfDB, Nigeria is the largest shareholder, with 8.76% of the vote on the Executive Board. In the AfDF, the United States is the largest country shareholder, with 6.5% of the vote, followed by Japan, with 6.8%. Executive Directors, with the exception of the United States, represent more than one country on each Board. However, unlike at the World Bank, where U.S. voting power exceeds 16% and is much larger than any other ED and can thus veto major reforms, each ED at the AfDB Group has roughly equal voting weight.

## Crisis in the Mid-1990s and U.S. Funding

In the mid-1990s, the African Development Bank faced what has been called a "mid-life crisis," after non-regional members lost confidence in its lending policies and management practices. Many African countries had experienced severe economic and budgetary problems for years, resulting in part from inappropriate economic policies and also from external factors, including high oil prices and low prices for their commodity exports. African countries were becoming increasingly uncreditworthy; yet the AfDB had continued to extend non-concessional loans to them. By 1994, AfDB arrears had reached \$700 million, twice their level in 1992.<sup>4</sup> Short of resources, the AfDB Group made virtually no loans in 1994.

In April 1995, the U.S. General Accounting Office issued a report that called the Bank "solvent but vulnerable" and criticized an AfDB governance system that allowed borrowers to control decision-making.<sup>5</sup> From 1993 to 1999, the United States made almost no contributions to the AfDB Group. In the mid-1990s, the United States led other non-regional members in a decision to suspend negotiations on a new AfDF replenishment for the AfDF until the Bank agreed to sweeping institutional reforms. Congress rescinded half of the FY1995 appropriation for the AfDF.

In August 1995, after nine rounds of voting, Bank members elected Omar Kabbaj, a Moroccan financial official who advocated management and fiscal reforms at the Bank. In May 2000, Kabbaj was unanimously re-elected for a second five-year term. During his tenure, Kabbaj won widespread praise from financial analysts and non-regional governments for his success in implementing promised reforms. Non-regional endorsement of Kabbaj's reform agenda came at the May 1998 annual meeting, when the Board of Governors agreed to the fifth general capital increase (GCI-V) of the AfDB, representing a 35% boost in the Bank's resources. The increase will, if fully funded, increase the non-regional share in the Bank's capital from 33% to 40%, thus

<sup>4</sup> E. Philip English and Harris M. Mule, *The African Development Bank* (Boulder, Colorado: Lynne Rienner, 1995), p. 29.

<sup>5</sup> *Multilateral Development Banks: Financial Condition of the African Development Bank* (GAO/NSIAD-95-143BR).

giving non-regional members 40% of the votes on the Bank's Board of Governors.<sup>6</sup> Moreover, at the insistence of the non-regional members, decisions on Bank operations are to be taken by a 66% majority, while "crucial" decisions (such as increasing the AfDB quota) would require the approval of 70% of shareholders.<sup>7</sup> Thus, there would have to be at least some non-regional support for major Bank actions. These modifications to the Bank's "African character" were initially opposed by some regional members, but eventually won enough support from regional member nations to pass. U.S. contributions to the African Development Fund resumed in FY1998, and the funding levels in recent years have made the Fund a small, but important component of the overall U.S. economic assistance program for Africa.

In 2003, the U.S. Office of Management and Budget (OMB) completed a Program Assessment Rating Tool (PART) examination of the AfDF.<sup>8</sup> While OMB gave the Fund high scores in Program Management (100%) and Program Purpose and Design (80%), lower scores were recorded for Strategic Planning (63%) and Program Results (33%), leading to a total program score of 59% and an overall rating of "Results Not Demonstrated." The U.S. Department of the Treasury points out in its FY2008 budget request, however, that the PART evaluation was completed prior to the Bank's introduction of a new results measurement framework, which incorporates into all country strategy papers and projects indicators to better measure results. Improvement of weak systems for measuring the effectiveness of multilateral development bank (MDB) projects has been a core focus of the Bush Administration's MDB reform agenda.<sup>9</sup>

## The AfDB Group's Role

The African Development Bank Group is one of many development agencies active in Africa, and it loans smaller amounts than the World Bank and the major bilateral donors. Furthermore, the Bank has long been considered to be the least capable of the regional development banks. The future effectiveness of the AfDB largely rests on its ability to delineate its role in a crowded aid field populated by larger multilateral donors, the United Nations and the World Bank, regional donors such as the European Union and the bilateral programs of the major donors.

In order to define a clearer AfDB mission, in October 2006, current AfDB Group President Donald Kaberuka appointed an eminent persons group to advise him on the Bank's future. The group, chaired by former Mozambican President Joaquim Chissano and former Canadian Prime Minister Paul Martin, released its final report in fall 2007. The panel commends the Bank for moving in this direction by increasing its work in recent years in areas where it has proven expertise, primarily infrastructure construction (including transportation, water, and energy services), while leaving other issues, such as HIV/AIDS policy to the World Bank or single sector funds such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

A key concern of President Kaberuka and the Chissano-Martin report is that the "AfDB has excess capacity and the AfDF has excess demand," meaning that the rift between African

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<sup>6</sup> While most analysts agree that the reforms introduced by Kabbaj were successful, not all donors have completed their contributions to GCI-V. As of the end of AfDB Group FY2006, arrears to the Bank were around \$4,783,680.

<sup>7</sup> *Africa Research Bulletin, Economic Series*, May-June, 1998, p.13455-13456.

<sup>8</sup> For more information on the OMB PART program, see <http://www.whitehouse.gov/omb/part/>.

<sup>9</sup> Statement of Assistant Secretary Clay Lowery before the Senate Foreign Relations Committee on the Multilateral Development Banks and the Fight Against Corruption, March 28, 2006.

countries performing well and those performing poorly is growing.<sup>10</sup> Thus, the AfDB is sitting on large under-utilized reserves for the 15 countries that qualify for AfDB financing. At the same time, there is insufficient funding for AfDB borrower countries. To address this, Kaberuka and the Panel propose merging the regular and concessional lending facilities into a single fund. Any attempt to merge the lending facilities would require the approval of the Executive Board.

A further complication is the temporary status of the Bank's headquarters. Although legally based in Abidjan, Côte d'Ivoire, civil war in that country prompted the Bank to temporarily move its headquarters to Tunis, Tunisia in 2003. Lack of a final settlement of the Ivorian political crisis has to date prevented the Bank from returning to its permanent location. At the same time, while the Tunisian government would reportedly be happy to have the Bank permanently relocate to Tunis, the Ivorian government has blocked the move. Until a settlement is reached on the Bank's permanent home, continued tension will likely make staff recruitment more challenging given the wealth of alternative opportunities for well-trained development economists.

Lastly, some observers question if there is a need for a regional development bank for Africa, or if the United States should contribute to such an institution. In their view, the United States might better focus its funding on bilateral assistance programs, or perhaps the World Bank's concessional aid facility, the International Development Agency (IDA), where U.S. influence as a shareholder is greater than at the AfDB. In 2006, IDA committed \$3.5 billion in loans and \$1.1 billion in grants to Africa, a doubling of aid from 2000 levels. At the same time, the AfDB Group approved a total of \$1.4 billion in loans, grants, and investments. Advocates of a continued role for the AfDB group argue that even though it cannot match other donors in the sum of total loans provided, the AfDB, "Africa's Bank," with an African president, has a unique understanding of African needs. They contend that African governments more readily accept the Bank's advice. They also argue that it is useful for the United States to be seen in Africa as a supporter of a homegrown African development institution. Others contend, though, that non-regional aid donors can be just as effective as a local institution. Furthermore, they may be less susceptible to corruption and nepotism, charges that have plagued the AfDB group in the past.

## China and Africa

Many in the international aid community are concerned that new Chinese assistance may undermine various ongoing Western and MDB initiatives including poor country debt relief and environmental and social safeguards. Estimates of Chinese financial aid to Africa for 2005 are around \$1.5 to \$2 billion.<sup>11</sup> In May 2007, China hosted the 2007 AfDB Group meeting in Shanghai. This followed on the heels of the November 2006 China Africa Summit, where China announced its intention to double aid to Africa by 2009 and provide \$2 billion in preferential credits.

China and other emerging creditors are increasingly providing development assistance without the environmental and anti-corruption standards that are a requirement for borrowing from the multilateral institutions. Furthermore, the terms of new Chinese assistance is often opaque, and assistance is reportedly commingled among various instruments including non-concessional

<sup>10</sup> "Investing in Africa's Future: The ADB in the 21<sup>st</sup> Century" Report of the High Level Panel. Available at <http://www.oxan.com/display.aspx?StoryDate=20080215&ProductCode=OADB&StoryType=DB&StoryNumber=>

<sup>11</sup> Carol Lancaster, "The Chinese Aid System," *Center for Global Development*, June 2007.

lending and resource-linked bonds, for example. Policy experts at the MDBs argue that if new Chinese assistance is non-concessional, short-term, and at rates that poor countries cannot afford over the long-term, China may undermine recent decreases in African indebtedness produced by Western donor-financed debt relief agreements. By contrast, African policy makers have consistently expressed their appreciation for Chinese assistance, which they see as less conditional, less onerous, and at lower rates than MDB or Western aid. In many cases, China can build roads and large-scale infrastructure more cheaply than MDB or Western donors, and African policy-makers appreciate the lack of political, social, or economic conditions attached to Chinese loans. Some scholars argue that concerns raised by the MDBs and Western donors represent primarily “China bashing” and fears that as China plays a more prominent role in Africa, Western influence will decrease.<sup>12</sup> Regardless of political intentions, little is known about the structure and terms of new Chinese lending, and engagement and better cooperation with China will likely be a challenge facing the AfDB, as it struggles to help overcome the larger structural and socioeconomic impediments to African development.

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See the report of the University of Oxford/Cornell University Conference, *New Directions in Development Assistance*, June 11-12, 2007, pp. 22-27. The report is available at <http://www.globaleconomicgovernance.org/docs/Conference%20Report.pdf>.