Financing Third World Development: Perspective of the African Development Bank (AfDB)

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Abstract
This paper provides an exposition on African Development Bank (AfDB) Group financial engagements to member countries in the form of loans, grants and equity participation using incidence analysis. Over Unit of Account (UA) 29 billion have been approved by the Bank to finance various desirable development projects and programs to help the regional member countries achieve sustainable and inclusive growth and development. Although, the AfDB believed to have made progress in contributing to development in areas like micro finance, trade, energy, health as well as agriculture and food security. Yet, little progress was made in prioritized areas of infrastructure, governance, education and regional integration. Also, economic growth and poverty reduction, environment, clean energy and employment recorded insignificant progress. Newer accountability mechanism should be developed and the existing ones strengthened in addition to cogent monitoring and evaluation to ensure prompt completion of projects and programmes.

Keywords: AfDB Group, Development, Financial engagement, Third World

1. Introduction
Financing development literally dwells upon the act of mobilizing resources in order to eradicate poverty, unemployment, diseases and also to be able to provide basic education, equal opportunities for all and create conducive environment for the betterment of mankind (Todaro, 2003). In line with economic literature, the term “third world” refers to developing countries.

In March 2002, Heads of state and Government adopted the Monterrey Consensus at the International Conference on Financing for Development in Monterrey, Mexico, where the challenges of financing for development around the World, particularly in developing countries were addressed. The goal of the consensus is to eradicate poverty, achieve sustained economic growth and promote sustainable development as the World advances to a fully inclusive and equitable global economic system (African Development Bank Group [AfDB], 2005). African Development Bank (AfDB) Group in its 2010 annual report indicates that Africa’s recovery from the global economic and financial crisis that began in the second half of 2008 is now well underway. Real GDP growth rose from 3.1 percent in 2009 at the height of the crisis (financial, fuel and food), to level of 4.9 percent in 2010. But it was projected to fall to 3.7 percent in 2011 due to socio-political unrest in some regional member countries (RMCs) before it could recover to 5.8 percent in 2012. However, against these projections, the GDP growth was 5.2 percent and 4.9 percent in 2011 and 2012 respectively (World Bank, 2013). Yet, to our knowledge there are no studies that examine the financial commitments of the AfDB Group with respect to approved projects/programs and analysed whether the set

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projects/programs were duly implemented and identify the flaws associated with implementation of sizable number of projects/programs.

The paper aimed to provide an exposition on AfDB Group financial engagement to member countries with more emphasis on the medium term strategy period 2008 - 2012. Essentially, the funds provided by the Bank in the form of loans, grants, equity participation, and special funds to finance various development projects among the RMCs. In doing so, incidence analysis is employed. The paper contributes to the literature by examining the financial commitments of the AfDB with respect to approved projects/programs and identifying general and specific problems that affect the successful implementation of such projects/programs.

The paper find that substantial sum of money have been approved to finance various development projects and programmes. Yet only little progress was made in prioritised areas of infrastructure, governance, and private sector participation. Also, considerable number of projects and programmes were either abandoned or not completed within the stipulated period due flaws in monitoring and evaluation. The next section reviews AfDB Group. Section 3 discusses the financial engagement of the AfDB while section four provides an assessment and discussion of the AfDB projects/programs. The final section concludes the paper.

2. The African Development Bank (AfDB) Group

Following the end of colonial period in Africa, growing desire for more unity and financial stability within the continent led to the formulation of two draft charters, one for the establishment of the Organization of African Unity (established in 1963, now African Union), and the other for a regional development bank. The agreement establishing the African Development Bank was adopted and opened for signature at the Khartoum, Sudan conference on August 4, 1963. The agreement entered into force on 10 September, 1964. The Bank had its headquarters’ in Abidjan, Cote d’Ivoire. Originally only African countries were able to join the Bank, but since 1982 it has allowed the entry of non-African countries as well. As of 31 December 2011, the AfDB’s authorised capital is subscribed by 77 member countries made up of 53 independent African counties (regional members), and 24 non-African countries (non-regional members). The institution’s resources came from ordinary and special resources. Ordinary resources comprise: subscribed shares of the authorised capital; funds received in repayment of AfDB loans; funds raised through AfDB borrowings on international capital market; and income derived from AfDB loans. While the special resources include: the Arab oil fund; the special relief fund; and the special emergency assistant fund for drought and famine in Africa.(AfDB, 2005).

Mission and Objectives

The overarching objective of the AfDB Group is to spur sustainable economic development and social progress in its regional member counties, thus contributing to poverty reduction. The Bank group achieve this by: mobilizing and allocating resources for investment in RMCs; and providing policy advice and technical assistance to support development efforts (AfDB, 2012).

Functions

The AfDB has four principal functions. First, it makes loans and equity investments for the economic and social advancement of the RMCs. Second, it provides technical assistance for the preparation and execution of development projects and programs. Third, it promotes investment of public and private capital for development purposes, and finally, it assists in coordinating development policies and plans of RMCs (AfDB, 2005).

Constituent Institutions

The African Development Bank Group is composed of African Development Bank (AfDB), which is the Group’s parent organization and two other institutions: the African Development Fund (ADF), and the Nigeria Trust Fund (NTF).
The African Development Fund was established in 1972, and commenced operation in 1974. It provides development finance on concessional terms to low income RMCs which are unable to borrow on the non-concessional terms of the AfDB. Twenty four non-African countries along with the AfDB Group are the current members with United States being the largest ADF shareholder.

The Nigerian Trust Fund was established in 1976 by Nigerian Government with an initial capital of $ 80 million. The NTF aimed at assisting in the development efforts of the poorest AfDB members (AfDB, 2005).

3. Financial Engagements of the AfDB Group

The AfDB medium term strategy was set for the period 2008 – 2012. In 2008 the Bank continued to implement reforms to scale up its development effectiveness at both institutional and operational levels. Furthermore, in line with the medium term strategy, it intensified the selectivity of its operations, by targeting infrastructure, the private sector, governance, and regional integration. Other focal areas included agriculture and food security, social and human development, gender mainstreaming, environmental sustainability, and support to middle-income countries (MICs) and fragile states (AfDB, 2008).

Within the year (2008) Bank’s Group total loan, grant, and other approvals amounted to UA 3.53 billion, compared with UA 3.10 billion in 2007 – an increase of 13.9 percent. Of the total approvals, UA 3.17 billion was allocated to financing loans and grants, compared to UA 2.58 billion in 2007; while UA 358.5 million went to debt relief, private sector equity participation, private guarantees, and special fund allocations. The approval of UA 1.41 billion for infrastructural projects demonstrates the Bank’s selectivity and continued focus on projects aiming to accelerate poverty reduction and economic growth in RMCs. Of the UA 1.41 billion allocated to infrastructure, transportation took the largest share (45.4 percent), followed by power supply (37.8 percent), and water supply and sanitation (16.8 percent).

Major projects approved include a Line of Credit to Standard Bank of South Africa; Guinea Alumina Project; the Hasdrubal Oil and Gasfield Development in Tunisia; an LOC to Nedbank Ltd of South Africa; Lekki Toll Road project in Nigeria; Doraleh Container Terminal in Djibouti; DerbaMidroc Cement Plant in Ethiopia; Kandadji Ecosystem Regeneration and Niger Valley Development Program (Niger); Poverty Reduction Support Loan III (Ghana); AinSokhna Thermal Power Project in Egypt; the Mbarara–Nkenda and Tororo–Lira Power Transmission Line Project in Uganda; and Poverty Reduction Strategy Support Loan III in Tanzania (AfDB, 2008).

The Bank Group loan, grant, and other approvals in 2009 amounted to UA 8.06 billion, which is more than double the 2008 level of UA 3.53 billion. Of the total approvals for the year, UA 7.51 billion was for loans and grants, compared to UA3.17 billion in 2008; while UA 558.8 million went to debt relief, private sector equity participation, guarantees, loan reallocations, and special funds allocations. The 4 largest approvals in 2009 were for: the Medupi Power Project in South Africa (UA 1.73 billion); the Economic Diversification Support Program in Botswana (UA 969.0 million); the Competitiveness and Public Sector Efficiency Support Program in Mauritius (UA 437.3 million); and a Line of Credit to the Global Trade Liquidity Program (UA322.1 million).

Within the year, Bank Group operations continued to reflect the country strategies and development priorities of RMCs. The significant increase in total approvals during 2009 relative to 2008 reflects the Bank’s policy of selectivity, project focus and effectiveness, and the rising demand for infrastructure financing from RMCs. The two largest beneficiary sectors were infrastructure, with an allocation of UA 3.91 billion (52.1 percent) and multisector with UA 2.19 billion (29.1 percent). These two sectors jointly accounted for 81.2 percent of the total operational loans and grants. The approval of UA 3.91 billion for infrastructure projects in 2009 compared to UA 1.41billion in 2008 represents an increase of 177.3 percent. The power supply subsector received the largest share (57.2 percent), followed by transportation (33.1 percent), water supply and sanitation (7.6 percent), and communications (2.2 percent). The Bank’s contribution to poverty reduction is addressed through construction and rehabilitation of infrastructure.
projects in rural and urban water supply and sanitation, rural power supply, feeder roads, marketing and storage facilities, and information technology and communication facilities in rural areas (AfDB, 2009).

However, in 2010 the Bank Group approvals totalled Unit of Account (UA) 4.10 billion, which was a decline from the peak of UA 8.06 billion recorded in the previous year, when there was an unprecedented demand for Bank Group support from RMCs in the wake of the global financial crisis. Of the total approvals, UA 3.67 billion was in the form of loans and grants while UA 425.3 million was channelled to debt relief, private sector equity participation, and special fund allocation (AfDB, 2010).

In North Africa which constitutes six countries, loan and grant approvals for the subregion totalled Unit of Account UA 1.47 billion in 2010, which is a rise of 40 percent above the 2009 level of UA 1.05 billion. North Africa’s approval represented 40.1 percent of the total Bank Group approvals, which makes it the main beneficiary region during the year. The benefitting countries were: Egypt, UA 651.4 million; Morocco, UA 519.7 million; Tunisia, UA 296.6 million; Mauritania, UA 3.6 million; and finally Libya, UA 0.6 million (AfDB, 2010).

Some of the development projects approved were: the Suez 650 MW Steam Cycle Thermal Power Plant in Egypt; the Project to increase Capacity on the Tangiers-Marrakech Railway Line in Morocco; Enterprise Tunisiennes’ Activites Petrolieres (ETAP)-Hasdrubal Oil and Gas Field Development Project in Tunisia; and the Public Administration Reform Support Program, Phase IV in Morocco (AfDB, 2011).

West Africa comprised of sixteen countries. The Bank Group loan and grant approval for the region declined from UA 1.24 billion in 2009 to UA 595.8 million in 2010, which is a decrease of 52 percent. Fourteen countries out of the sixteen benefited as follows: Ghana UA 111.0 million; Senegal, UA 70.8m; Nigeria, UA 67.8m; Mali, UA 66.5m; Niger UA 54.2m; Benin UA 43.0m; Burkina Faso, UA 35.2m; Togo UA 32.5m; Liberia UA 31.2m; Sierra Leone UA 29.2m; Cote d’Ivoire, UA 23.0m; Cape Verde, UA 20.5m; Guinea Bissau, UA 5.7m; and Sao Tome and Principe, UA 5.0m (AfDB, 2011).

The key projects includes: the Ghana Fufulso-Sawla Road Project; the Blaise-Diagne International Airport in Senegal; the Markala Sugar Project in Mali; the Infrastructure Strengthening and Rural Electrification Project in Burkina Faso; the Accelerated Development and Poverty Reduction Support in Niger; the Togo-SanveCondji-Benin Border Road Rehabilitation Project in Togo; and the Ndali-Nikki-Chicandou Nigerian Border Road Asphalting Project in Benin (AfDB, 2012).

The Southern Africa comprises of twelve countries out of which only nine benefited from the Bank’s loan and grant in 2010. The sub region experienced decline in its approvals from UA 3.40 billion in 2009 to UA 492.8 million in 2010, representing 85.5 percent decrease. Nevertheless, the loan and grant approvals for the subregion in 2010 exceeded that of 2008 by 3.6 percent and represented 13.4 percent of total approvals to all the five subregions. The beneficiary countries were South Africa, UA 403.7m; Mozambique, UA 37.9m; Zambia, UA 32.6m; Malawi, UA 14.7m; Botswana, UA 2.1m; Zimbabwe, UA 0.7m; Namibia, UA 0.6m; Mauritius, UA 0.3m; and Swaziland, UA 0.3m.

Accordingly, the key programs include: Transnet Limited; and the Industrial Development Corporation in South Africa; the Montepuez-Lichinga Road in Mozambique; and the Third Poverty Reduction Budget Support in Zambia (AfDB, 2012).

The Central Africa subregion is made up of seven countries. The subregion was allocated UA 234.6m representing 6.4 percent of the total loan and grant approvals in the year. The total approvals for this subregion show a drop of 14.7 percent when compared to that of 2009. Only five countries benefited namely: Democratic Republic of Congo, UA 158.3m; Cameroon, UA 71.7m; Congo, UA 3.4m; Chad, UA 0.7m; and Gabon, UA0.5m. Some of the projects approvals were: the Priority Air Safety Project (UA 88.6m) and the Semi-Urban and Rural Electrification Project (69.69m) in Democratic Republic of Congo; the Diamba Power Project; the Rural Drinking Water Supply and Sanitation Project; and the Project to Strengthen and Extend the Electricity Transmission and Distribution Network in Cameroon.

East Africa composed of twelve countries. In the year it received UA 560.3m, representing an increase of 8.7 percent over the UA 515.6m approved in 2009. Projects approved for includes: the Electricity
Transmission System Improvement, and the Protection of Basic Services, Phase II in Ethiopia; the Rural Water Supply and Sanitation Program, and the Iringa-Shiyanga Electricity Power Transmission Line in Tanzania; the “La Cimenterie du Ruwanda” Project (AfDB, 2010).

In 2011, the Bank’s operations continued to address pressing development challenges facing RMCs, achieving sustainable growth and development. The focus was on the four core priority areas of infrastructure, governance, private sector development, and higher education and vocational training. The Bank Group approval of UA 5.72 billion for new operations represents an increase of 39.9 percent over the previous year’s amount of UA 4.10 billion. Of the total amount approved, UA 4.13b was in the form of loans and grants, while UA 1.59b was for debt relief, and private equity participation (AfDB, 2012).

The Bank Group project and program approval for all the five subregions was: West Africa attracted 24.8 percent of approvals funding; North Africa, 21.9 percent; East Africa, 14.8 percent; Central Africa, 11.0 percent; and Southern Africa, 9.8 percent. Loan and grant approvals for multinational projects and programs gained 17.8 percent of funding.

Approved key projects and programs includes: Zambia-Botswana Kazungula Bridge Project; Gabes-Medenine-RasJedir Highway Construction Project in Tunisia; Cameroon Kiribi Power Project; Emergency Program to Restore Basic Social and Administrative Services in Cote d’Ivoire; and Mali’s Bamako Digital Complex Support Project (AfDB, 2011).

Sectoral distribution of the Bank Group approvals indicates that infrastructure emerged as the largest beneficiary sector, followed by multisector and then finance (see Figure 2). This sectoral split is consistent with the Bank Group’s operational focus of prioritizing infrastructural development – a key driver to economic development – in line with its Medium-Term Strategy (2008-2012).

However, in 2012, the volume of Bank Group approvals was UA 4.25 billion, representing a significant decline from 2011, when approvals totalled UA 5.72 billion. The impact of the Arab Spring explains to a large extent both the increase seen in 2011 and the lower uptake in 2012. Countries such as Tunisia and Morocco received sizeable urgent support in 2011 to relieve pressure on their economies. This continued in 2012 for Morocco, which received UA 754 million, more than double the amount of UA 355 million approved in 2011 (AfDB, 2012).

Within the period, Bank Group loan and grant approvals for all five subregions and multinational projects and programs amounted to UA 3.60 billion in the following order: North Africa, 1.12b (31.0 percent); Southern Africa, UA 464.0m (12.8 percent); East Africa, UA 447.2m (12.4 percent); West Africa, UA 441.2m (12.2 percent); and Central Africa, UA 323.0m (8.8 percent). Multinational projects and programs received UA 812.0m (22.5 percent). Figure 1 indicates the Bank’s total approval from 2008 to 2012.

**AfDB Group Total Approvals, 2008 – 2012 (UA million)**
Some of the key projects and programs are: Regional Infrastructure and Green Growth in Eastern Africa; Ethiopia – Kenya Power Interconnection in Ethiopia; Nacala Road Corridor Phase III in Mozambique; Rural Water Supply and Sanitation Initiative (worth UA 50m) in Gambia, Chad, Liberia and Mauritania; Lome – Cinkanse – Ouagadougou CU9 Corridor; Project to Avoid CO₂ Emission in Kenya, Morocco, Mozambique and Niger; and Rural Electrification project in Benin (AfDB, 2012).

Considering the sector distribution, approvals for infrastructure were UA 1.76b (48.9 percent of total) for which energy was the dominant sector followed by transport and water and sanitation; then the social sector, UA 525.3m (14.6 percent); multisector, UA 505.4m (14.0 percent); finance, UA 402.8m (11.2 percent); agriculture and rural development, UA 308.1m (8.6 percent); and industry, mining and quarrying, UA 97.7m (2.7 percent). Figure 2 shows the AfDB Group sectoral approval in 2012.

**AfDB Group Loan and Grant Approval by Sector, 2012**

![AfDB Group Loan and Grant Approval by Sector, 2012](image)

**Fig.2**

Source: AfDB, Statistics Department

4. **Assessment of the AfDB Projects/Programs**

The AfDB seek to spur sustainable economic development and social progress in regional member countries. However, this can only be achieved when development projects and programs were well designed and judiciously implemented. While in most cases, the various development projects/programs were well designed they suffer from implementation flaws that renders them unsatisfactory. A set of generic problems affecting projects/programs implementation in most countries emerges from the review. They are found at every stage in the implementation process (Andrews, 2009). The major ones include: long delays in physical execution of projects; long delays in fulfillment of loan conditions; weak technical and management capacities of executing agencies; non compliance of borrowers with the Bank Group’s requirements for submission of progress and audit reports; frequent changes in the management team of project implementation units; and inadequate government contribution to the projects. To a lesser extent, other generic problems include: lengthy communication between the Bank and executing agencies; inefficient use of technical assistance; and inadequate preparation and supervision by the Bank (AfDB & ADF, 2007).

Beside the generic problems, there are specific problems that hinder the successful implementation of certain projects/programs (Carrasco, Carrington, & Lee, 2009; Bissell & Nanwani, 2009). For instance, the Zambia Victoria Falls – Katima Mulilo 132kV Interconnection Project (2001-2006) was classified as unsatisfactory. The unsatisfactory rating stems from three main areas where the project was conceived or managed poorly – the absence of necessary components in the electricity supply chain to achieve the intended results at the local distribution level; the apparent casual manner that the change in project scope was managed; and making the interconnector project subject to condition which could not reasonably be
addressed through the project (AfDB, 2011). The Inland Lakes Integrated Development and Management Support Project 2005 in Rwanda were also not successful. Because the fisheries and aquaculture sub – sector was beset with numerous constrains that hampered its sustainable management and development. The sub – sector was poorly organized, production zones were remote, production and marketing infrastructure and equipments were virtually non – existent and operators had limited access to financial resources (AfDB, 2012).

Similarly, insufficient planning, monitoring and reporting; inadequate managerial and supervisory capacity; delays in the release and use of funds; irregular procurement processes; and large variations in unit costs were the factors that affect the successful implementation of the Tanzania Water Supply and Sanitation Project (2001-2012). In Lesotho, two major issues – inadequate fund for maintenance and limitation in institutional capacity affect the sustainability of the Mpharane – Bela Road Upgrading Project. In Chad the government did not disburse all the counterpart funds, or where it does the disbursements made were irregular, and this delayed the implementation of the Educational Sector Support Project financed with the counterpart funds.

There was no dedicated outside monitoring of the Monrovia Water Supply and Sanitation project (2001-2009). However, the Liberia water supply company (LWSC) budgeted US $30,000 for monitoring and evaluation yet there is no evidence that the in house monitoring/evaluation took place. This inevitably affects the project implementation. LWSC also faces serious challenges due to lack of capacity. Benin project for the Electrification of 17 Rural Centers only partially met the needs of the low–income rural population due to certain technical choices – use of 20kv voltage grid instead of 30 – 35kv voltage grid which is more appropriate for rural areas (AfDB, 2012). Contractors’ slow start of works, delayed disbursement by the Bank which impacted negatively on contractors’ cash flow, post election violence in the country in early 2008, and partly weather inclement delayed the implementation of 2000 – District Rural Roads Rehabilitation in Kenya (2002-2006) to 2010, a total slippage of 56 months (AfDB, 2012).

A critical look at economic and social indicators in Africa shows that although AfDB believed to have made progress in contributing to development in Africa in areas such as micro finance and social sector, private sector and trade, energy, agriculture and food security as well as health, yet the AfDB Group annual report (2012) indicates that only little progress if any was made in crucial areas: education, water and sanitation, knowledge management, portfolio performance and climate change which are pivotal to sustainable growth and development. In the continent, unemployment and underemployment is high overall but for the youth and women they are especially acute. Although the size of the middle class in Africa has increased markedly in the past decade, generating a consumer boom and higher domestic investment, many people struggle to make a living in both urban and rural areas, with little or no access to social services. In some countries, urban dwellers are worse off than the cousin they left in the country side (AfDB, 2012).

5. Conclusion

Substantial sum of money, over UA 29 billion have been approved by the Bank to finance various desirable development projects and programs to help RMCs achieve sustainable and inclusive growth and development. Yet little progress was made in prioritised areas of infrastructure, governance, education and private sector participation. In fact, economic growth and poverty reduction, regional integration and trade, environment and clean energy, employment, as well as agriculture and food security recorded insignificant progress. Therefore, one could not help wondering whether the approved fund was judiciously spent or not enough to produce significant progress during the period. Therefore, newer accountability mechanism should be developed and the existing ones strengthened in addition to cogent monitoring and evaluation to ensure prompt completion of projects and programs. Implementation problems should be address based on individual project/program peculiarity.
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