AFRICAN DEVELOPMENT BANK GROUP

Meeting of the Committee of Finance Ministers and Central Bank Governors

RECENT DEVELOPMENTS

Abuja, 14 July 2009

Summary

Continued international focus on the economic and financial crisis. Assessment that the slowdown is more severe and recovery will be slower than initially expected. Acknowledgement that impact on LIC must be addressed taken into account. MDBs have taken exceptional action in response, but their resources will need to be replenished earlier that previously anticipated. Debate continues on respective roles of institutions, on representation and participation.

Detail

This note highlights developments on issues of particular interest to Africa, and action taken in international institutions, since the London Summit. The next G20 Leaders meeting in Pittsburgh on 26 September will review the progress made on G20 commitments.

Recent assessments and reports have highlighted the following:

- The macroeconomic and distributional impact of the global slowdown on low-income countries (LIC), initially limited, has become severe, worse than initially expected. Growth is unlikely to recover until late 2010.
- It presents a major threat to longer-term growth, poverty reduction and progress toward the MDGs in Low Income Countries (LIC).
- There have been dramatic cuts in investment flows to developing countries. In sub-Saharan Africa two thirds of the $15bn decline came in portfolio equity.
- Action so far to address the financial system have not yet closed the negative feedback loop to the recession. There remains the need to restore lending and the international flow of capital.
- Emerging and developing countries external financing needs will not be met this year and next. There is particular concern about the adequacy of concessional resources to LIC.
- The crisis has intensified the need to protect core spending, including on essential infrastructure, investment in human capital, and social safety nets. Budget support is particularly needed.
- While some developing countries have the capacity for counter-cyclical spending, most lack the resources to mount a substantial fiscal response, and will instead experience an erosion of their fiscal space as revenues fall, borrowing costs increase and transfers to maintain social safety nets surge.
- All MDBs have responded to new demands, introducing new instruments and have front-loading concessional resources. They have leveraged private capital, mainly through the introduction of trade facilitation programmes, and are looking to use more guarantees.
- Given this response MDBs are consuming available resources more quickly that expected. As a consequence concessional and non-concessional resources will need to be replenished.
- There will be considerable competition for resources. Capital adequacy is

being assessed in all MDBs and are likely to be followed by bids for General Capital Increases. Concessional windows will have to be replenished early to maintain a flow of finance to LIC. There will be demands from the forthcoming replenishment of the Global Fund; and for additional resources to combat climate change.

- Key factors in decision making will be the division of labour between the IFIs, and the strength of demand. Given the immediate needs, and to avoid a standstill, more attention will have to be paid to bridge finance.
- Eradicating poverty requires economic growth and climate change to be addressed jointly, through a successful agreement at Copenhagen, but progress so far is slow.
- Debate continues on issues of global governance. The ability of the G-20 and other groupings to recognize and respond to the needs and interests of countries not directly represented is important for their legitimacy.

African Development Bank

ADB has faced an unprecedented increase in requests from its Regional Members, and has responded accordingly. Total ADB Group financing is expected to be $15bn in 2009, about three times the pre-crisis projections in the Bank's Medium Term Strategy (MTS). Already received requests for borrowing in 2010 amount to $7.7bn, more than double the projections under the MTS.

ADB lending is expected to rise to $10.8 bn in 2009 (Table 1), of which $8.3bn is for sovereign transactions. A large part of the increase in ADB Sovereign lending is due to increased requests for budget support operations and large infrastructure projects. Some operations, such as a $1.5bn loan for Botswana have already been approved.

Non-sovereign lending this year is expected to rise to $2.5bn. The current lending pipeline stands at $3.8bn shared equally between MICs and LICs, out of a total requests so far received this year of $10bn.

As part of its response to the financial crisis, ADB established a $1bn Trade Finance Initiative (TFI). There has been a strong take up of the Bank's Trade finance facility and operations for 2009 are expected to be in the range of $600-800m.

A $1.5bn Emergency Liquidity Facility (ELF) was also established this year to provide exceptional financial support to MICs, Financial Institutions and Project Finance in all regional member countries. Eligible beneficiaries can use ELF resources to finance a broad range of obligations including underpinning a fiscal stimulus or supporting Public Private Partnership operations at risk due to sudden withdrawal of financiers.

The increase in the volume and speed of lending has impacted on the Bank's Financial position. The 2009-2012 MTS concluded that its borrowing and risk bearing capacity would become constrained only in 2012 but now a capital increase initially expected in 2013 appears necessary as early as 2010. Governors authorized the commencement of consultations with Member States leading, should it be needed, to a plan for a general capital increase designed to

enable the Bank to meet its ordinary capital requirements in the future. A paper will be considered by the Board of Directors on 22nd July and it is proposed to move quickly to a first meeting of the Governors Consultative Committee. A possible Sixth General Increase in Capital could be submitted for consideration at the 2010 Annual Meeting of the Bank.

ADF funding has been frontloaded; by the end of 2009 80% of the resources available under ADF11 (2008-10) will have been committed and half of the ADF countries will have fully utilized their PBA allocation. The available envelope for Regional Projects will be virtually exhausted by end 2009. The Mid Term Review of ADF will take place in October 2009, and following the review will commence proceedings for an accelerated replenishment of ADF 12, aiming to conclude mid 2010.

The ADB has also leveraged additional funding. In May 2009, the Bank and the Danish Government agreed to set up an Guarantee Fund (AGF) to address the constraint to investment finance for and capacity development of African SMEs. The AGF is expected to have initial capital of $300-500m, which would mobilize loans to SMEs worth some $1.8- 3bn.

IMF

G20, G7 discussions continue on increasing the resources available to the IMF and on the allocation of new SDRs, with the aim of resolving the latter before the IMF/WB Annual meeting. Developed countries have been asked to consider ways to make their allocations available to provide further support for developing countries.

There remains some uncertainty about the extent of demand from LIC for IMF resources in responding to the impacts of the crisis, and debate on how LIC might want to use new allocation of SDRs, beyond strengthening foreign exchange reserves.

Most recent IMF lending has been to emerging markets. Commitments to LIC under the Exogenous Shocks Facility and the PRGF since September 2008 total some $2.4bn, with only one operation since April.

The IMF is considering three new lending facilities for LICs (an Extended credit facility, Standby Credit Facility, and Rapid Credit Facility) and to augment concessional lending to LIC by utilizing the proceeds of gold sales and surplus income.

World Bank

WB will more than double lending this year from IBRD to some $33bn, with the bulk of the increase going to MIC and almost half of that in fast disbursing development policy loans. (IBRD lending to MNA and AFR regions in 2009 are estimated at $2bn.) They see continued high level of demand for IBRD lending in 2010, to some $44bn.

In response to increased demand IDA has frontloaded resources and will increase commitments by about 25% this year. WB has instituted fast track some approval procedures. It has brought together its Food Crisis Response, Rapid Social

Response and Infrastructure recovery programmes into a Vulnerability Framework and continues to seek additional donor support.

MDBs are collaborating on a review of the Debt Sustainability Framework (DSF) with reports expected to the Boards before October.

Consistent with the G20 communiqué WB and ADB are considering the possibilities of providing exceptional lending to selected LIC, in addition to support for commercially viable "enclave" projects and partial risk guarantees.

IFC has increased its volume introducing new facilities for micro-finance, trade liquidity and finance, and infrastructure.

WB continued to work on voice, proposals expected to be put to the Development Committee in Istanbul.

G20

G20 attention has been focussed on restoring confidence in the financial sector; on the value and composition of domestic stimulus measures; monetary policy; regulation and supervision. Forecasts of return to trend growth assume that these policies are successful. There remains concern about the means to attain and maintain more balanced and sustainable growth.

Discussions on financial regulation continue, in particular on the respective roles of national and regional regulation and supervision. Work is underway to tackle pro-cyclicality, the capital provisioning, leverage ratios required. Basel II represents a change and could have implications for African economies in respect of the cost and flow of external financing, and in implementation of technically complex provisions.

G8

The Summit will have concluded by the time the Committee meets. Discussion is likely to be dominated by political issues and it is uncertain that any new resources will be pledged. At this stage it appears that the G8 will reaffirm all previous commitments to increased aid, to Africa, and agree to greater accountability for delivery of commitments. There will be an emphasis on a "whole of country approach" which recognizes the contribution to development made beyond aid, by the private sector, civil society, and other actors.

The G8 will reaffirm support for key sectors and in particular:

- place agriculture and food security at the heart of the international agenda, increase investment and improve the international architecture accordingly;
- strengthen G8/Africa partnership in water and sanitation;
- strengthen health systems and address substantial gaps in knowledge about how to manage, organize and deliver health care in Sub-Saharan Africa;
- reaffirm support to countries committed to Education for all and the fast track initiative;

- reiterate the importance of the Accra and Paris actions, of country led development;
- underline the importance of an ambitious agreement at Copenhagen.

UN

The President of the General Assembly convened a high level conference in New York at end June to consider the crisis; its origins and impact; and the action so far taken. It agreed to establish a working group to make a report to the next session of the General Assembly, and proposed that the crisis and its impact on development should be the main theme of this years debate. It called also for better coordination amongst UN Agencies and for a review of collaboration between the UN and the Bretton Woods Institutions.

Charter on Sustainable Economic Development

Germany called a G20 Sherpa meeting in June to discuss follow up to the London conclusion that it was desirable to have a new global consensus on the key values and principles that will promote sustainable economic activity and being discussion on such a charter. Initial discussions focussed on the concept acknowledging that it would be a political declaration and that there were substantive issues to be addressed on content and application, on participation and representation.

Resources

The 2009 DAC Survey of Donor Spending Plans showed that Since 2004, total official development assistance (ODA) from DAC members has been growing at an average annual rate of 6%. In 2008, it reached its highest dollar figure ever recorded.

But donors are lagging well behind the Gleneagles targets for Africa. Aid to Africa has been about half the required rate of increase. The planned allocations for the next three years to Africa appear to be increasing more slowly than to other regions, in particular Asia. Meeting the target for Africa would require an increase of some $20bn from the 2008 level; an additional $18bn on top of what donor reported as programmed.

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