

Level 3: How well is the Bank managing its energy portfolio?

This chapter reviews how well the African Development Bank manages its portfolio of operations in the energy sector, drawing on the 16 indicators in Level 3 of our Results Measurement Framework. We assess the quality of our project designs, our generation of new knowledge, our use of environmental and social safeguards, and our progress on addressing gender equality issues across the portfolio. We track whether projects are being implemented efficiently, and whether we are complying with our aid effectiveness commitments. We discuss our work to mitigate emissions through clean energy and energy efficiency savings, and examine how we are improving resilience to climate change impacts through our operations.

Designing quality projects

Improving project readiness

The Bank is committed to ensuring high standards by continuously improving the quality of its projects throughout the project cycle. In particular, the design of projects is important for effective implementation.

For the AfDB, quality at entry refers to whether our projects have sound technical designs and the broad-based country ownership that will give them the best possible chance of achieving their objectives. We use a quality-at-entry tool to review the readiness of all new projects. For public sector energy projects, our achievement of quality-at-entry standards has been steadily improving. In 2013, 92% of our new public energy **● operations were rated satisfactory**,¹ as compared to just 75% in 2009 – a very encouraging result.

An example of good quality at entry is the largest and best-rated project in our energy portfolio, the Eskom Renewable Energy Project in South Africa. The operation is well aligned to both South African and AfDB strategic priorities, and it complies with our environmental and social safeguards. The team responsible for the design and supervision of the project is well equipped, with an appropriate mix of skills. To replicate these results in other projects, we are training our staff in the use of participatory results frameworks and improving their skills in procurement and financial management.

One area of concern is the increase in the **● time elapsed from approval to first disbursement**² for energy projects, which rose from 11 months in 2009 to 16.5 months in 2013—5 months more than the average across the sectors. The technical complexity of energy projects often causes internal delays. Delays are also

caused by the complexities of co-financing with other international development agencies, which involves meeting the schedules and procedures of several funders.

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Applying environmental and social safeguards

All our infrastructure operations, including those in the power sector, are required to comply with rigorous environmental and social safeguards. Environmental and social assessment procedures have been in place for many years, but recently a new Integrated Safeguards System with revised policies and procedures to ensure that we give greater attention to sustainable development was approved. We also publicise our assessments before commencing work, giving members of the public an opportunity to raise any concerns.

Under our safeguards methodology, we assess the social and environmental impacts of our planned energy investments, taking into account both immediate impact and future challenges such as climate change, environmental pollution and increased population. This enables us to design the project to avoid or minimise negative impact. By 2013, over three-quarters of our **● projects had satisfactory safeguard ratings**³, a major improvement over 43% in 2009.

Analytical work

An important part of our work is building knowledge on the energy sector in Africa through studies and analysis, and advising African governments and international development agencies on their investments. In 2013, we produced 12 **● reports and studies**

1 A green bullet indicates good progress has been made and we are on track to meet our target.

2 A red bullet indicates no progress has been made or we have moved even further away from our target.

3 A grey bullet indicates data are not available to measure performance.

Table 3: How well is the Bank managing its energy portfolio? (Level 3)

This table presents the Bank's progress in achieving its 2013 targets for portfolio management.

- Good progress has been made and we are on track to meet our target;
 ● Little progress has been made and we are at risk of not achieving our target;
 ● No progress has been made or we have moved even further away from our target;
 ● Data are not available to measure performance.

INDICATOR	ALL ENERGY OPERATIONS			ADF COUNTRIES	
	Baseline 2009	Latest 2013	Target 2013	Baseline 2009	Latest 2013
DESIGNING BETTER INFORMED AND QUALITY PROJECTS					
● Time elapsed from approval to first disbursement (months)	11	16.5	11	11	17
● Projects with satisfactory rating on the safeguard dimension (%)	43	75	..	50	75
● Operations rated satisfactory (%)	75 ^A	92	More than 95	71	92
● Number of new ESW (%)	..	12	8
● New projects with at least one gender indicator (%)	40 ^B	50	69	33	100
● Climate-proofed projects (Bank wide) (%)	0	70	70	0	70
IMPLEMENTING PERFORMING AND EFFECTIVE PROJECTS					
● Time for procurement (weeks)	37	41 ^{CD}	37
● Time for procurement for works (weeks)	62	39 ^C
● Problem projects in on-going portfolio (%)	9	0	5	11	0
● Disbursement ratio of on-going portfolio (%)	10	20	22	10	12
● Operations eligible for cancellation (%)	2	4	<8	2	9
ENGAGING WITH COUNTRIES AND STRENGTHENING OWNERSHIP^C					
● Predictable disbursements (%)	..	72	74	..	72
● Use of country systems (%)	..	62	59	..	62
LEARNING FROM OUR OPERATIONS					
● Exiting projects with a timely PCR (%)	90	66 ^E	93	100	100
● PCRs rated satisfactory (%)	80	100 ^E	80	100	100
● PCR with gender-disaggregated data* (%)	25 ^B	40	75	33	50

ADF = African Development Fund; ESW = economic and sector work; PCR = Project Completion Report; .. = Data not available.

^A Baseline 2010

^B Baseline 2008-2011 average

^C Latest available data: 2012-2013

^D Includes goods, works and services

^E Based on 2 PCRs

Source: African Development Bank

covering the energy sector, most of them in-depth assessments of the infrastructure needs of particular countries, to develop investment options. These studies provide us with the knowledge on the basis of which we can discuss policy priorities with governments, as well as the evidence we need to ensure that our own investments offer a strong development return.

For example, we helped to prepare Burundi's Infrastructure Action Plan, which sets out a range of possible investment solutions to meet the energy and other infrastructure needs of Burundi and the wider region. A recent evaluation of our knowledge products

across the Bank highlighted the success of this study in influencing policy-making and facilitating dialogue among the government, the private sector and donors.

Mainstreaming gender into energy projects

The AfDB is committed to ensuring that our energy investments benefit everyone, including women and girls. We try to address gender equality in our projects by undertaking a gender analysis, incorporating special measures to close identified gender gaps and ensuring that our results are disaggregated to identify different impacts on women and men.

We have made progress on promoting gender equality in our energy projects, but more needs to be done. In middle-income African countries, in 2013 only half of our **new projects had at least one sex-disaggregated indicator** in their results framework, which is below our target of 69%; in ADF countries, all new projects included gender indicators. In 2013 the Bank subjected 12 energy project appraisal reports to the readiness review and 41% were rated moderately satisfactory or higher—up from 0% in 2012. For the inclusion of a sex-disaggregated indicator.

In some good practice operations, the promotion of gender equality was factored in during the design stage. For example, when designing our Ethiopia Electricity Transmission System Improvement Project, we began with the collection of sex-disaggregated data and a detailed equality analysis of the sector. The project design included gender sensitisation and awareness-raising activities in communities along the transmission lines. Of the semi-skilled and unskilled jobs created by the project, 30% were reserved for women, as were 10% of the operational jobs at each of the 15 substations.

In Ethiopia, Kenya and Zambia, we are introducing gender-related activities into some ongoing energy projects; for example, we provided extra assistance to help women who were required to resettle as a result of the infrastructure development, and training to help them adopt new technologies when accessing electricity for the first time.

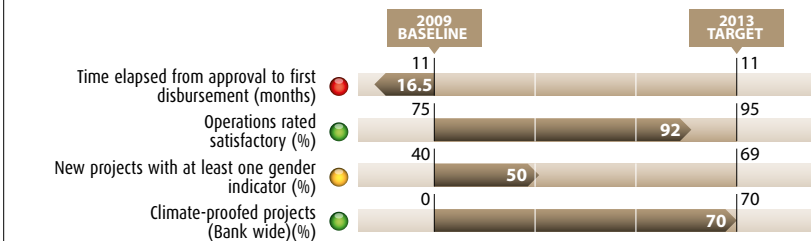
Addressing climate change

Climate change is one of the most serious threats facing African countries as they move toward sustainable growth and development. Our Climate Change Action Plan 2011–2015 sets out how we support our regional member countries with finance and advisory services. Our plan is to generate an additional 5 GW of clean energy or energy efficiency savings over this period. To achieve this, we will spend up to \$3 billion from our own resources, in addition to helping African governments mobilise finance from global climate funds, the private sector, international development funders and domestic resources.

We are determined that all our investments must be able to withstand the impacts of climate change into the future. To this end, we are training staff and developing tools so that our projects are designed, located and implemented in ways that minimise the risks. We have developed a new tool called the Climate Safeguard System, which we apply to every new project design to help us identify the risks to project outcomes from climate change and determine alternative options for addressing them. This system has been successfully piloted and is now being rolled out across the Bank. In 2013, 70% of all Bank projects across Africa were **climate-proofed**.

Our plan is to generate an additional 5 GW of clean energy or energy efficiency savings by 2015

Figure 3.1 Designing better informed and quality projects



Our Climate Change Action Plan set out targets for investments in different sectors. The Bank is on target with water projects, but in the energy sector we are on track to meet our targets, mainly because of the availability of CIF resources and other international finance. So far, we are implementing eight CIF-financed projects, helping our partner countries integrate climate change into their investment plans and move towards becoming low-carbon economies (see also Box 3.1).

Box 3.1 Joint achievements of AfDB and Climate Investment Funds

The AfDB and Climate Investment Funds are...

...helping to build multisectoral synergies

In Mozambique, funding from the Pilot Program for Climate Resilience is being used to intensify agricultural production and improve the livelihoods of 8000 households by introducing climate-resilient crop varieties, irrigation systems and all-weather roads for market access.

...helping break down barriers to change

In Niger, \$13 million is being used to provide hydro-meteorological data, an improved national climate observatory system and a pilot insurance scheme based on a weather index. These initiatives will enable the country to integrate more accurate information on climate and its effects into national planning and budgeting.

...helping turn potential into reality

In Kenya, \$25 million in grant and highly concessional debt funding is being spent on preparing the ground for the Menengai geothermal project, to enable multidonor finance to commence. It will help improve the resource capacity at Menengai, the second geothermal field to be developed of 14 identified along the Rift Valley.

...helping low-income countries revamp their energy mix

In Ethiopia, a \$20 million project is developing sustainable and affordable energy generation through wind power, whilst in Tanzania the government is considering tapping into geothermal resources and providing energy to off-grid rural areas where few people have access to modern energy.

Source: CIF

4 A yellow bullet indicates little progress has been made and we are at risk of not achieving our target.

Effective implementation

In 2013, our energy portfolio reached a peak of over \$10 billion (see Figure 3.3). The largest project was the Medupi Power project in South Africa, which at nearly \$2 billion represents a third of our energy portfolio. Another major investment is the \$500 million Suez Thermal Power Project in Egypt. The majority of our energy investments are in middle-income countries, which have greater capacity to plan and manage complex investments and the ability to mobilise finance from a range of sources.

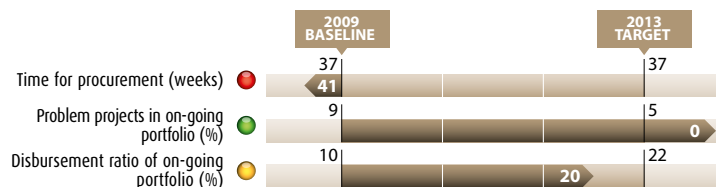
To help low-income African countries develop their energy sectors, we encourage co-financing with other international partners and private sector investors. We combine resources from our ADF funds and our private sector window to structure projects in ways that attract private finance. We also finance feasibility studies and other knowledge products to help our partner countries develop a pipeline of quality projects.

Our energy portfolio remains relatively young (only 3% of projects are 8 years or older), but it is growing fast. In 2009, 10% of our projects were classified as “problem projects”, in that their implementation required more time and closer supervision. By 2013, there were no longer any **problem projects** in the portfolio—a major achievement. However, over the same period the number of **operations eligible for cancellation** rose from 2 to 4 because of signing and effectiveness delays.

Our energy portfolio remains relatively young, but it is growing fast and moving from strength to strength

Our energy projects are on average twice the value of our projects in other sectors. Large infrastructure projects are usually able to disburse faster than other operations. The **disbursement ratio** for our energy operations rose from 10% in 2009 to 20%, which means that projects are completed in an average of 5 years, rather than 10. This is a key factor in our overall effectiveness, enabling us to deliver early results for our intended beneficiaries.

Figure 3.2 Implementing performing and effective projects



However, disbursement for energy projects in ADF countries is lagging at 12%, with the average project taking eight years to deliver. We continue to build implementation capacity in ADF

countries and to improve the quality of our project delivery by tracking implementation and ensuring regular supervision of projects. We are also working to improve public financial management services for regional member countries so that we can procure goods and services more quickly whilst still meeting exacting fiduciary standards.

Engaging with partner countries

The AfDB is committed to improving development effectiveness. We measure our progress through indicators taken from the Paris Declaration on Aid Effectiveness and its successor instruments. A key indicator for our energy sector is the predictability of our spending, which reduces waste and enables our partner countries to plan their infrastructure development more efficiently. From our energy projects, **predictable disbursements** – that is, disbursements made on schedule – increased from 61% of the total in 2011 to 72% in 2013. This improvement shows that, despite the complex nature of energy investments, we are planning and coordinating more effectively with our partners. We will continue to push towards our target of 80% in this important area.

Another area of progress is the **use of country systems** for our energy projects, which has increased by 24% since 2011 to 62%. This is above the 53% target for all Bank projects and also compares well against the average Bank performance of 58%. It indicates steady improvement in financial management capacity in our partner countries, enabling us to channel our funds through country systems. This improves both efficiency of delivery and country ownership.

The Bank has invested in establishing and maintaining a strategic dialogue with governments around our portfolio. For example, we agreed on a strategic aid framework for 2012-16 with the Kingdom of Morocco, which includes a range of measures to improve the management of the project portfolio. We went on to sign an agreement with Morocco to use national procurement systems and procedures.

In Rwanda, the Government, the Bank and other international development partners have developed a sector wide approach to attract investment into the energy sector.

Conclusion

The energy portfolio is a key strategic priority for both the Bank and its regional member countries. We have therefore invested significant efforts in improving the management of our portfolio, with significant results. By 2013, 92% of our new projects were rated satisfactory, thanks to more robust quality-at-entry standards, while the number of “problem projects” in the portfolio was reduced to zero. We have invested in a broad range of knowledge products, to boost understanding of energy challenges in Africa and enable us to design robust

and cost-effective projects. Our environmental and social safeguards system has been strengthened, with three-quarters of our projects now achieving satisfactory ratings. We have taken measures to ensure that gender equality goals and climate resilience are built into our new projects. Our energy projects are nonetheless complex and challenging to implement, particularly those that cross national boundaries and involve a range of financiers. We will continue to learn lessons on how to improve their efficiency.

The Bank has been exploring innovative ways to finance and implement major energy projects by leveraging finance from other sources, including the private sector. Many of our energy projects have involved high leverage ratios, demonstrating to African countries how to partner effectively with private investors.

We are helping African countries to make the shift to a low-carbon pathway through our clean energy projects. We act as implementing partners for the Climate Investment Funds and a number of other international instruments and are advising many countries on how to develop clean energy strategies and select promising investments. The Bank has used innovative financing instruments to attract private investment, demonstrating the considerable commercial potential of small and medium-sized clean energy initiatives ■

Figure 3.3 Bank's current energy portfolio

Our portfolio reflects our priority in providing countries with new generating capacity

