Chapter two

Bank Group Strategic Directions and Priorities

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During 2010, the Bank Group continued to implement its Medium-Term Strategy (2008–2012) by targeting the four core areas of infrastructure development, private sector development, governance, and higher education, technology, and vocational training. This enabled the Bank to scale up its support for regional integration, fragile states, middle-income countries (MICs), and agricultural and rural development. The crosscutting themes of gender, environment, climate change, and knowledge management were mainstreamed into its operational activities. The institution also consolidated its role as a knowledge bank for the continent, not only by widely disseminating research findings, publishing flagship reports, and updating its Data Portal, but also by undertaking economic and sector work (ESW), and eliciting lessons learned to guide its future operations. The Bank’s role in articulating a coordinated African voice at major international fora was underscored by its active participation at the Third Korea–Africa Economic (KOAFEC) meeting in September and later at the G-20 Summit in Seoul in November. A further major achievement during the year was resource mobilization, as the Bank tripled its capital resources through a 200 percent Sixth General Capital Increase (GCI-VI), while securing a 10.6 percent increase in contributions from State Participants for the ADF-12 replenishment. The Bank also continued to enhance its partnership and cooperation activities with other key players in Africa’s development agenda.

INTRODUCTION

The year 2010 was one of operational consolidation and highly successful resource mobilization for the Bank Group. Operational consolidation meant that the institution strengthened its focus on country ownership and performance criteria, the establishment of new financing facilities, addressing the challenge of climate change, and on knowledge creation and dissemination. During the year the Bank concluded a 200 percent Sixth General Capital Increase (GCI-VI), which significantly raised its authorized capital from UA 24.0 billion (US$ 35.0 billion) to UA 67.69 billion (US$ 100.0 billion). This was accompanied by an agreement by State Participants to set the ADF-12 replenishment level at UA 6.10 billion (US$ 9.50 billion) for the three-year period 2011–2013.

This major increase in the resource base of the Bank Group was one of the Bank Group’s landmark achievements during 2010. Others include the conceptualization and approval of a number of key operational strategies and policy documents, including: the Bank Group Capacity Development Strategy, the Legal Note Concerning the Implementation of the Fragile States Facility, the Bank Group Agriculture Sector Strategy 2010–2014, and the Bank’s equity participation in the African Agriculture Fund (AAF), among others.

The Bank’s successful implementation of targeted operational policy reforms and its establishment of special facilities over the past few years have upgraded the quality-at-entry of Bank Group operations, as well as its delivery capacity, thereby boosting development effectiveness and results on the ground.

DEVELOPMENT EFFECTIVENESS AND MANAGING FOR RESULTS

The “One-Bank” Results Measurement Framework (RMF)

The Bank has made steady improvements in the use of Results Measurement Frameworks (RMFs) to assess the performance of its three financing windows: the ADB, the ADF, and the NTF. In September 2010, the Bank adopted the “One Bank” RMF, founded on the tenet that the planning, monitoring, and assessing of results should be implemented as a continuum across all areas and sectors of the institution. The RMF includes indicators to measure policy-based operations, regional operations, and private sector operations as part of a single reporting framework that covers all the Bank’s interventions. By combining output and intermediate outcome reporting in one single framework, the new RMF offers a more accurate gauge of the Bank’s effectiveness in promoting sustained development in RMCs. The One-Bank RMF also provides the anchor for the new Annual Development Effectiveness Report (ADER), which will be launched in 2011.

Roadmap for Aid Effectiveness

The Bank strives to ensure that its core effectiveness principles are translated into concrete actions across the spectrum of its many Complexes and operations. To this end, it is formulating a road- map to improve its performance on aid effectiveness, thereby operationalizing its endorsement of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The roadmap will set out specific actions to be implemented in five mutually reinforcing areas: (i) building corporate priorities and institutional arrangements; (ii) monitoring the institution’s progress on aid effectiveness; (iii) reviewing Bank policies, practices, and incentives; (iv) operationalizing guidance on policies, processes, and practices; and (v) extending the Bank’s outreach on aid effectiveness.
Managing for Results at the Country Level

Building RMCs’ capacity to manage for development results constitutes one of the three pillars of the Bank Group’s results agenda. The Bank supported the establishment in 2007 of the African Community of Practice on Managing for Development Results (AfCoP-MfDR) as one of the channels to disseminate knowledge and best practice on how to manage for the sustainability of development results. The AfCoP-MfDR comprises more than 1,600 members from 91 countries – 43 of these in Africa. Members include practitioners from public administrations, parliament, civil society, the private sector, academia, the media, and local donors.

During the year, the Bank supported the creation of eight national Communities of Practice in Burkina Faso, Côte d’Ivoire, Democratic Republic of Congo (DRC), Kenya, Mali, Niger, Senegal, and Zimbabwe as autonomous bodies in partnership with the local Ministries of Finance and Economy. These Communities of Practice serve as change agents to instill the results culture at the country level and to support national development processes that will make their organizations more performance-oriented. In this way it is envisioned that they will produce measurable outcomes in the drive to eradicate poverty.

Managing for Results at the International Level

The Bank is an active member of several working groups under the umbrella of the OECD’s Working Party on Aid Effectiveness. In this context, it is helping to formulate the agenda of the Fourth High Level Forum on Aid Effectiveness, which is scheduled to take place in Busan, Korea, in late 2011. As a contribution to this agenda, the Bank organized jointly with NEPAD and the AUC, the Second Regional Meeting on Aid Effectiveness, South–South Cooperation and Capacity
Development. This event was held in Tunis on November 4–5, 2010 and adopted a new perspective: namely, to promote a different vision of development that puts finance for development rather than aid at its core. The meeting was well attended by about 170 senior representatives from across Africa, including ministers, senior government officials, members of parliament, and leaders from civil society organizations.

Introduction of Quality Assurance and Results-Oriented Operational Tools

**Strengthened Quality-at-Entry Assessment.** Substantial progress has been made in firming up tools and procedures for enhancing the quality-at-entry of Bank Group operations and country strategies. Based on the accumulated experience of the 2009 pilot phase and Bank-wide consultations, the Readiness Review (RR) tool was rolled out in 2010 to all lending operations. Furthermore, quality-at-entry standards and related technical guidance were developed to assist project teams in the design of quality operations, while an RR tool for assessing the quality-at-entry of Country Strategy Papers (CSPs) was developed for implementation in early 2011. A pilot initiative was launched to promote a better understanding of post-approval readiness issues, especially those related to delays in first disbursement.

**Enhanced Quality and Results Orientation throughout the Project Cycle.** To support results-oriented reporting and quality project implementation, two new initiatives were conducted in 2010: the revision of the results-based logical framework (RLF) for operations, and the preparation of revamped Implementation Progress and Results (IPR) reports. The newly introduced RLF, simplified and harmonized with the OECD/DAC results chain terminology, will facilitate participatory project design and results-based monitoring throughout the project cycle. The IPR will promote a project monitoring approach focused on results, based on quantitative evidence, and on dynamic and outcome-oriented actions. It will be supported by a revised project performance rating system. The new approach will also support the decentralization process and enhance the roles and responsibilities of field offices with respect to project performance monitoring.

**Information Technology (IT) Support.** The Bank has undertaken a number of initiatives to strengthen its information systems in support of more dynamic portfolio management. The SAP functional upgrade is ongoing and will allow operations to capture information on the achievement of outputs and outcomes and to report on Key Performance Indicators (KPIs) (e.g., indicators on procurement, disbursement, aging projects, and intensified risk monitoring) in real-time. In addition to the SAP upgrade, the Bank is developing a Results Reporting System to track its contribution to development outcomes.

**INVESTING IN INFRASTRUCTURE**

During the year under review, Bank Group approvals by sector continued to reflect the institution’s alignment to its Medium-Term Strategy (2008–2012), which positions the infrastructure sector as a core operational area. The Bank selectively targets high-impact projects in its infrastructure portfolio, to stimulate an investment-friendly climate, strengthen RMCs’ competitiveness and productivity, create jobs, and promote sustainable economic growth. In particular, the Bank is well placed to lend its support to large, transboundary infrastructure projects and programs that promote regional integration.

Approvals in 2010 for infrastructure projects amounted to UA 2.60 billion, representing 70.9 percent of all Bank Group loan and grant approvals for the year – the largest sectoral allocation. In terms of the subsectoral breakdown, transportation attracted the most funding (47.6 percent), followed by energy supply (34.1 percent), water supply and sanitation (17.1 percent) and communication (1.2 percent) (see Figure 2.1). The prioritization of infrastructure not only in the MTS, but also in RMCs’ national agendas, demonstrates the crucial role that modern, reliable, and affordable infrastructure plays in achieving sustainable economic growth and poverty reduction.

**Support to the Transportation Subsector in 2010**

Transportation infrastructure projects in Africa face several challenges, exacerbated largely by the global financial and economic crisis. The overrun of project costs is a common problem in many RMCs, and in extreme cases may threaten the cancelation of the projects. The Bank continued its efforts in 2010 to ensure that these projects stayed on track and achieved their development objectives, for example by partnering with other donors and providing supplementary loans. The Bank has also begun to review the practice of project procurement and implementation in RMCs, to reduce exposure of these projects to volatile international construction costs.

Moreover, the Bank started aligning its transportation infrastructure portfolio with the objectives of its Agriculture Sector Strategy (AgSS) (2010–2014), which was approved in 2010. Eight road
projects approved during the year include as one of their main objectives the development of RMCs' agricultural productivity, which should also help to improve food security in the region. For instance, new road projects approved in Burundi, Ghana, Mozambique, and Zambia are located in areas where over 85 percent of the population are engaged in agriculture. These projects seek to reduce transportation costs, thus lowering the costs of agricultural inputs, improving accessibility to markets, and increasing farm gate prices of products. Through this approach, road projects frequently boost agricultural productivity and production, thereby raising income levels and the living conditions of the rural communities.

While most of the transportation projects approved by the Bank in 2010 target national or international roads, five provide for the construction of rural roads, to ensure better connectivity to the main road network for rural populations. These projects also include related activities, such as the construction of water provision and storage systems, the rehabilitation of rural markets, the creation of storage infrastructure, as well as the provision of agro-processing equipment to local communities (particularly associations of women) in order to reduce post-harvest losses. The selection and design of these related activities adopt a participatory approach, in association with local communities, to boost ownership of projects and so enhance development outcomes.

The key transportation infrastructure projects approved during the year include: (i) the South Africa Transnet project (for railroads, national ports, and pipelines) (UA 271.3 million); the Morocco Tangiers–Marrakech Railroad Capacity Increase project (UA 255.6 million); the Tunisia Road VI project (UA 198.3 million); and the Ghana Fulfusio–Sawala Road project (UA 109.7 million). Box 2.1 contains a brief description of the Tangiers–Marrakech Railroad Capacity Increase Project, which represents the largest single project undertaken to date by the Bank in Morocco.

Other transportation infrastructure projects approved in 2010 include: national road projects for Benin, Burundi, Kenya, Mozambique, Senegal, and Togo, as well as two air transportation sector projects (DRC and Senegal). Details on all projects can be found in the Profiles of Projects and Programs approved during 2010 at the end of Part I.

Support to ICT Subsector in 2010

Two ICT projects were approved during the year for a total of UA 32.4 million. One is for the Satellite O3B multinational project (UA 32.1 million), which provides private sector funding for the construction and operation of a constellation of 8 middle earth orbit (MEO) satellites over Africa. This project is in line with the Bank Group ICT strategy to promote infrastruc-

Box 2.1
Morocco Tangiers–Marrakech Railroad Capacity Increase Project

Context: This is the largest approved transportation project in 2010 for an ADB country and the Bank’s largest single project to date in Morocco. It aligns to the Bank’s Medium-Term Strategy and the Country Strategy Paper (CSP) in its focus on developing infrastructure to promote economic growth, trade, and the business-enabling environment.

Objective: To improve rail transportation competitiveness, particularly in the freight transportation market between Tangiers and Marrakech.

Bank’s role: To design, finance, and supervise the project’s implementation in partnership with Morocco’s National Railway Company (ONCF), which is the executing agency. The Bank will provide funding of UA 255.5 million toward the total project cost of UA 375.0 million, with ONCF providing the rest.


Expected Outcomes:
(i) A significant increase in rail travel supply starting in 2016, with an improvement in rail traffic fluidity and increased frequency of shuttle, mainline, and freight trains;
(ii) Increased population mobility in the project area; and
(iii) Employment creation (direct and indirect jobs) during the project implementation and operational phases, especially in the logistic zones created.
ture development and regional integration. The second was the Data Center Project in Cape Verde, financed with an MIG grant of UA 0.30 million, to undertake a feasibility study for a Technology Park in Praia, for enhancing the business climate through improvement of the ICT infrastructure in the country.

Support to the Energy Subsector in 2010

The Bank serves as a lead financier for energy-related investments in Africa. The Bank approved UA 887.6 million for 14 new operations in the energy sector during the year. Of these projects, 11 were public sector operations, for a total commitment of UA 753.5 million. The remaining three, the Dibamba Power Project in Cameroon, the Tunisia Hasdrubal Oil and Gas Field Development Project, and the Cabeolica Wind Power Project in Cape Verde (see Box 2.2), which jointly amounted to UA 134.1 million, were private sector operations. The two largest energy projects were the Suez 650 MW Steam Cycle Thermal Power Plant in Egypt and the Semi-Urban and Rural Electrification Project in the Democratic Republic of Congo. Among the other approved projects were the Tanzania Iringa-Shinyanga Transmission Line, the Ethiopia Electricity Transmission System Improvement (two projects), and the Kenya Power Transmission System Improvement. The aim of the latter project is to increase both the capacity and the reliability of the Kenyan energy supply to address the chronic power shortages. It will also strengthen the Eastern African regional power grid, and facilitate power exchange within the subregion.

The Water Initiatives

In the context of increasing water scarcity exacerbated by climate change, environmental degradation, rapid population growth, and urbanization, the Bank places a high priority on supporting the water sector. The agricultural sector’s productive capacity and its ability to feed the continent’s population relies on an adequate water supply. Moreover the resilience of this sector directly impacts Africa’s progress toward other Millennium Development Goals (MDGs), such as those relating to GDP growth, poverty, health (including child mortality and maternal health), education, and gender.

The Bank’s interventions in this area focus on water resource sustainable development and management across the continent. By year-end 2010, the Bank was financing 69 ongoing water and sanitation operations in 32 African countries, totaling about UA 1.80 billion. Total approvals of loans, grants, and special

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**Box 2.2**

**Cape Verde Cabeolica Wind Power Project**

**Context:** This represents a public–private partnership (PPP) project in an ADF country and is the only renewable energy project to be approved by the Bank in 2010.

**Objective:** To utilize the island’s considerable wind and solar resources and increase the use of renewable sources of energy to 50 percent by 2020, thereby helping to reduce greenhouse gas emissions.

**Project Components:** The project comprises the construction and maintenance of four offshore wind farms on Santiago, São Vicente, Sal, and Boa Vista islands with a combined installed capacity of 25.5 MW. The project has five components: (i) towers, wind turbines, and transformers; (ii) an onsite substation; (iii) a command center; (iv) an underground transmission line linking the onsite substation to the existing network; and (v) an access road to the project site.

**Expected Outcomes:**

(i) Contribute to the development of the country’s legal status for PPPs and improve the climate for foreign investment and development assistance;

(ii) Increase sufficiency in energy requirements by 25 MW of renewable clean power;

(iii) Enable the country to reduce its greenhouse gas emissions and benefit from the Clean Development Mechanism (CDM); and

(iv) Reduce dependence on inefficient and expensive diesel generation units, resulting in reduced cost to consumers.
funds for all water and sanitation operations in 2010 amounted to UA 473.6 million. The interventions cover drinking water supply, water resources management, sanitation and hygiene, capacity building, and policy reform programs.

**Urban Water Supply and Sanitation:**
This subsector is targeted by the Bank through such interventions as rehabilitation and service expansion, reduction of high levels of unaccounted-for-water (UFW), and promoting private sector activities to address the growing needs of the urban sector. In 2010, six new urban and peri-urban water supply and sanitation programs/projects were approved for Côte d’Ivoire, Kenya, Liberia, Mauritania, Morocco, and Sierra Leone, in addition to one multinational project, for total financing of UA 371.3 million.

**Water Supply & Sanitation to Fragile States:**
The Bank has intensified its engagement in fragile states and, in collaboration with the Fragile States Unit, is undertaking a study to develop guidelines and tools for improved delivery of water supply and sanitation (WSS) systems in these most vulnerable countries. During the year under review, three projects were approved for Côte d’Ivoire, Liberia, and Sierra Leone, which combined ADF and Fragile State Facility (FSF) funds for a total financing of UA 53.7 million.

**The Three Water Initiatives:**
In addition to the above-mentioned projects and programs, the Bank continues to host three complementary initiatives: namely, the Rural Water Supply and Sanitation Initiative (RWSSI), the African Water Facility (AWF), and the Multi-Donor Water Partnership Program (MDWPP). Together, these initiatives provide vital resources for increasing access to safe water and sanitation, promoting innovative technologies, and supporting knowledge management activities (see Box 2.3).
Private sector development is widely recognized by the international development community as the engine for economic growth and poverty alleviation. During 2010, the Bank continued to make significant investments to stimulate private sector growth in Africa. To this end, it has at its disposal a number of financial instruments of different risk classes, ranging from senior secured debt to direct equity, including guarantees and quasi-equity instruments. While the Bank holds some direct equity positions in financial institutions, the majority of the equity investments are channeled through private equity funds.

The ADB’s involvement in facilitating trade finance is also growing and the Bank is currently developing its strategy and modalities to enhance support in this area. These include trade facilitation institutions (such as trade guarantee and insurance corporations), unfunded portfolio guarantees for international trade finance, as well as the provision of short-term revolving trade finance lines of credit (LOCs) to regionally active African banks.

### Box 2.3 The Three Water Initiatives

1. **The Rural Water Supply and Sanitation Initiative (RWSSI)**
   The RWSSI remains a flagship initiative, with the objective of accelerating access to safe water and sanitation coverage to 80 percent of the rural population by 2015 at an estimated cost of UA 9.22 billion. Since its inception in 2003, 28 programs/projects have benefited from RWSSI funds in 22 RMCs, totaling UA 2.6 billion. Of this total, the Bank contributed UA 695.2 million from ADF/ADB resources, while the RWSSI Trust Fund contributed UA 74.1 million. The remainder was leveraged from other development partners, African governments, and the beneficiary communities.

   In 2010, the Bank approved three operations under the RWSSI in Cameroon, Mozambique, and Tanzania for UA 89.8 million, of which UA 74.3 million was sourced from the ADF and UA 15.5 million from the RWSSI Trust Fund. RWSSI interventions are mainstreamed into governments’ water sector programming, and the initiative also places emphasis on gender throughout the entire cycle of projects. As of end-2010, over 33 million people had gained access to drinking water and nearly 20 million had improved sanitation as a result of the initiative.

2. **The Multi-Donor Water Partnership Program (MDWPP)**
   The Water Partnership Program (WPP) was established in 2002, between the Bank and the Dutch government, with the objective of promoting effective water management policies and practices, and operationalizing the Bank’s 2000 Integrated Water Resources Management (IWRM) policy. In 2006, the WPP was transformed into a Multi-Donor Water Partnership Program (MDWPP) with the participation of the Canadian and Danish governments. The MDWPP was instrumental in the establishment of the RWSSI, the African Water Facility (AWF), ClimDev Program in Africa, and Agricultural Water Management in Africa (AgWA). To date, a total of 60 activities, valued at UA 7.4 million, have been funded under the MDWPP.

3. **The African Water Facility**
   The African Water Facility (AWF) was established through the initiative of the African Ministers’ Council on Water (AMCOW) and is managed and administered by the Bank. Its objective is to mobilize resources to finance water sector facilitation and investment activities in Africa. Donors have pledged about UA 102.0 million to the AWF, of which UA 10.0 million was paid in by the Bank. To date, the AWF has leveraged approximately UA 215.0 million to finance water sector interventions.

   The AWF portfolio continues to grow; by year-end 2010, it included 66 projects valued at UA 68.1 million. Among these, the Bank approved, in 2010, UA 14.0 million for nine special fund projects (including four transboundary initiatives) for the Gambia, Ghana, Malawi, and Mali on the preparation of water supply and sanitation programs/projects, the introduction of innovative technologies, and knowledge management.
In its private sector operations, the Bank focuses on three areas: infrastructure; industries, mining and quarrying; and finance. The latter encompasses corporate loans and equity participations in financial institutions, as well as LOCs for onlending to small and medium-sized enterprises (SMEs), which form the backbone of many African economies. The Bank also invests in microfinance institutions, thereby extending its outreach to the very small and informal enterprises that traditionally encounter difficulties in accessing credit, a problem that has been compounded by the financial crisis.

An important initiative in support of the strategic effectiveness of the Bank’s private sector operations is the Enhanced Private Sector Assistance for Africa (EPSA). This initiative was conceived in 2005 and announced by the Japanese Government at the G-8 Gleneagles Summit. Consequently, UA 0.65 billion (US$ 1 billion) is being channeled by the Government of Japan through the Bank in the form of concessional credit lines for nonsovereign operations. Part of these proceeds are also being used to provide technical assistance under the Fund for African Private Sector Assistance (FAPA) program. This is mainly to support capacity building linked to the nonsovereign operations financed by the Bank.

To enhance the relatively poor business enabling environment (BEE) for private sector development in most African countries, the Bank has intensified its support to this area. BEE improvement programs are now an integral part of the Bank’s approach, and include, among others, Policy Based Operations (PBOs) and Institutional Support Programs (ISPs). Of 24 recent ISPs, 13 focused on BEE, while 21 of 44 recent PBOs contained significant BEE elements.

In 2010, the Bank continued to sustain its high level of investments in private sector operations by committing UA 1.21 billion to finance 28 new projects. This was a 4.3 percent increase over the 2009 level of UA 1.16 billion. The 2010 total approvals figure comprised UA 1.02 billion in project loans and LOCs, and a further UA 189.9 million in private equity participations (see Figure 2.2).

With regard to the private sector’s share of total approvals, this represented 46.7 percent of ADB and 29.4 percent of Bank Group total approvals, respectively. While the project loans, in general, were used for accelerating economic growth and reducing poverty, the LOCs aimed at deepening domestic financial markets for onlending to SMEs. The Bank Group’s investments in many sizeable multinational projects and programs in the form of loans, LOCs, and private equity supported economic cooperation and regional integration, thereby also improving the investment climate in the continent.

In terms of the distribution of private sector operations by country classification in 2010, middle-income countries (MICs, namely those eligible only for ADB resources) received the highest share (43.0 percent), followed by regional and multinational projects (38.0 percent), and then low-income (ADF-only eligible) countries (19.0 percent). In its efforts to increase private sector operations in low-income countries (LICs), the Bank has provided LOCs to African banks and DFIs, and engaged in equity participation in regional funds located in MICs, for onlending to projects in LICs. This minimizes the Bank’s risk exposure, while supporting projects in LICs. Although the number of project approvals with direct financing exposure to LICs remained relatively low in 2010, when the regional/multinational operations that target mostly LICs are included, then the share of private sector approvals supporting beneficiary LICs rises to around 50.0 percent (see Figure 2.3).

With regard to the MIC private sector operations in 2010, there were three major approvals in terms of their expected development outcomes, namely: (i) a
loan to the Egyptian Refining Company (UA 130.5 million); (ii) an LOC to the Industrial Development Corporation (IDC) of South Africa (UA 132.4 million); and (iii) a loan to Transnet Limited (UA 271.3 million) in South Africa. Although IDC is a Development Finance Institution based in South Africa, the proceeds of the LOC will help to support projects in LICs (such as Ethiopia, Mozambique, Tanzania, Uganda, etc.).

Turning to the regional and multinational private sector operations, the four main ones, in terms of their expected development impacts were: equity participations in GEF Africa Forestry Fund (UA 12.9 million) and the African Agriculture Fund (AAF) (UA 26.5 million); a loan to the African Guarantee Fund (AGF) for Small and Medium-Sized Enterprises (UA 6.4 million); and a loan for the Satellite O3B project (UA 32.1 million).

With respect to private sector operations in low-income countries (LICs), the two principal approvals in 2010 in terms of loan size were for the Blaise Diagne International Airport (UA 59.6 million) in Senegal and the Markala Sugar Project (UA 25.6 million) in Mali. The latter represented the first PPP in the agriculture sector of an LIC and it aimed not only to boost sugar production, but also to generate 30.0 MW of electricity for the use of the communities in the project area (see Box 2.7). In this way, it was able to draw resources from both the ADB and the ADF.

Figure 2.4 presents the sectoral distribution of private sector approvals in 2010 (including project lending, LOCs, and equity participations). Infrastructure (comprising transportation, energy, and communications) attracted the largest share (42.2 percent); followed by finance (41.8 percent – mainly in the form of LOCs and equity participation); then industry, mining and quarrying (13.9 percent); and agriculture and rural development (21 percent). The allocation to finance dropped from its 2009 level, when it attracted 69.5 percent of the total private sector approvals. At that time the Bank was playing a countercyclical role by providing loans to alleviate liquidity constraints being felt by African banks. The 41.8 percent allocation to the finance sector in private sector operations in 2010 reflects a return to the normal trend.

During the year under review, both the infrastructure sector and industry, mining, and quarrying sector benefited from a larger tranche of the approvals compared to 2009 (an increase of 110.7 percent and 50.3 percent respectively). The Bank’s investments in industries and mining generally target the development of construction materials, agribusiness, as well as hospitality and medical services. An important feature of the Bank’s investments in infrastructure and industries is the creation of developmental linkages with local SMEs to promote their growth and expansion.

**Additionality and Development Outcome Assessment (ADOA) of Private Sector Operations**

During the year, the Bank conducted the Additionality and Development Outcome Assessment (ADOA) for 55 private sector operations, 28 of which were submitted to the Board for approval and funding. Of the 28 approved projects, development outcomes were rated as “good” in 14 cases; as “very good” in nine cases; and as “excellent” in four cases. Only one project had its development outcomes rated as “marginal,” i.e. below the satisfactory threshold. Additionality was rated as “strongly positive” in 12 cases, “positive” in 13 cases, and as “marginally positive” (i.e. below the satisfactory threshold) in three cases only.

ADOA reaffirms the Bank’s results agenda by increasing its effectiveness and building its knowledge base. It does this by: (i) ensuring that each operation has clear and quantified development targets; (ii) improving project design through a rigorous economic analysis of the benefits for all stakeholders; and (iii) producing operations-related knowledge that will inform the strategic selection of future projects.

A challenging development of the ADOA framework concerns the evaluation of the expected development outcomes of Bank-funded regional operations, which is scheduled to start in 2011.

**SUPPORTING ECONOMIC AND GOVERNANCE REFORMS**

In the aftermath of the global financial crisis, the Bank has deepened its support to sound economic and financial
management in its RMCs. Good financial governance, including improved revenue administration and more effective and transparent public expenditure, is critical to improve the fiscal and policy environment of RMCs and to strengthen their resilience to exogenous shocks.

In order to play a leading role and to deliver on the governance commitments espoused in its Strategic Directions and Governance Action Plan (GAP) 2008–2012 (see Box 2.4), the Bank has adopted a two-pronged approach: (i) strengthening policies and institutions for more effective, transparent, and accountable management of public finances; and (ii) improving the business-enabling environment and investment climate for private sector-led growth.

The Bank Group supports economic and financial governance-related reforms through various instruments, including: lending through Policy Based Operations (PBOs) and Institutional Support Programs (ISPs); nonlending activities; and via upstream analytical and advisory work. During 2010, the Bank, in close collaboration with its international development partners, consolidated its operational and policy frameworks on governance, and on PBOs in particular. It has sharpened its focus on development results by adopting the Core Sector Indicators (CSIs) on governance, in accordance with the Bank Group’s Results Measurement Framework (RMF) adopted in 2010.

The governance agenda is implemented at three interrelated levels: country, sectoral, and regional. At the country level, the emphasis is on enhancing country systems for managing public resources, with an emphasis on oversight institutions. Special attention is being paid to (i) fragile states, where there is a need to strengthen state institutions in particular to improve both governance and poverty outcomes, and (ii) middle-income countries, where the focus is on building the enabling environment for private sector development and investment. At the sectoral level, the Bank promotes anti-corruption safeguards, especially in high-risk sectors such as the extractive industries. At the regional level, the Bank encourages initiatives that promote best international standards and codes of good economic and financial governance. Interventions undertaken at the three levels during 2010 are elaborated below.

**Promoting good governance at the country level:** In 2010, the Bank Group approved 21 programs and projects in support of good governance in 18 countries, for a total commitment of UA 298.9 million. One of these projects was the Institutional Support Project for Improving the Business Climate and Diversifying the Congolese Economy. Other projects approved in 2010 aimed to strengthen: governance capacities and country systems for resource mobilization and domestic taxation (Togo and Benin); land registry management (Cameroon); budgeting and auditing systems and standards (Benin, Togo, and Tanzania); and public procurement (Tanzania) (see Box 2.5).

**Promoting good governance at the sectoral level:** At the sectoral level, the Bank targets high-risk sectors such as infrastructure, especially through support to country procurement systems. In 2010, it assisted Liberia, Mozambique,
Sierra Leone, and Tanzania to adopt and implement the Extractive Industries Transparency Initiative (EITI). The Bank also helps to strengthen the extractive industries’ governance regimes, for example through the capacity-building projects in Guinea-Conakry and Togo. Further, the institution approved in 2010 an “Operational Guidance Note for Addressing Governance in the Extractive Industries Sector Operations.”

**Promoting good governance at the regional level:** The Bank supports regional and subregional initiatives that promote standards and codes of good economic and financial governance. As a strategic partner of the African Peer Review Mechanism (APRM), during the year under review, the Bank participated in the country reviews of Mozambique and Sierra Leone, assisted in the streamlining of the APRM questionnaire, and contributed to the development of the M&E framework for the National Programs of Action.

Also at the regional level, the Bank has renewed its support for the third phase of the African Technical Assistance Centers (AFRiTAC III). These provide policy advice and technical assistance to African countries with a view to improving public resources management. Another initiative which has drawn the Bank’s support is the African Investment Climate Facility (ICF), which assists RMCs to design and implement programs to improve the business-enabling environment. It aims to improve property rights, taxation and customs, infrastructure facilitation, competition, financial markets, and labor markets. Further, the initiative is also designed to remove obstacles to doing business, including business registration red tape, corruption, and crime. The Bank serves as the financial resources administrator of the ICF Facility.

During 2010, the Bank intensified its support to African technical networks in a number of areas, namely: (i) domestic resource mobilization, including hosting the council meeting of the African Tax Administration Forum; (ii) public budgeting, by cofinancing the Collaborative African Budget Reform Initiative (CABRI); (iii) public procurement, by supporting the establishment of an African Network on Public Procurement; and (iv) government auditing, through its support to the African Organization of Supreme Audit Institutions (AFROSAI).

**PROMOTING HIGHER EDUCATION, TECHNOLOGY, AND VOCATIONAL TRAINING**

In order to enhance RMCs’ socioeconomic advancement and integration into the world economy, the Bank’s MTS affirmed Higher Education, Science and Technology (HEST) to be one of the core areas of assistance, alongside Technical and Vocational Education and Training (TVET). These are important for building the continent’s capacity for research and innovation, so that it can participate fully in the technological advancements of the twenty-first century.

The specific means selected by the Bank to realize these aims include: (i) strengthening national and regional Centers of Excellence in science and technology; (ii) constructing and/or rehabilitating existing science and technology infra-
structure, including tertiary education institutions; (iii) linking HEST to the productive sectors; and (iv) developing appropriate TVET systems in RMCs to respond to the productive sector’s skills requirements.

It is for this reason that the Bank is pioneering a HEST initiative to design a credible and implementable Education and Training for Science, Technology and Innovation (ET4STI) system. A concept paper on this initiative was prepared in 2010. The Bank is also putting together a comprehensive TVET innovations program, to address the evolving needs of RMCs’ labor markets. This is with a view to improving the employment opportunities and life chances, especially for the youth, in the wake of the global financial crisis. Initiatives such as this should help to attenuate the social discontent and sense of hopelessness that contributed to the major sociopolitical upheavals recently experienced in some African countries.

In 2010, the Bank approved UA 47.6 million to the subsector, distributed as follows: UA 25.5 million for a Technical and Vocational Training Project in Niger; UA 12.9 million for a Higher Education Support Project in Eritrea; UA 8.6 million for the Regional ICT Center of Excellence in Rwanda (see Box 2.6); and a grant of UA 0.6 million to support Education Quality and Technical and Vocational Education and Training in Botswana.

With regard to nonlending activities, the Bank has embarked on the development of a range of operational strategies in line with the HEST Strategy. This process has involved consultations and study tours in several African countries and Japan. During the year, the planning for a regional Science, Technology and Innovation (STI) forum to be held in mid-2011 was initiated with a view to: (i) sharing experiences and ideas on best practices; (ii) discussing strategies for developing STI; and (iii) exploring financing opportunities for the promotion of STI by the Bank and other development partners. Within this context, country case studies were conducted in four RMCs, namely Burkina Faso, Ghana, Niger, and Senegal.

Within the context of the HEST strategy, the Bank has started to explore how to develop this sector through a comprehensive, local enterprise development program. This approach makes full use of networks among enterprises, research institutions, technical training institutes, schools, and other relevant resources to promote technology transfer and skills development. The aim is to have STI programs address local development of manufacturing capabilities through the incubation of enterprises and job creation. In this regard, to support the implementation of the national STI policy in Rwanda, the Bank assisted the government in designing and conducting a study on “Mapping Science and Technology for Industrial Development.”

PROMOTING REGIONAL INTEGRATION

The low level of regional integration in Africa is a constraint to doing business in the continent, deterring foreign investment and the achievement of economies of scale. Africa’s export performance is
poor, despite lower tariffs and freer access to foreign markets. In most African countries, unreliable transportation, energy, and water supplies, inadequate telecommunications networks, coupled with lengthy and cumbersome administrative procedures, constitute a substantial disincentive for entrepreneurs to invest in the region. Furthermore, weak supply chains and poor marketing systems result in high international transportation costs, raising the price of African goods in the global marketplace.

During the year under review, the Bank produced background issue notes and reports for the preparation of Regional Integration Strategy Papers (RISPs) for all the African subregions. As a consequence, the initial versions of the RISPs for Southern and East Africa were produced, as well as the second version for Central Africa. The RISPs will be finalized for all subregions in 2011 and will provide guidelines on the Bank’s proposed interventions for the 2011–2015 period.

On the global front, the Bank continues to be an active participant in the global Aid for Trade (AfT) initiative, led by the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD). The Bank’s interest and comparative advantage in the delivery of AfT stems from its role as the single largest financier of regional projects in Africa and its track record of providing trade-related assistance to its RMCs.

Although significant challenges remain for enhancing regional integration on the continent, some progress was made in 2010. For instance, activities and priority projects over the 2009-2012 period for the AU Program for Minimum Integration (PMI) were adopted. Also, in order to improve the coordination and the implementation of pan-African projects, the Heads of States and Government decided to transform the Secretariat of NEPAD into the NEPAD Planning and Coordination Agency (NPCA). In November, the African Union Commission spearheaded, in partnership with the Bank, the creation of the Conference of Energy Ministers of Africa (CEMA). This new high-level body will streamline all existing ministerial bodies in the sector and serve as a central coordinating organ for energy policies and strategy across the continent.

The Bank, in its role as the key agency supporting the NEPAD infrastructure agenda, undertook a third and final implementation review of the NEPAD Short Term Action Plan (STAP) to measure its performance since its inception in 2002. In this connection, the Bank financed, over the 2002-2010 period, 48 STAP projects/programs for a total value of US$ 2.6 billion (UA 1.7 billion), and mobilized cofinancing of around US$ 2.0 billion (UA 1.3 billion) from multilateral and bilateral agencies such as the World Bank, the European Investment Bank, Development Bank of South Africa, Agence française de développement, and KfW. The review concluded that the STAP has made a significant contribution to the integration agenda in Africa and has reinforced the urgency for physical and economic integration through prioritized cross-border infrastructure.

The Program for Infrastructure Development in Africa (PIDA) was launched in 2010 as a merger of the NEPAD Medium to Long Term Strategic Framework (MLTSF) and the AUC Master Plans and Continental Policy Initiatives. It is a continent-wide program to develop a vision, policies, strategies, and a program for the development of priority regional and continental infrastructure (transportation, energy, transboundary water resources, and ICT) up to the year 2030. The development of the program began in mid-2010 under Bank management along with key partners, the AUC and the NPCA.

During 2010, additional support was provided to the NPCA for preparing the AU/NEPAD African Action Plan (AAP), which is the defining statement of Africa’s current priority programs and projects related to the promotion of regional and continental integration. This followed the Bank-supported review and update of the AAP in 2009. The AAP will be launched at the January 2011 AU Heads of State and Government Summit. Thereafter, the plan will be widely disseminated and will inform Africa’s engagement with its development partners.

Total approvals for the Bank Group’s multinational operations (including loans, grants, and equity participations) in 2010 amounted to UA 515.1 million for 22 projects and programs, which is a decrease from the 2009 level of UA 1.17 billion. Figure 2.5 shows that in 2010, the largest share (66.6 percent) of loan and grant approvals to multinational projects went to infrastructure (comprising transportation, water and sanitation, ICT, and energy supply) and the remainder to finance (33.3 percent).

One of the key regional infrastructure approvals was the Lake Victoria Water Supply and Sanitation Program (UA 75.4 million), which targeted an important transboundary natural resource, the second largest lake in the world. This program will be implemented in 15 towns in the five East African Community states. With ten countries in the Nile Basin depending on the lake for economic survival, this program promotes regional cooperation, partnership-building, knowledge sharing, institutional and capacity enhancement, and joint ownership of the resources of the lake basin. Another key project was the Nacala Road Corridor (Phase II) (UA 69.4 million), connecting Zambia, Malawi and Mozambique. Its objective is to support economic growth in the SADC area, while fostering regional integration through reliable, efficient, and seamless transportation infrastructure that will increase subregional trade and enhance access to global markets.

Other infrastructure projects that emphasize regional integration include: (i) the COMESA Airspace Integration project to service the countries in the sub-region; and (ii) the Kenya Timboroa-Eldoret Road Rehabilitation project to improve transportation links between
Kenya, Uganda, Rwanda, Burundi, DRC, and Southern Sudan. In addition, a study was approved by the Bank to promote regional integration for the Central Africa subregion (the Ouesso–Bangui–Niamena road and Inland Navigation on the Congo, Oubangui and Sangha Rivers).

Private sector operations also provide significant support to the Bank’s regional integration objective. In 2010, the Bank approved one project loan, one LOC, and 10 multinational private equity investments worth UA 322.5 million for this purpose. A number of these projects promote access to remote areas and link the communities together. They include equity investments in the New Africa Mining Fund, Catalyst Fund, and GEF Africa Forestry Fund. (For details, see the Profiles of Projects and Programs Approved in 2010 at the end of Part I.)

In addition to the above-mentioned projects and programs, the Bank is managing the NEPAD-Infrastructure Project Preparation Facility (NEPAD-IPPF). This aims to mobilize resources for the preparation of regional infrastructure projects and programs in support of NEPAD’s goals for sustainable development and poverty reduction, through enhanced economic integration. During the year, through the NEPAD-IPPF, the Bank contributed to the development of ten projects: two in energy, two in transportation, three in capacity building, one in transboundary water resource management, one multisector project, and one in facility management. The total commitments for these projects stood at UA 6.0 million, distributed among various regional economic communities (RECs) (see Figure 2.6).

To complement physical infrastructure investments during the year, the Bank also addressed soft elements through trade facilitation. The Bank’s approach incorporates the development of corridors and spans both hardware and software activities. “Hardware” refers to the quality and quantity of trade-related infrastructure (e.g. roads, corridors, and ports). Support was given toward maintaining and rehabilitating road networks, increasing the connectivity of road and railroad networks, and installing container facilities at ports. “Software” includes promoting customs reforms and modernization; strengthening and developing one-stop-border-posts; advancing negotiation and implementation of the trade facilitation agreement of the WTO; and developing logistics services.

**SUPPORT FOR FRAGILE STATES**

In assisting countries toward economic recovery, the Bank’s Fragile States Facility (FSF) provides support in three areas, namely: (i) supplemental investment support in the Bank’s key priority areas; (ii) arrears clearance; and (iii) targeted support for capacity building and technical assistance. Through this instrument, the total ADF allocation to fragile states has increased, in particular, to the countries eligible for supplemental support, over and above the country allocation provided under the performance-based allocation (PBA) system.

In 2010, UA 110.7 million was approved in the form of budget support, economic governance reforms, and infrastructure rehabilitation for six countries. At the final ADF-12 replenishment consultations in September 2010, the Deputies agreed to a replenishment amount of UA 764.0 million to be transferred to the FSF, for the ADF-12 period (2011-2013). Further, in October 2010, the Bank operationalized the Zimbabwe Multidonor Trust Fund (the Zim-Fund) and by end-December 2010, an estimated amount of UA 24.5 million (US$ 37.8 million) had been paid into the fund by donors.

The results from all these commitments cannot yet be fully quantified, partly because they are at differing stages of implementation. However, early indicators show improvements in Country Policy and Institutional Assessment (CPIA) ratings and in portfolio performance indicators, such as disbursement ratios and the number of operations supervised. Building on these improvements and the operational challenges in fragile states, the Bank is strengthening its results measurement tools, enhancing the quality-at-entry of its operations, improving portfolio management, and intensifying its engagement at the country level.

This FSF rapid-response instrument complements other Bank support (non-FSF operational instruments) in fragile states. In the period since its establishment in March 2008, this simple, fast, and flexible mechanism has been yielding results. The arrears clearance process,
for example, has enabled countries under arrears-induced sanctions (such as Togo), to quickly reengage with the international community. The process has also proven effective in assisting such countries to gain access to additional resources for investment in areas such as infrastructure (energy), social sector, and agriculture. The budget support has also provided for the rehabilitation of basic social services in infrastructure, in particular water and sanitation. This will result in increased access to safe water for communities in countries like Comoros, Liberia, and Zimbabwe. Institutional capacity strengthening in the areas of public financial management, statistical capacity building, and private sector development have been provided across several fragile states. For example, the Bank’s support in Somalia has resulted, for the first time in 20 years, in the development of a national budget framework and budget accounts, thereby improving financial transparency and accountability.

SUPPORT FOR MIDDLE-INCOME COUNTRIES

In line with the Bank Group’s strategic approach to deepen its engagement in middle-income countries (MICs), its operations in the 13 African MICs emphasize selectivity, focus, and complementarity. The Bank’s support is demand driven and tailored to the RMCs’ specific requirements, the institution’s own internal capacity and resources, as well as its comparative advantage in relation to other international financing entities.

The Bank is now building more effective linkages between sovereign and nonsovereign operations in its MICs. Its approach includes providing competitive loan pricing and improved product marketing; supporting well-targeted nonsovereign operations, particularly through private sector investments; and expanding regional operations where necessary.

In 2010, the Bank Group’s approvals for operations in the MICs (excluding multinational projects and programs) amounted to UA 1.88 billion, which is below the level of 2009, but an increase of 69.4 percent over the 2008 level.

The sectoral distribution for Bank Group lending to MICs during 2010 confirms infrastructure to be the major sector, attracting 72.7 percent of all financing, most of which went to the transportation subsector (53.3 percent). The other beneficiary sectors were industry (7.9 percent), social (7.7 percent), finance (7.1 percent), multisector (4.6 percent), and agriculture (0.01 percent) (see Figure 2.7).

The geographic distribution of financing to MICs in 2010 shows North Africa to be the principal beneficiary (78.3 percent), while Southern Africa was allocated 21.7 percent. MICs in Central and East Africa attracted 0.04 percent (see Figure 2.8). This is a reversal of the 2009 distribution, when North Africa attracted 21.8 percent, and Southern Africa was allocated 78.2 percent of the total financing to MICs.

In terms of financing instruments, project lending (for both public and private sectors) continued to be the main financing vehicle in 2010. It accounted for 92.8 percent of total approvals for MIC operations (see Figure 2.9), compared to the 65.3 percent share in 2009. There was a decline in policy-based loans, from 34.1 percent in 2009 to 6.9 percent in 2010. Grants from the MIC Technical Assistance Fund (MIC-TAF), the African Water Facility (AWF), and the Special Relief Fund (SRF) represented a marginal 0.4 percent of the financing.

AGRICULTURE AND RURAL DEVELOPMENT

The Bank Group’s new Agriculture Sector Strategy (AgSS) 2010–2014, approved in 2010, is rooted in the Comprehensive Africa Agriculture Development Program, established by the AU in 2003, which...
represents the continent’s overarching framework for eliminating hunger and reducing poverty. The AgSS is founded on two pillars: (i) the development of agricultural and rural infrastructure and (ii) renewable natural resources management. The objective is to ensure sustainable food security through increased agricultural productivity made possible by investments in irrigation infrastructure, agro-processing, and marketing networks, including transportation and storage facilities and related equipment.

During 2010, the Board approved operations and studies in support of agriculture and rural development, including water resource sustainability, valued at UA 68.3 million. These were for seven operations and two studies in eight countries. Of this total amount, 97.6 percent targeted increased food production, with the balance addressing natural resources management. To ensure sustainable food security in the RMCs, the Bank promotes the full utilization of modern agricultural technologies, including improved seeds and animal breeds, the increased use of fertilizers, and other agricultural productivity-enhancing inputs. Projects approved for the sector include the Agriculture Sector Rehabilitation Project in Liberia and the Markala Sugar Project in Mali (see Box 2.7).
The Board also approved the Business Plan for Agricultural Water Development and Water Storage Enhancement in 2010. This plan will contribute to the implementation of the AgSS and to meeting targets set in the Africa Food Crisis Response by (i) increasing the area under improved agricultural water management and (ii) expanding water storage capacity in Africa. The objective of the plan is to increase water availability for agriculture, domestic consumption, climate change adaptation, and flood and drought management. It also aims to support capacity building for water resources programming, policy and strategic planning, and to help develop effective institutional arrangements in individual RMCs.

In line with the Bank’s operational selectivity, the first year of AgSS implementation has seen most approved investments in infrastructure and renewable natural resources target food security. Similarly, the Bank has used its partnerships with other donors, the private sector, and governments to leverage additional resources and to unlock potential synergies in promoting agriculture and food security. The Liberia Agriculture Sector Rehabilitation Project and the Mali Markala Sugar Project, cofinanced with IFAD and private investors respectively, demonstrate the Bank’s success in fostering public–private partnerships and in leveraging resources.

Africa’s agriculture sector suffers from another problem: an estimated 40 percent of produce harvested in Africa is lost yearly in the agricultural value chain before reaching the final consumer. To address the situation, in 2010 the Bank prepared a Framework Paper on “Post-Harvest Losses Reduction 2010–2014,” based on a background paper prepared collaboratively with the FAO and UNIDO. The aim is to assist RMCs to attain supply chain efficiencies that will reduce quantitative and qualitative losses. This will be achieved through

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**Box 2.7**

**Mali – The Markala Sugar Project**

**Context:** This is the first public–private partnership operation between Mali (an LIC) and the Bank in the agriculture sector. It is funded from both the ADB and ADF windows. The project is notable in that it will not only boost sugar production, but also generate power for the community in the project area.

**Objectives:** (i) To ensure a sustainable increase in the income of sector stakeholders (including farmers) and eventually to transform the country into a sugar exporter, thereby boosting the economy and (ii) to produce bio-ethanol, a by-product of the sugar production process, to generate power for the local community.

**Project Components**

(i) **Agricultural Component:** Establishing a 14,132 ha irrigated cane estate in Markala, 275 km northeast of Bamako, on the north bank of the Niger River to produce 1.48 million tonnes of sugar-cane per annum.

(ii) **Industrial Component:** This will comprise a sugar mill, ethanol plant, and power co-generation facility. Each year, the ethanol plant will produce 15 million liters of ethanol, and the co-generation facility will produce 30 MW of electricity.

**Approvals:** UA 29.0 million was approved for the project from the ADF window. A further loan of UA 25.6 million was approved from the ADB window.

**Expected Outcomes:**

(i) Growth of Mali’s agriculture sector for 2010–2015 period from 5.0 percent to 5.4 percent;

(ii) Improved farmers’ incomes – expected eightfold increase;

(iii) Employment creation – 8,000 jobs directly and 32,000 jobs indirectly;

(iv) Rural electrification – 30 MW of electricity produced, supplying power to communities in the project area;

(v) Social services and infrastructure – improved access to social services, including malaria control; also improving access to safe water for the community and employees;

(vi) Increased foreign exchange earnings from sugar exports and additional fiscal revenues; and

(vii) Environmental benefits – eliminating 165,800 tonnes of CO₂ annually.
selective investments in rural infrastructure and by employing appropriate post-harvest and agro-processing technologies. For instance, in the Markala Sugar Project in Mali, the Bank is financing cane production and the sugar mill, while private investors finance the construction of an ethanol plant that uses sugar mill waste products.

**Leveraging Inter-agency Cooperation in Support of Africa’s Agriculture**

The new AgSS stresses the importance for the Bank of building and consolidating partnerships with development agencies, regional organizations, bilateral organizations, government ministries, and related agencies. This is necessary in order to leverage each organization’s comparative strengths, to achieve economies of scale, and to maximize scarce resources. With this in mind, the Bank during the year under review, pursued its program of cooperation activities in the sector, particularly with the following partners:

- **World Food Program (WFP).** The Bank and the World Food Program agreed on a number of collaborative approaches in support of the agriculture sector and food security in Africa. These included: (i) improving vulnerability assessments and early warning systems, and strengthening social and productive safety-nets in fragile states, through policy analysis and advocacy; (ii) exploring the potential for using WFP’s Purchase for Progress (P4P) initiative to provide a market for the outputs of ADF-supported programs; (iii) jointly preparing an “Atlas of Climate Change and Food Security in Africa”; and (iv) jointly supporting selected fragile states.

- **Food and Agriculture Organization (FAO).** An understanding was reached with the FAO on the preparation of the Cameroon Rural Infrastructure Development Project and the Mauritania Agriculture and Food Security Strategy. They also agreed to jointly analyze the Benin Forestry Sector Review.

- **International Fund for Agriculture Development (IFAD).** Agreements were reached to increase cooperation in cofinancing, supervision, analytical work, and in showcasing successful joint operations.

- **Brazil–Africa Dialogue.** Within the context of the Brazil–Africa Dialogue on food security, hunger, and rural development, the Brazilian government agreed to expand cooperation programs with RMCs in capacity building, policy design, technical and financial assistance.

- **IFDC** agreed to assist the Bank in advancing the Africa Fertilizer Financing Mechanism agenda in order to stimulate private sector interest in the mechanism.

In the course of 2010, several Bank-supported initiatives came to fruition, including the following:

(i) **Global Agriculture and Food Security Program (GAFSP),** which had been proposed by the G-20 in 2009, was established in 2010 and its Steering Committee approved grants to Ethiopia (UA 33.4 million) and Niger (UA 21.4 million).

(ii) **Africa Agriculture Fund (AAF).** The Bank approved a UA 26.0 million equity investment in the AAF. This is a private equity fund designed to attract private investors into supporting Africa’s agro-food sector. Founding sponsors are the AfDB, AFD, IFAD, and BOAD.

(iii) **African Agribusiness and Agro-Industries Development Initiative (3ADI).** This initiative, cosponsored by the Bank, the AU, ECA, FAO, IFAD, and UNIDO, will mobilize domestic and international financing for agribusiness and agro-industrial development in Africa.

Managing Renewable Natural Resources and Climate Change for Sustainable Development

Value enhancement through judicious management of renewable natural resources (water, forestry, and land) constitutes the second pillar of the AgSS. This will help to reverse land degradation and halt practices that utilize the resource base beyond its regenerative capacity. The aim is enhance climate risk mitigation, sustained productivity of the natural resource base, maintenance of soil fertility, and sustainable development.

To this end, the Bank is working closely with other multilateral development banks to support the Forest Investment Program, which was set up within the Strategic Climate Fund (For further discussion, see the section “Bank’s Engagement in Climate Investment Funds” on p. 30). The Bank’s forestry policy promotes the sustainable management of Africa’s forest resources to ensure environmental protection, the supply of wood, and a steady flow of non-wood forest products. The policy was reviewed in 2010 to better capture the emerging issues, especially in climate change adaptation and mitigation.

The Bank has stepped up its involvement in forestry projects that seek to sequester carbon and reduce emissions from deforestation and degradation (REDD). The Bank is also working with three RMCs (Ghana, Burkina Faso, and the Democratic Republic of Congo) to help them secure funds from the Green Africa Initiative. Supported by Japan, the initiative assists selected African countries to address forest degradation in the dry forest zones through plantation programs using improved tree species.

In the fisheries sector, the Bank is one of the main donor institutions contributing to the management and development of African fisheries, and to the implementation of the NEPAD Action Plan for the Development of African Fisheries and Aquaculture.

**PROMOTING SOCIAL AND HUMAN DEVELOPMENT**

As part of its overall mission to help lift African nations out of poverty, the Bank supports its RMCs to develop human
capital through effective education, health and social systems geared to achieving the Millennium Development Goals. This section focuses on issues of social and human development, other than those already covered in the previous section on higher education, technology, and vocational training.

To help protect its RMCs against the impact of exogenous shocks, such as food and fuel price volatilities, the Bank hosted a donors’ consultation meeting in 2010 to review the Bank’s draft paper on supporting social protection in Africa. The meeting recommended Bank intervention in three key areas: (i) labor market programs to reduce income poverty through strengthening employability and job creation; (ii) basic infrastructure and services to support the development of basic community infrastructure and reduce vulnerability; and (iii) private sector development to promote poverty reduction and food security through entrepreneurship, targeting micro, small and medium sized enterprises (MSMEs), investment and economic growth.

Social Protection and Employment Creation
Poverty remains pervasive in Africa, with about half of the population living on less than US$ 1.25 per day. Poverty reduction is therefore central to the Bank’s strategy for promoting equitable growth, social and economic development. Social protection represents an increasingly important approach for attenuating poverty and there are sets of instruments at the Bank’s disposal to address economic hardship and social exclusion. There is also mounting evidence of the value of social protection as means to boost economic growth.

The MTS underscored the need for the Bank to support investments that empower poor and vulnerable people to share in Africa’s economic growth. Furthermore, the Bank’s food crisis response targeted social protection interventions. It was against this background that the Bank committed to scale up its support to social protection and pro-poor growth. Consequently, in 2010 the Bank approved UA 146.0 million for five operations aiming to increase income and employment opportunities, social protection, and social cohesion. These included the National Taxi Replacement Scheme (see Box 2.8), amounting to UA 98.9 million, and the Rural Income and Economic Enhancement project for UA 45.3 million, both in Egypt. The other interventions were emergency assistance grants to Zimbabwe and Sudan, and an MIC grant to Gabon.

Recent sociopolitical turmoil across much of North Africa has brought to the fore the importance of addressing social issues. Mindful of this escalating need, the Bank has renewed its emphasis on enhancing the life-chances of Africa’s youth by improving the availability of, and access to, decent employment opportunities.

Support to the Health Subsector
The health subsector in Africa is burdened by a growing number of chronic and infectious diseases, which severely challenge the capacity of RMCs to attain the health-related Millennium Development Goals. To maximize its resources, the Bank has to exercise selectivity in its choice of interventions in this area, leveraging its
comparative strengths in relation to other development partners.

In view of the critical shortage of trained health professionals and technicians in RMCs, the Bank has reoriented its support to the sector by:

• reducing its investments in disease-specific health programs in order to focus on interventions for tertiary and technical training;
• supporting national and regional Centers of Excellence for pre-service training;
• building the continent’s research capacity to more effectively tackle Africa’s unique health challenges;
• engaging in strategic partnerships to leverage additional donors’ and local resources to finance medical education in African universities;
• focusing on innovative health-care delivery financing through community-based insurance schemes and public–private partnerships, among others; and
• engaging in strategic international health partnerships to leverage global resources. These partnerships include the Harmonization for Health in Africa, which was launched in 2007, and is a joint initiative by the Bank Group, UNAIDS, UNFPA, UNICEF, WHO, the World Bank, and the African Program for Onchocerciasis Control.

During the year under review, the Bank commissioned background studies with a view to enhancing its Human Development Strategy. This will include a reassessment of the modalities for leveraging the health and social protection dimensions within the framework of the updated strategy.

ENERGY, ENVIRONMENT, AND CLIMATE CHANGE

In 2010, the Bank established the Energy, Environment, and Climate Change Department as a timely response to its RMCs’ evolving needs and priorities. The Department comprises two geographically focused Energy Divisions and one Environment and Climate Change Division. Furthermore, the Bank’s Quality Assurance and Results Department supports all departments within the Bank to ensure that every project complies with its environmental and social safeguards. It also assists in mainstreaming climate change at policy and advocacy levels.

In accordance with its MTS, the Bank is positioning itself as the lead financier for energy-related investments in Africa, while supporting low-carbon development in the continent. In pursuit of
this objective, the Bank has begun to formulate its Energy Strategy. During the year, the Bank approved UA 887.6 million for 14 new operations in the energy sector (see the discussion of Energy under the Infrastructure section for further details).

Regional Focus
The cost of electricity in Sub-Saharan Africa is very high relative to income levels. This stems from two principal causes: (i) limited supply and (ii) the high unit cost of production and transmission. At the same time, some of the most promising clean power resources in the continent (e.g., wind and water) remain undeveloped because of the remoteness of their locations relative to major centers of demand, which increases the cost of their development.

The five NELSAP countries (Burundi, Democratic Republic of Congo, Kenya, Rwanda, and Uganda) are implementing the East African Power Pool to support power trade within the subregion. The Bank has committed UA 99.8 million of the total UA 160.2 million financing for the project. The pooling of resources and increasing power trade has facilitated an increased energy supply in the national and regional grids. The benefits of this pooling include reductions in energy transmission losses and lower costs to the end consumers. Furthermore, there are environmental benefits to be gained by reducing dependence on polluting thermo-energy.

Combating Climate Change
The Bank’s activities in this area include the following:

- contributing to the preparation of management responses and the implementation of action plans for addressing complaints over the non-compliance of Bank policies and procedures. This relates to operations for review by the Independent Review Mechanism on issues of an environmental and social nature;
- mainstreaming climate change adaptation into the Bank’s operations by developing a Climate Safeguards System composed of a screening manual, a screening tool, and a climate change knowledge base;
- developing a subregional training program to enable Bank staff and RMC officials to apply climate change safeguards and policies, thereby enhancing project quality; and
- producing advocacy materials on climate change and safeguards, and conducting related thematic studies.

Clean Technology Fund (CTF) and Strategic Climate Fund (SCF): The Bank is participating in both the CTF and the SCF. This pair of financing instruments was set up to channel grant resources, concessional loans, and risk mitigation instruments to developing countries through multilateral development banks, including the Bank. The aim is to leverage additional funds through the blending of the Bank Group’s limited resources for climate solutions with those of other MDBs, together with national and private sector resources.

Within the SCF, the Forest Investment Program (FIP) mobilizes funds in support of the reduction of emissions from deforestation and degradation (REDD), and to promote sustainable forest management that will protect carbon reservoirs. The FIP has enabled the Bank to increase its involvement in forestry projects; consequently, UA 90.9 million was earmarked to support forestry initiatives in Ghana, Burkina Faso, and the Democratic Republic of Congo. In addition, the Bank is engaging in the ongoing consultations with the Forest Carbon Partnership, UN REDD, the Forest Investment Program, and the Global Environmental Facility, which are the key agencies financing the REDD initiatives.

The CTF and SCF finance four programs:
- The CTF, with a funding amount of UA 519.5 million (US$ 800.0 million) earmarked for Africa, finances the Pilot Program on Climate Resilience (PPCR), the Forest Investment Program (FIP), and the Scaling up Renewable Energy in Low Income Countries (SREP). Of this total, UA 405.8 million is targeted for CTF operations in Egypt, Morocco, Nigeria, South Africa, and Tunisia.
- The SCF budget of UA 116.9 million (US$ 180.0 million) is assigned to operations in PPCR pilot countries (Mozambique, Niger, and Zambia), FIP beneficiary countries (Burkina Faso, Democratic Republic of Congo, and Ghana), and SREP pilot countries (Ethiopia, Kenya, and Mali).
Africa Carbon Support Program (ACSP): This two-year technical assistance program was launched by the Bank in November 2010, with resources from the Fund for African Private Sector Assistance (FAPA). The ACSP assists RMCs to access carbon finance by ensuring the commercial feasibility of their projects. Furthermore, it supports capacity-building activities for government agencies responsible for developing projects eligible for carbon finance. It also supports the documentation of research findings in the area of climate change vulnerability and adaptation options.

Global Environment Facility (GEF): This facility was created in 1991 to provide grants and concessional funding to cover the additional costs associated with transforming a project with national benefits into one with global environmental benefits. The Bank, as Executing Agent, has direct access to GEF resources to increase its pipeline of projects relating to sustainable environmental management, biodiversity, and climate change. In 2010, the Bank helped its RMCs to secure UA 16.2 million (US$ 25.0 million) in project funding with grant resources from the GEF.

Sustainable Energy Fund for Africa (SEFA): The SEFA was conceived to support the provision of energy to African SMEs to stimulate economic growth and increase employment. Following the Danish government’s approval of the SEFA program document in 2010, the program will become operational in 2011.

ClimDev-Africa Special Fund (CDSF): This multidonor facility was set up to finance Climate Information for Development in Africa (ClimDev-Africa), which is a joint initiative of the AUC, AfDB, and ECA. Its objective is to integrate climate information and services into development planning and to mainstream climate considerations into policies and programs.

PROMOTING GENDER EQUALITY

A new Gender and Social Development Monitoring Division has been established to ensure the quality-at-entry of operations and better results monitoring. In addition, gender is being mainstreamed in Bank operations across various sectors and at all stages of the project lifecycle. During 2010, for the first time, the Bank included gender equality in quality assurance and monitoring. Gender equality is being mainstreamed into the new Supervision Reporting format, the new Operations Manual, and the revised CPIA rating system. In addition, following a trial run during the course of the year, the Bank developed a gender results tracking system which proposes gender equality as a new quality-at-entry standard to be included in the Readiness Review.

To assist its operations, during the year the Bank produced three new Country Gender Profiles and conducted assessments of gender mainstreaming in Social and Human Development, and gender-responsive budgeting. It also mainstreamed gender equality in some policies, including the Bank’s new Energy Policy. Gender specialists in Operations and in Quality Assurance and Results Monitoring assisted in raising the quality of operations by participating in the project-cycle activities, CSPs, and other country dialogue work.

In the area of partnerships, the Bank deepened its collaboration with the OECD/DAC gender network. It also collaborated with the “New Faces and New Voices Network” and organized the Africa Women’s Economic Summit. The Summit is a forum for business women, bankers, and politicians to discuss the challenges and opportunities of expanding women’s access to financial products and decisionmaking. During the Bank’s 2010 Annual Meetings in Abidjan, a meeting was held on the implementation of the UN security resolutions on “Women in Fragile States: From Passive Victims to Active Agents of Change.”

KNOWLEDGE DEVELOPMENT FROM OPERATIONAL ACTIVITIES

Knowledge from the Bank’s operational activities comprises an evolving accumulation of lessons – some positive and others negative – which accrue from the institution’s decades of experience in development activities in Africa. This knowledge needs to be fully utilized if Bank-supported operations, programs, and policies are to attain their expected development objectives. To that end, it is important for this knowledge to be documented, internalized, and applied to future projects and programs. This will help to avoid the pitfalls of the past, while building on the positive lessons in the day-to-day planning and implementation of the Bank’s interventions.

In this regard, the knowledge development products can be classified into three categories: (i) economic and sector work (ESW); (ii) strategic products and events; and (iii) operational lessons and recommended best practices, as elaborated below.

Economic and Sector Work (ESW) in 2010

Private Sector Operations
Given the rapid expansion of private sector operations, the Bank has increased the involvement of this function in ESW. Accordingly, the sector staff have become increasingly involved in the preparation of Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs) to ensure adequate and appropriate coverage of private sector issues in these documents.

Social and Human Development
Two sector studies were carried out in the area of Social and Human Development, namely: (i) the Angola study entitled “Rapid Microfinance Sector Assessment: Opportunities and Challenges for AfDB” and (ii) the Mozambique study entitled “Pre-Feasibility Study on Weather Index:
Micro Insurance for Rural Livelihoods Protection.” The Angola study indicates that there are indeed opportunities for a vibrant microfinance industry based on previous successful initiatives. The Mozambique study shows that in the context of current and future investments in climate adaptation and resilience, there is both a need and a potential for transferring drought-related risk between years.

Regional and Country Programming
Four studies were undertaken on The Gambia, Senegal, Mali, and Gabon. Some of the key findings from two of these studies are presented below.

- **The Gambia** – The study on “Improving Civil Service Performance” found that the civil service is small, understaffed at higher levels, and overstaffed in lower ranks; furthermore it is poorly paid, of weak capacity, and in need of general reform (including pay reform).

- **Gabon** – The study on “Private Sector Development” contributed to the design of public policies geared toward the development of the private sector, which is the linchpin of economic diversification, growth, and poverty reduction. The study assessed the quality of institutions that influence the expansion of activities, focusing particularly on transaction costs. It examined various constraints on private sector development, highlighting those that require immediate action and measures to be taken to stimulate or revitalize key diversification sectors. The study also recommended reforms, which are being implemented by the government.

**Strategic Products and Events during 2010**

**Water Sector**
In its pursuit of nontraditional sources of funding, the Bank:

- presented a paper on the theme “Financing Investments in Water for Growth and Development” at the Third Africa Water Week (Addis Ababa, November 22–26, 2010); and
- published five major studies that explore thematic issues for water sector investment, including water sector governance, user fees, and cost recovery for urban/rural water supply and sanitation services.

**Private Sector**
The private sector function of the Bank has assumed a growing role in knowledge events and in creating key strategic products, including:

- a report on the status of “Africa’s Trade Finance Market,” for a high-level roundtable chaired by Pascal Lamy and the AfDB President, in connection with the Africa Economic Conference in Tunis in October 2010; and

**Economic Governance and Reform**
In support of economic governance and reforms, the Bank:

- designed and piloted a new method to better report the contribution of budget support for effective results;
- facilitated, in collaboration with ECA, CABRI, ATAF, and AFROSAI, the Good Financial Governance in Africa Initiative. This produced a baseline study on the trends, challenges, and opportunities for good governance in the financial sector;
- issued Operational Guidance Notes on how to strengthen country systems in public financial management, public procurement, and government auditing; and
- jointly with the OECD, completed a stock-taking report on business integrity and anti-bribery, legislation, policies and practices in 20 countries.

**Higher Education, Science and Technology**
The midterm review of the Bank’s Strategy on Higher Education, Science and Technology (HEST) was conducted during 2010. Experience indicates the need for a holistic vision of education development, which promotes a coordinated programmatic approach. This stands in contrast to the Bank’s former approach to the education sector, which was characterized by multiple, small, and uncoordinated interventions.

**Energy, Environment, and Climate Change**
Preparations for several strategic products were undertaken, including:

- the background note on “Financing of Sustainable Energy Solutions in Africa” for the Meeting of the Committee of Finance Ministers and Central Bank Governors (C-10) in October 2010 in Washington DC;
- inputs to the 2010 Joint MDB Climate Financing Report; and

**Gender Equality**
The Bank undertook activities in the following areas:

- the gender results & resources tracking system and the tracking of gender as a quality-at-entry standard;
- the methodology for collecting qualitative data on the results of its...
project interventions in postconflict and fragile states, including measures against gender-based violence in Côte d’Ivoire;

(iii) gender profiles of Swaziland, Comoros, and the Central African Republic and fieldwork for gender profiles in The Gambia, Sierra Leone, and Burundi;

(iv) a multinational study on gender-responsive budgeting in four countries;

(v) gender assessments of poverty reduction, health, and education projects in the Bank;

(vi) gender-sensitive studies on labor force participation in Botswana and Mali; and

(vii) concept notes on “Gender and Infrastructure” and “Gender and Climate Change.”

Regional, Country Programming and Policies

The Bank undertook a number of thematic background studies to feed into the preparation of the Regional Integration Strategy Paper (RISP) for Southern Africa, 2011–2015. These in-depth studies, conducted through a broad consultative process with stakeholders in the subregion, related to: (i) trade performance, challenges, and opportunities; (ii) macroeconomic performance across countries in the subregion; (iii) private sector financing of infrastructure; and (iv) development in the following subsectors: transportation, energy, and ICT.

Other knowledge products included:

(i) The African Development Bank Group in North Africa report, which summarizes Bank activities in the six countries of the subregion;

(ii) monthly Intelligence Newsletters on North Africa, which provided a regular update on sociopolitical and economic developments in the subregion;

(iii) North Africa Regional Integration Strategy Paper (RISP);

(iv) seven issue notes, which are soon to be published in an ad-hoc ESW, to be annexed to the North Africa RISP in 2011;

(v) Management Information System (MIS), which gives a monthly updated summary brief on North Africa’s portfolio ranging from pipeline operations to ESW; and

(vi) study on domestic resources mobilization covering the East African Community (EAC) member countries, with South Africa and Korea as cases for comparison. This study produced six detailed country assessments of domestic resource mobilization (five EAC countries and South Africa), which focused on tax policy and administration.

**NEPAD, Regional Integration, and Trade**

The Bank published a report titled: “Financial Sector Integration in Three Regions of Africa: How Regional Financial Integration Can Support Growth, Development, and Poverty Reduction.” This study, which focuses on the Arab Maghreb Union (AMU), the Central African Economic and Monetary Union (CEMAC), and the Common Market for Eastern and Southern Africa (COMESA) countries, examines the status of regional financial integration in each REC. The report identifies the challenges and opportunities for progress, makes proposals on the way forward, and suggests future areas of Bank support.

**Operational Lessons and Recommended Best Practices**

Social and Human Development

The following are the recommendations and best practices that emanated from the Bank-supported operations for Social and Human Development:

(i) Government perspectives need to be given prominence in the design of programs to ensure country ownership, since this is crucial for program success and sustainability.

(ii) The design of new programs must be preceded by a thorough analysis of the political economy of the country and baseline surveys.

(iii) The effective participation of civil society is essential in project design and preparation, and throughout the project cycle to ensure stakeholder ownership, project quality-at-entry, as well as its success and sustainability.

(iv) Effective M&E systems and the strengthening of national capacities for project management are essential for ensuring effective project implementation, the attainment of desired development impacts, and the sustainability of project benefits.

(v) Thorough supervision during implementation is critical to program success and should entail frequent visits and adequate mission duration on the part of Bank supervision teams. These teams should be equipped with the complete range of relevant skills, and be authorized to make certain decisions while in the field.

(vi) There should be increased flexibility and delegation of decisionmaking on operational and financial matters to Field Offices and project supervision teams, in order to facilitate speedy project implementation.

(vii) RMCS and the Bank should finance a small number of large programs in each country, rather than a large number of small projects spread all over the country.

**NEPAD, Integration, and Trade**

A review of the performance of the NEPAD/STAP program made the following recommendations:

(i) REC priorities should be aligned to country priorities, as this enhances country ownership, thus improving performance.

(ii) Technical capacity should be strengthened to ensure the sustainability and effectiveness of operations.
Agriculture and Rural Development
A review of the operational experiences in this sector indicated the following:

(i) In planning projects, traditional authorities must be involved, as they often have controlling power and interest in issues of land tenure.
(ii) In projects involving infrastructure development in conjunction with social, economic, and community development activities, the sequencing of activities is critical for success, with infrastructure development to precede the social activities.
(iii) Project design should include the provision of access roads to all project sites for ease of supervision and to improve project sustainability.
(iv) Delays in project start-up and resulting inflationary effects should be anticipated when estimating and preparing the project budget at appraisal.
(v) When project implementation has begun, a redirection study should be undertaken, to enable the Bank and government to cancel or redirect the project if this proves necessary.
(vi) Improving and extending financial services to the poor requires the strengthening of rural microfinance institutions (MFIs), including rural community banks (RCBs), in order to expand their outreach.

Regional, Country
Programming, and Policy
A review of private sector development in Gabon highlighted the following lessons:

(i) Multifaceted support needs to be given to streamlining private enterprise structures, so as to improve their performance, thereby reducing costs and boosting productivity.
(ii) The quality of appraisal reports could be improved through a clarification of objectives and activities, and the preparation of detailed implementation schedules.
(iii) Institutional support should be provided, including the training of project managers before the official launch of projects, to strengthen the capacity for procurement and for the supervision of works.
(iv) The physical and financial monitoring of projects should be enhanced.

In connection with the Bank’s engagement in fragile states, the following are some of the lessons learnt. At the country level, human capacity constraints in key sectors continue to pose challenges to reconstruction efforts. Added to that is the need to address state legitimacy and establish a transparent and judicial process. Job creation and food security remain at the top of the development agenda, followed closely by the need to improve the private sector investment climate.

Evaluation of Operations
The reviews of Project Completion Reports (PCRs) and Expanded Supervision Reports (XSRs) (which are PCRs for private sector operations), highlighted the following lessons:

(i) Project Design:
   • to strengthen projects by paying more attention at the design stage to risk factors, and
   • to undertake adequate feasibility studies and other analytical work during project preparation.
(ii) Project implementation:
   • to reduce the complexity of the administrative procedures demanded by the Bank and borrowers, and
   • to ensure that supervision is carried out regularly and by teams with an adequate skills mix.
(iii) Infrastructure projects:
   • to take adequate account of the capacity constraints of borrowers, and
   • to coordinate projects in the same or related sectors in order to achieve greater development impact and synergies.

(For a discussion of Knowledge Management and Development arising from research and capacity building, see Chapter 4.)

RESOURCE MOBILIZATION
The Sixth General Capital Increase (GCI-VI)
In response to the financial crisis, the Bank frontloaded its commitments, put in place new instruments to facilitate trade, restructured its portfolio, and speeded up its operational processes. As a result, the Bank used up its available resources more quickly than previously anticipated, although some adjustments to liquidity policy and temporary additional capital provided by Canada and Korea helped to limit the constraints. Nevertheless, it was clear that the Bank needed an earlier Capital Increase than had been foreseen in the Bank’s Medium-Term Strategy, 2008–2012.

During the Bank Group Annual Meetings, on May 27, 2010 in Abidjan, the Board of Governors endorsed a 200 percent increase in the Bank’s capital resources from UA 24.00 billion (US$ 35.00 billion) to UA 67.69 billion (US$ 100.00 billion). This substantial increase will allow the Bank Group to sustain a higher level of lending, including to the private sector, in response to sustained demand from its RMCs, both low- and middle-income countries.

To ensure an efficient use of the additional resources made available by its shareholders, the Bank has been implementing a program of institutional reforms, in order to strengthen its capacity. To that
end, a reform matrix has been elaborated, targeting improvements in areas such as: Bank strategies and policies, business processes, project quality-at-entry and results, risk management, information disclosure policy, and communications.

**ADF-12 Replenishment Consultations**

Consultation meetings on the twelfth replenishment of the African Development Fund (ADF-12) commenced on October 21, 2009 in Helsinki (Finland) following the conclusion of the ADF-11 Mid-Term Review. The second consultation meeting was held in Cape Town (South Africa) on February 22–23, 2010, with the third meeting held in Abidjan (Côte d’Ivoire) on May 27–28, on the fringes of the 2010 Bank Group Annual Meetings. The final replenishment meeting was held in Tunis on September 7–8, 2010.

The ADF-12 replenishment consultations came at a critical time for the African continent. With only five years remaining before the 2015 MDGs deadline, Africa stands out as the continent with the biggest development financing gaps. The 2008–2009 global economic and financial crises further challenged ADF countries, particularly fragile states, and jeopardized the gains Africa had made over the past several years.

Participants at the ADF-12 replenishment consultations commended the Fund for its expeditious response to the needs of its clients under the ADF-11 period. It was underscored that the Fund had achieved unprecedented levels of commitments, particularly in its strategic priority areas of infrastructure, governance, support for fragile states, and regional integration. Both commitments and disbursements have doubled compared to ADF-10, demonstrating the ADF’s capacity, flexibility, and commitment to Africa’s development.

Accordingly, for the ADF-12, State Participants agreed on a replenishment level of UA 6.10 billion (US$ 9.5 billion) for the three-year period 2011–2013. The replenishment represents a 10.6 percent increase in State Participants’ contributions over ADF-11, and a 5.8 percent increase in total ADF resources. The donors further agreed that 20.0 percent of the ADF-12 resources would be allocated to the regional operations envelope, and that UA 764.0 million would be transferred from the ADF-12 resources to the Fragile States Facility (FSF). Under ADF-12, the Fund is committed to building on ADF-11’s strong track record, while it continues to enhance its delivery capacity and account better for its development impact and effectiveness in ADF client countries. To this end, the Fund has adopted a comprehensive framework for measuring and reporting development results on the ground.
ADF-11 Resources, Allocation, and Utilization at end-December 2010

The total resources for the ADF-11 cycle amount to UA 5.63 billion, made up of UA 3.57 billion of donor contributions and UA 2.06 billion of the Advanced Commitment Capacity (representing internally generated resources). After adjustment for carry-over resources from previous replenishments, total available ADF-11 resources amount to UA 5.89 billion. The amount set aside from ADF-11 resources for the Fragile States Facility (FSF), regional operations, Project Preparation Facility (PPF), and contingencies total UA 1.76 billion. This leaves UA 4.14 billion available for allocation to the 40 ADF-eligible RMCs under the Performance-Based Allocation (PBA) process. At end-December 2010, 95.0 percent of the ADF-11 resources available for allocation under the PBA system had been committed.

The PBA system determines the amount of ADF resources to be allocated to each of the 40 eligible RMCs, while the Debt Sustainability Framework (DSF) determines the country-specific financing terms in the form of loans, grants, or a loan/grant combination. The DSF country classification applied during 2010 is presented in Box 2.9.

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Progress Report

The Bank mobilizes resources for the Enhanced HIPC initiative for the benefit of the 33 eligible RMCs after they have reached their decision and/or completion points. During 2010, the Bank Group approved completion point debt relief assistance for Congo Republic and Liberia, in addition to decision point assistance for Comoros. This brings the total number of countries that have qualified for irrevocable HIPC debt relief at year-end 2010 to 23 (Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Congo Republic, Ethiopia, Gambia, Ghana, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, São Tomé & Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia) (see Figure 2.10). Three more RMCs (Democratic Republic of Congo, Guinea Bissau, and Togo) received approval in 2010 of irrevocable HIPC debt relief at completion point by the Bretton Woods Institutions, but Bank Group approval is only expected in the first quarter of 2011.

Four countries (Chad, Comoros, Côte d’Ivoire, and Guinea) remain at decision point, while three countries (Eritrea, Somalia, and Sudan) are at pre-decision point. Two of the pre-decision countries (Somalia and Sudan) have large arrears that need to be cleared before the countries become eligible for HIPC, and later MDRI, debt relief assistance.

The Bank Group provides an opportunity for arrears clearance operation for pre-decision-point RMCs through its Fragile States Facility (FSF). The arrears cleared through the facility are counted as part of the Bank Group’s debt relief assistance package. From 2000 to end-2010, the Bank Group cleared the arrears for Burundi, Central African Republic, Comoros, Congo Republic, Côte d’Ivoire, Democratic Republic of Congo, Liberia, and Togo before they reached their decision points.

Box 2.9
DSF Country Classification Applied during 2010

<table>
<thead>
<tr>
<th>DSF Classification</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green – Loan Only (12)</td>
<td>Cameroon, Cape Verde, Kenya, Madagascar, Mali, Mozambique, Nigeria, Senegal, Tanzania, Uganda, Zambia, Zimbabwe</td>
</tr>
<tr>
<td>Yellow – Loan/Grant Combination (11)</td>
<td>Angola, Benin, Chad, Ethiopia, Ghana, Lesotho, Malawi, Mauritania, Niger, Rwanda, Sierra Leone</td>
</tr>
</tbody>
</table>
Cost of the HIPC Initiative
The overall cost of debt relief for the 40 HIPCs worldwide is estimated at US$ 76.2 billion in end-2009 NPV terms, of which the costs to multilateral creditors account for 45 percent (US$ 34.2 billion). The Bank Group’s total commitment is estimated at US$ 5.4 billion, in NPV terms. This represents 7.0 percent of the initiative’s cost to all creditors and 16.0 percent of the cost to multilateral creditors.

The Bank Group finances its participation in the HIPC Initiative using internally generated resources as well as donor contributions, which are managed by the Debt Relief Trust Fund – DRTF (formerly the HIPC Trust Fund, and administered by the International Development Association of the World Bank). The contribution from the Bank Group’s internal resources typically finances 15–20 percent of the estimated cost of each beneficiary country, while 80–85 percent of the cost is financed through donor contributions.

Multilateral Debt Relief Initiative (MDRI)
The MDRI provides additional debt relief to eligible RMCs that have reached their HIPC completion points. Under the MDRI, donors are committed to cancel ADF loans for debts outstanding and disbursed as at December 31, 2004, to compensate the Bank “dollar for dollar” for the MDRI-related foregone reflows over a 50-year period to safeguard the long-term financial capacity of the ADF. The total estimated cost (updated in July 2010) of the ADF debts to be canceled under MDRI is UA 5.9 billion (US$ 9.06 billion). As at December 31, 2010, all the RMCs that had reached their completion points and qualified for irrevocable HIPC debt relief assistance have benefited from MDRI debt cancelations worth UA 4.90 billion.

PARTNERSHIPS AND COOPERATION ACTIVITIES
The Bank continued to deepen and diversify its strategic partnerships during 2010 at both international and regional levels. Its spectrum of partnerships covers traditional bilateral donors, as well as emerging donors, multilateral development agencies, academic and knowledge institutions, and private sector institutions. Collaboration with African partners has also been strengthened, for example with the African Union, Regional Economic Communities, Regional Development Banks, and African think tanks. Outreach missions by Senior Management and high-level consultations with key development partners took place during the year, to enhance synergies and development effectiveness through more focused and selective cooperation, in line with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. In March 2010, the second AfDB Partnerships Forum was successfully conducted to deepen the dialogue with over 80 partners from around the world.

The Bank’s partnerships and cooperation activities aim to leverage its core financial and technical resources through mobilizing cofinancing, trust funds, technical cooperation, staff exchanges, knowledge partnerships, and joint analytical work.

Cofinancing Operations
In 2010, the Bank approved 28 cofinancing projects, comprising 25 national projects and three multinational projects for a total cost of UA 8.41 billion. This figure includes the Bank Group’s contribution, that of external donors, plus resources from governments and local financiers. This was a decrease of 56.1 percent from the peak of UA 19.16 billion in 2009 for 36 projects. In respect of the Bank Group’s contribution to cofinanced projects in 2010, this amounted to UA 1.28 billion, compared to its 2009 level of UA 3.89 billion (see Figure 2.11). Of the 2010 total combined cost, the Bank Group’s contribution amounted to UA 1.28 billion (15.2 percent), external partners contributed UA 6.14 billion.
(73.0 percent), while governments and other local contributions accounted for UA 996.4 million (11.8 percent) (see Table 2.1). A breakdown of external sources shows that in 2010, in addition to contributions from multilateral and bilateral partners, UA 228.9 million was provided by private sector institutions.

Among the multilateral partners, the main cofinanciers were the West African Economic and Monetary Union (WAEMU), the World Bank (WB), the European Investment Bank (EIB), and the European Union (EU). The key bilateral cofinanciers were the United Kingdom, Korea, Japan, Spain, and France (see Figure 2.12).

The sector that benefited the most from cofinanced operations in 2010 was multisector, which attracted UA 3.27 billion of resources. The second largest beneficiary sector was infrastructure (comprising the transportation, communications, water supply and sanitation, and energy subsectors), which was allocated UA 3.17 billion, followed by social at UA 1.63 billion (see Table 2.1). These three sectors combined amounted to 96.0 percent of total cofinanced operations for the year. The sectoral allocation pattern for 2010 represents a departure from the previous year, when infrastructure attracted by far the greatest share (boosted by the Bank’s support to a number of large power interconnection projects), followed by social, and then multisector.

New Cofinancing Partnership Agreements/MOUs
Two new framework cofinancing agreements worth UA 454.5 million (US$ 700.0 million) were signed during the year. In September, the AfDB and the Korean Strategy and Finance Ministry signed a Memorandum of Understanding (MOU) extending their UA 129.9 million (US$ 200.0 million) Public Sector Cofinancing Agreement through to 2011–2013. Then in December 2010, the AfDB and the Islamic Development Bank (IsDB) signed an MOU whereby each bank earmarked UA 324.7 million (US$ 500.0 million) for joint project financing in 26 member countries in Africa.

Technical Cooperation Activities
The Bank mobilizes and manages bilateral and multibriefor thematic trust funds as well as technical cooperation with donors to leverage its core resources. At the end of 2010, 13 experts had been seconded to the Bank, and nine technical assistance experts had also been assigned, while 16 new secondment and technical assistance arrangements were being finalized with five donors. In 2010, the Bank published an Annual Report on Trust Funds Management for the first time, highlighting the major progress and achievements in this area in 2009.

Bilateral Trust Funds
In 2010, a total of UA 21.2 million was approved under the bilateral trust funds to support 66 activities. This represented a 74.0 percent increase over the 2009 level of UA 12.2 million (see Figure 2.13). These activities cover the preparation of Economic and Sector Work (ESW), Regional Integration Strategy Papers (RISPs), and capacity building in the priority areas of infrastructure, governance, private sector, regional integration, and climate change. Finland was the largest donor (UA 8.4 million), followed by Korea (UA 3.4 million), DFID (UA 2.4 million), Norway (UA 2.2 million), and Japan (UA 2 million). By year-end, 152 projects with a total cost of UA 41.34 million were under implementation by 33 departments.

Mobilization of New Bilateral Trust Funds: A total of UA 19.4 million was mobilized in the form of new resources from the governments of Norway, Finland, India, and Korea. Brazil committed UA 3.9 million (US$ 6.0 million) to establish a new fund to promote South–South cooperation, which will be launched in 2011.

In addition, the Bank is collaborating with other MDBs on climate change innovation through Climate Investment Funds. At the Climate Conference in Copenhagen in December 2009, Africa’s leadership requested that the continent’s share of
### Table 2.1
Cofinancing Operations by Source and Sector, 2010 (UA millions)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Bank Group Contribution</th>
<th>SOURCE OF COFINANCING</th>
<th>External Sources</th>
<th>Total Cost of Cofinanced Projects</th>
<th>Multiplier Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADB (1)</td>
<td>ADF (2)</td>
<td>NTF (3)</td>
<td>Total (4)=(1)+(2)+(3)</td>
<td>Bilateral (5)</td>
</tr>
<tr>
<td>Agriculture and Rural Development</td>
<td>25.56</td>
<td>34.97</td>
<td>-</td>
<td>60.53</td>
<td>56.73</td>
</tr>
<tr>
<td>Social</td>
<td>175.15</td>
<td>-</td>
<td>-</td>
<td>175.15</td>
<td>1,044.63</td>
</tr>
<tr>
<td>Water Supply &amp; Sanitation</td>
<td>97.77</td>
<td>-</td>
<td>-</td>
<td>97.77</td>
<td>29.60</td>
</tr>
<tr>
<td>Energy Supply</td>
<td>494.61</td>
<td>77.00</td>
<td>0.71</td>
<td>572.32</td>
<td>557.92</td>
</tr>
<tr>
<td>Communications</td>
<td>32.13</td>
<td>-</td>
<td>-</td>
<td>32.13</td>
<td>-</td>
</tr>
<tr>
<td>Transport</td>
<td>70.83</td>
<td>50.40</td>
<td>-</td>
<td>121.23</td>
<td>160.84</td>
</tr>
<tr>
<td>Finance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Multisector</td>
<td>148.62</td>
<td>51.90</td>
<td>-</td>
<td>200.52</td>
<td>316.94</td>
</tr>
<tr>
<td>Industry, Mining and Quarrying</td>
<td>19.28</td>
<td>-</td>
<td>-</td>
<td>19.28</td>
<td>-</td>
</tr>
<tr>
<td>Environment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>966.18</td>
<td>312.04</td>
<td>0.71</td>
<td>1,278.93</td>
<td>2,186.66</td>
</tr>
</tbody>
</table>

**Source:** AfDB Statistics Department, Economic and Social Statistics Division.

**Notes:**
- * Including private sources such as commercial banks, export credits and unspecified sources
- ** Including Government and Local financiers
- Magnitude Zero
resources be channeled through the African Development Bank. In response to this, the Bank is developing the Africa Green Fund to receive these new resources.

**Multidonor Thematic Funds**

A total of UA 34.2 million was approved under thematic trust funds in 2010 to support 28 projects. Thematic funds currently support private sector development, water and sanitation projects and programs, the Congo Basin Forest, and Regional Infrastructure Project Preparation.

**Mobilization of Multidonor Thematic Funds:** In 2010, a total of UA 36.7 million was mobilized for multidonor thematic funds. This sum included contributions from Australia and Austria totaling UA 6.2 million for the African Water Facility. Austria contributed UA 1.3 million for FAPA, while Japan replenished the fund with an additional UA 2.6 million. Notably, UA 26.6 million (US$ 42.0 million) was mobilized to establish a Multidonor Trust Fund for Zimbabwe (the Zim-Fund), with contributions from Australia, Denmark, Norway, Sweden, and the UK (see Table 2.2).

**Institutional Partnerships**

During the course of the year, the Bank followed up on the implementation progress of more than 140 partnership agreements and MOUs that had been formalized with over 70 development partners. New strategic partnerships for knowledge development were established with: the Development Bank of Southern Africa (DBSA) and the Government of the Republic of Korea. Furthermore, a partnership was undertaken with the Korea Trade-Investment Promotion Agency for trade and investment promotion; as well as a framework MOU with the Millennium Challenge Corporation (MCC) of the US. The Bank’s tripartite partnership with the World Bank and the European Commission was reinvigorated, with the focus on upstream policy harmonization.

<table>
<thead>
<tr>
<th>Donor</th>
<th>Contribution (millions)</th>
<th>Contribution in UA millions equivalent</th>
<th>Fund</th>
</tr>
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<tbody>
<tr>
<td>Australia</td>
<td>US$ 5.5</td>
<td>UA 3.6</td>
<td>AWF</td>
</tr>
<tr>
<td>Austria</td>
<td>EUR 3.0</td>
<td>UA 2.6</td>
<td>AWF</td>
</tr>
<tr>
<td>Austria</td>
<td>EUR 2.0</td>
<td>UA 1.3</td>
<td>FAPA</td>
</tr>
<tr>
<td>Japan</td>
<td>US$ 4.0</td>
<td>UA 2.6</td>
<td>FAPA</td>
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<tr>
<td>Australia</td>
<td>US$ 9.0</td>
<td>UA 5.3</td>
<td>ZimFund</td>
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<tr>
<td>Denmark</td>
<td>US$ 5.1</td>
<td>UA 3.3</td>
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<tr>
<td>Sweden</td>
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<td>UA 3.4</td>
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<tr>
<td>United Kingdom</td>
<td>US$ 15.5</td>
<td>UA 10.1</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>UA 36.7</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2

Contributions for Multidonor Thematic Funds, 2010