Bank Group Strategic Directions and Priorities

Chapter three

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During 2009 the implementation of the Medium-Term Strategy (2008-2012) underscored the selectivity of Bank Group operations, emphasizing the need for selectivity in the core areas, namely, infrastructure, private sector development, governance, higher education, science and technology. By focusing on these areas, the Bank seeks to contribute toward the broader development objectives of agriculture and food security, human development, regional integration, and meeting the special needs of fragile states and middle-income countries. At the same time, the cross-cutting issues of gender, environment, and climate change continued to be mainstreamed into areas of the Bank’s operations. Looking inward, the institution sustained its drive for institutional reforms to strengthen its internal capacity and business processes in order to maximize the development effectiveness of its operations. In addition, resource mobilization was pursued through the ADF-XI Mid-Term Review; the launching of the ADF-XII Replenishment consultations, and the negotiations for the Sixth General Capital Increase (GCI-VI). The Bank also focused on partnership and cooperation activities with other key players in Africa’s development agenda.

INTRODUCTION

Bank Group operations at end-December 2009 stood at UA 8.06 billion, which is more than twice the 2008 level of UA 3.53 billion. Bank Group support was tailored to country-specific needs, and covered areas such as budget support and trade finance, through the newly established Emergency Liquidity Facility (ELF), the Trade Finance Initiative (TFI), and the development of key private sector infrastructure projects.

While focusing on the short-term challenges emanating from the global financial crisis, the Bank, throughout 2009, continued to be guided by the overarching goals of poverty reduction and sustainable economic growth. In this regard, the Bank continued to implement its Medium-Term Strategy (MTS) 2008-2012, emphasizing the need for selectivity in its operations and focusing, at the sectoral level, on the core operational priority areas, namely, infrastructure, governance, private sector operations, and higher education, science and technology. By focusing on these core areas, the Bank sought to underpin the broader development objectives of agriculture development and food security, human development, regional integration, and the special needs of the fragile states and middle-income countries (MICs). At the same time, the Bank has improved the mainstreaming of the cross-cutting issues of gender, environment, and climate change into its areas of operations. In all its activities, the Bank maintains its commitment to strengthening development effectiveness and results, and to more systematic reporting on performance.

Notwithstanding the significant growth in Bank Group operations during the year, the Bank continued to face challenges in some areas. These included: slow disbursements of loans, poor performance of some of the RMCs’ portfolios, poor project quality-at-entry, and a high proportion of problem projects. The Bank has continued to build its knowledge base through development research and Economic and Sector Work (ESW). The accumulated lessons of experience and best practice, which have accrued from Bank Group operations in various countries, contribute to its knowledge-base and serve to inform future projects and programs. Some of this knowledge is collated by the Bank through reviews of Project Completion Reports (PCR).

DEVELOPMENT EFFECTIVENESS AND MANAGING FOR RESULTS

During the year, the Bank continued to strengthen its operational development effectiveness and results through an enhanced Results Measurement Framework (RMF) and the Action Plan on Quality and Results (APQR). The RMF provided evidence that outputs have contributed to measurable improvements in development outcomes across a range of Bank operations in RMCs.

Results Measurement Framework: The Contribution of Operations to Results

Progress on Country Outcomes

In measuring the progress of ADF countries towards high-level development results during ADF-XI, 19 country outcome indicators were considered. These outcomes are the result of collective action by multiple development actors over time and are aligned to the Bank’s operational priorities as summarized in the MTS (2008-2012). The country outcomes and results revealed the following:

- Real economic growth was strong (around 4 percent per annum) in ADF countries, exceeding growth in African MICs.
- ADF countries’ governance records remain weak.
- The commodity boom, along with food and fuel price increases, helped raise Africa’s share of global trade to more than 3 percent, although the share of intra-African trade registered only a modest rise. Steady improvement in business climate indicators is evident (20-30 percent decline in the time and cost of business start-ups). This new development is likely to raise Africa’s global standing if reforms are deepened and accelerated.
- On infrastructure development, there is evidence of slow improvements in access to safe water and continued rapid growth of ICT in some low-income RMCs.
The Bank’s Contribution to Results on the Ground

During 2009 an assessment of outputs and outcomes of all exiting ADF operations over the previous 3 years (2006-2008) was undertaken. The assessment indicated the following:

- An improved capacity to track outputs and outcomes in 2009 through comprehensive PCRs (72 percent of all 2006-2008 PCRs were available);
- Good record of delivery of planned outputs, with nearly 75 percent of all output indicators achieved or surpassing expectations;
- Significant evidence that outputs have contributed to measurable improvements in development outcomes across a range of ADF priorities;
- An improvement in the share of operations with satisfactory outcomes through better quality-at-entry status and higher effective implementation; and
- A need to improve the outcomes for larger operations through more detailed analysis.

The Bank successfully validated outputs and outcomes for 98 percent of the 112 operations covered during the period 2006-2008, drawing on their PCRs. Improved PCR coverage has facilitated the Bank’s growing focus on results reporting. Overall, there is ample evidence that ADF’s operations have contributed to development results, whether in the form of irrigation systems that lead to higher crop yields, microfinance loans that increase household incomes, or regional integration projects that provide more affordable access to energy.

Further, in 2009 the Bank undertook the measurement of the effectiveness of infrastructure and regional integration projects over the 2006-2008 period. The results show improvements in the following areas: (i) access of goods to markets due to better roads; (ii) provision and generation of power in rural areas and villages; and (iii) health standards through better hygiene and clean water. Over the same period, results indicate that economic growth in the agricultural sector is about four times more effective in raising the income of extremely poor households than economic growth in other sectors. Similarly, there is evidence of an emerging vibrant private sector in ADF countries. The share of ADF countries benefiting from private sector approvals (including regional integration) increased from 55 percent in 2008 to 60 percent in 2009.

Action Plan for Quality and Results [APQR]

The Action Plan for Quality and Results focused on the following 5 areas:

(i) Accelerating Decentralization and Harmonization for Better Results: By the end of 2009 the Bank had opened 26 Field Offices across the continent. The Action Plan calls for a speeding up of decentralization and the empowering of FOs by delegating decision-making authority. Through local recruitment and the transfer of international staff to the field, the total of professional staff based in FOs increased threefold, from 5 percent in 2006 to 15 percent by year-end 2009.

(ii) Enhancing the Quality-at-Entry of Strategies and Operations: To enhance quality-at-entry, the Action Plan makes it simpler to design high-quality strategies and operations and to strengthen the operations review process. Summary indicators of quality-at-entry are now moving in the right direction, with strong progress in the provision of baseline data, improved timeliness of budget support, and a reduction in delays from approval to effectiveness and first disbursements. For instance, the percentage of CSPs with satisfactory baseline data increased from 33 percent in 2006 to 60 percent in 2009, while the quality-at-entry of operations also improved, from 37 percent to 50 percent over the same period.

(iii) Instilling a Results-based Supervision Culture: The share of operations supervised at least twice a year has risen through the use of cost-effective, field-led missions, aimed at preventing problem projects. Institutional reforms were implemented and the delegation of authority to FOs was established. Together, these measures have contributed to improved portfolio management. Processes and formats for operations supervision are being updated to enhance the focus on results.

(iv) Enhancing Learning and Accountability through Evaluation: In December 2008 the Bank updated its completion reporting procedures to ensure timely and joint report preparation with the borrower. A new format for the report was developed and adopted in April 2009, which focuses on results achieved and lessons learned. Consequently, performance on the timely delivery of completion reports increased from 2 percent in 2007 to 91 percent by year-end 2009.

(v) Improving Data and Systems for Results Reporting: The Bank’s information systems do not currently track operational progress toward expected results. In 2008 the Bank began to develop a set of core output and outcome indicators for its main sectors of operation to facilitate the corporate results reporting process. In 2009 the Bank developed a prototype of an automated results reporting system, linking expected results to actual results.
The Bank has addressed several challenges in respect of operations quality enhancement during the year. These include:

(i) **Improving project quality-at-entry**: A project’s quality-at-entry has a strong influence on the attainment of expected results. The Bank has initiated a quality-at-entry assessment (called “readiness review”) aimed at improving the quality of operations prior to Board approval.

(ii) **Requirement for RMCs to submit Project Completion Reports (PCRs) 6 months prior to project completion**: To improve quality, value and timeliness, the Bank has revised its PCR procedures to allow for the joint Bank/RMC preparation of the PCR. This will be voluntary once disbursement reaches 85 percent, while it becomes mandatory at 98 percent disbursement.

(iii) **High proportion of problem projects**: To reduce the number of problem projects, the Bank has initiated a supervision review process to entrench the focus on development results and promote evidence-based performance rating. From 2008 to 2009, problem projects decreased from 7 percent to 6 percent, due to increased vigilance on project restructuring and cancelation.

**INVESTING IN INFRASTRUCTURE**

Good infrastructure is a prerequisite for a business-enabling environment, sustainable economic growth, and hence poverty reduction, which is the primary goal of all Bank Group operations. Under the MTS, the Bank seeks to address poverty through its support to the productive sectors, the success of which depends on improvements in infrastructure. Indeed, the AfDB considers the lack of adequate infrastructure as one of the main constraints threatening the growth momentum in the continent. The negative impact of the global economic crisis on investments in infrastructure in Africa is therefore all the more serious. There has been a withdrawal of foreign investment; moreover the constraints in liquidity and credit in the financial markets have resulted in a scarcity of available funds at reasonable cost, and in the cancelation of credit lines by some financial institutions. In order to counterbalance the effects of the credit crunch, the Bank increased its commitment of resources to the infrastructure sector from both the ADF and ADB windows.

Approvals for infrastructure projects at end-December 2009 amounted to UA 3.91 billion, representing 52.1 percent of all Bank Group loan and grant approvals for the year—the largest sectoral allocation. In terms of the subsector breakdown, power supply received most funding at 57.2 percent (due primarily to the UA 1.7 billion Medupi Power Project in South Africa), followed by transportation (33.1 percent), and water supply and sanitation (7.6 percent) (see Figure 3.1).

The related cross-border infrastructure operations supported by the Bank have assisted in trade facilitation and employment generation, thereby improving subregional GDP growth, strengthening the economic fabric of the countries concerned, and contributing to poverty reduction and equitable development.

![Figure 3.1: Subsectoral Distribution for Infrastructure, 2009](image)
Within the context of infrastructure, the Bank places a high emphasis on regional networks to promote integrated development across the continent. Between 2006 and 2009 the ADF financed 28 energy and transportation operations for which UA 373 million was disbursed. Of this, UA 261 million financed the construction and rehabilitation of 8,000 km of paved and feeder roads in 20 road projects. For example, the UA 30 million Kicukiro–Kirundo Road Project, linking Burundi and Rwanda at the Nemba joint border post, halved the transit time between the 2 countries. An additional 120 km of feeder roads, completed in both countries during the period, provided an estimated 600,000 rural dwellers with access to market centers.

Access to electricity is critical for socioeconomic growth, including the provision of high-quality social services. During the 2006-2009 period, 8 energy projects were funded with a contribution of UA 112 million from the ADF portfolio. These projects installed 200 megawatts of generation capacity, constructed or rehabilitated over 685 distribution substations and transformers, and laid 8,811 km of transmission lines. The Nigeria–Benin Interconnection Project, linking the Nigerian electricity grid to the common grid supplying Benin and Togo, has optimized the countries’ regional access to affordable energy. This enabled the ADF Electrification of 17 Rural Centers Project to extend the power supply from 17 to 28 rural centers in Benin, thereby improving the lives of the rural population by facilitating the proper conservation of vaccines in health centers, new school and street lighting, and internet access for rural libraries. These have improved school attendance, popularized evening studying, and improved teacher and student performance thus reinforcing educational outcomes. This is one example of how investing in infrastructure can contribute to socioeconomic development and poverty reduction in RMCs.

Key infrastructure projects approved in 2009 included: (i) national road projects in Burkina Faso, Cameroon, Chad, Ghana, Guinea, Mali, Malawi, Rwanda, Senegal, Sierra Leone and Uganda; (ii) airport projects in Morocco and Tunisia; and (iii) power projects in Botswana, Kenya, Lesotho, Nigeria, South Africa, and Tunisia. From a regional integration perspective, the Bank approved multinational road projects for Cameroon–Nigeria, Cameroon–Gabon, Kenya–Ethiopia and Mozambique–Malawi–Zambia; as well as international road projects for Tanzania–Rwanda–Burundi. The profiles of these and other projects approved in 2009 are presented at the end of Part 1.

Knowledge development: During 2009 a number of PCRs were produced for infrastructure operations that had contributed significantly to knowledge accumulation and best practices. For example, PCRs conducted for the Cotonou–Porto Novo Road Rehabilitation Project, and the Electrification of 17 Rural Centers Project in Benin revealed the need for the following:

(i) Institutional support to develop tools, including road traffic databanks, for programming, prioritizing, implementation monitoring, and follow-up;

(ii) Facilitating the efficient utilization of urban space through competent town planning, development, and employment of appropriate tools to ensure the integration of road networks in drawing up town and investment plans, and programs;

(iii) Specific studies to integrate the urban dimensions and constraints in infrastructure development, including revisiting the multimodal approach for better adaptation to the urban context;

(iv) Preference for technically appropriate options, even though these are more costly at the outset, e.g. adopting a 3-phase power supply in areas of significant economic potential and single-phase for areas of low potential to lower overall cost and accelerate electrification programs; and

(v) Establishment of a classification of the localities or sets of localities to be electrified as an essential step in the development of a master plan for the electrification of the whole country.

The Water Initiatives

Water plays a pivotal role in socioeconomic development, health, and social welfare, especially for the poor. Accordingly, the Bank continues to place a very high premium on helping its RMCs to meet the MDG water and sanitation targets. Bank support is channeled through its normal operational windows and through 3 complementary water initiatives namely: the Rural Water Supply and Sanitation Initiative (RWSSI), the Multi-Donor Water Partnership Program (MDWPP), and the African Water Facility (AWF) (see Box 3.1). At the end of 2009 the Bank’s water portfolio comprised 65 water and sanitation interventions in 35 African countries, totaling about UA 1.56 billion, from ADB, ADF, and the RWSSI Trust Fund, and 57 projects for UA 56.6 million coming from the AWF.

In 2009 the Bank approved 14 new operations including: 5 urban and peri-urban projects for Cameroon, Congo, Egypt, Mozambique, and Nigeria; 2 rural projects for Rwanda and Senegal; 3 projects in Central African Republic (CAR), Comoros, and Kenya addressing both urban and rural areas; and 4 feasibility studies totaling UA 297.4 million. Also, 3 projects were approved from the RWSSI Trust Fund for an amount of UA 11.07 million. In addition, the AWF approved 14 projects for UA 16.5 million.
1. The Rural Water Supply and Sanitation Initiative (RWSSI)

The RWSSI remains a flagship Bank intervention, with the overall objective of extending safe water and basic sanitation coverage to 80 percent of the rural population by 2015 at an estimated cost of UA 9.22 billion. Since the RWSSI program began in 2003, the Bank has approved 25 operations in 20 countries with total financing of UA 1.44 billion, of which the Bank contributed UA 659 million (UA 600 million from ADF resources and UA 59 million from the RWSSI Trust Fund). The remaining UA 0.79 billion was sourced from development partners, African governments, and the beneficiary communities.

The rural population benefiting from the RWSSI increased from about 6.34 million (for access to safe water) and 4.48 million (for improved sanitation) in 2008, to over 27.0 million people for water and 22.16 million people for sanitation by the end of December 2009. In 2009, 5 new programs were approved by the Board for a total of UA 75 million (UA 64 million from the ADF and UA 11 million from RWSSI TF) for the following countries: Central African Republic, Comoros, Kenya (Phase II), Rwanda (Phase II), and Senegal.

Two new donors, Canada and Switzerland, joined the RWSSI Trust Fund in 2009, with contributions of UA 22.3 million and UA 1.9 million respectively.

2. The Multi-Donor Water Partnership Program (MDWPP)

The MDWPP was established by the Bank, in partnership with the Dutch, Danish, and Canadian governments, in order to operationalize the 2000 Integrated Water Resources Management (IWRM) policy. The program was instrumental in the establishment of the African Water Facility (AWF) and formulation of the RWSSI, as well as the development of a number of guidelines, tools, and handbooks for the water sector. The main activities supported by the MDWPP in 2009 included:

- Leadership role in the thematic session on financing water infrastructure at the Second Africa Water Week;
- Assessments on the implementation status of IWRM in 12 Southern African countries in collaboration with the Global Water Partnership, in support of the Bank’s MTS (2008-2012); and
- A study on Water Governance in Africa and development of Guidelines for Governance Assessments for Water Sector Experts.

3. The African Water Facility (AWF)

The African Water Facility (AWF) is a key initiative led by the African Ministers’ Council on Water (AMCOW), administered by the Bank, to mobilize resources to finance water sector facilitation and investment activities in Africa. AWF has leveraged about UA 215 million as a result of its project activities.

In 2009 two new donors, UK and Senegal, joined the Facility with contributions of GBP 15 million and EUR 175,000 respectively. This increased the number of donors to 11 and cumulative cash contributions to EUR 109 millions (of which, EUR 74.1 million had been received by December 2009). The Bank’s in-kind contribution through its hosting arrangement is valued at UA 1.24 million. The Bank also endorsed a UA 10 million financial contribution subject to approval by the Board of Governors. This will leave a shortfall of UA 89.5 million for the 2010-2012 Operational Program.
DEEPENING PRIVATE SECTOR INVESTMENT

The Bank has made significant progress in enhancing its private sector operations. It is constantly developing and financing diverse projects in various sectors, including infrastructure (power, transportation, and communication), finance, and industry. In 2009, private sector operations amounted to UA 1.16 billion, compared to UA 901.2 million in 2008. Project loans and lines of credit approved in 2009 amounted to UA 1.01 billion; private equity, UA 142.5 million; and private guarantees, UA 5.3 million (see Figure 3.2). The 2009 private sector approvals represent 20.7 percent of ADB and 14.3 percent of Bank Group total approvals, respectively. While the project loans in general were used for accelerating economic growth and reducing poverty, the LOC approvals aimed at deepening domestic financial markets by facilitating small- and medium-size enterprises’ (SMEs) access to finance. Bank Group investments in many sizable multinational projects and programs in the form of loans, LOCs, and private equity aimed to enhance economic cooperation and regional integration among RMCs.

The distribution of private sector operations by country classification for the year was concentrated on regional/multinational projects (51.7 percent), followed by low-income countries (ADF countries) (42.4 percent), and then MICs (ADB countries) (5.9 percent) (see Figure 3.3).

Four notable projects approved in 2009, among the regional/multinational operations, were: the LOC for the Global Trade Liquidity Program (UA 322.1 million); Main One Cable System-Phase I Project (UA 44.1 million); Emerging Africa Infrastructure Fund (UA 33.2 million); and equity investments in Pan African Investment Partners II Limited (UA 32.5 million).

With regard to low-income countries, the two main private sector loans were the SNIM Expansion Project Guelb II (UA 111.7 million) in Mauritania, and the Cocoa Board First and Second Phases (UA 63.9 million) in Ghana. The Bank also provided LOCs to United Bank for Africa PLC (UA 96.6 million) and Intercontinental Bank PLC (UA 67.0 million) both in Nigeria, among others (see the Profiles of ADB-Approved Projects in 2009, at the end of Part 1).

Among MICs, Tunisia benefited from one project loan, namely, for Enfidha Airport (UA 63.2 million), while there was one guarantee loan for Maghreb Leasing Algeria (UA 5.3 million).

As reflected in Figure 3.4, the sectoral distribution of private sector operations indicates that finance received the largest share of allocations (69.5 percent), followed by infrastructure (20.8 percent) and industry...
At year-end 2009, cumulative approvals for private sector projects and programs totaled UA 4.65 billion, compared to UA 3.50 billion in 2008; this represents an increase of 32.9 percent.

Knowledge development: Private sector operations during 2009 contributed significantly to operational knowledge accumulation. Project completion reports prepared during 2009 in this sector have yielded lessons that will inform and improve future Bank Group operations. Some of the lessons and best practices to ensure successful privatization of state enterprises include: (i) properly assessing the viability of the enterprises ex ante; (ii) strengthening the rules governing privatization; and (iii) ensuring the effective rehabilitation of the assets and financial position prior to the enterprises being privatized.

Objectives: The PRSSP-III aims to create an enabling environment for private sector growth, and to enhance transparency in the public financial management system by:

- Improving the business environment and expanding access to credit by the private sector; and
- Supporting reforms to improve the country’s public expenditure and financial accountability in key areas of budgeting and financial reporting, and improving competitiveness and governance in public procurement.

Outcomes/Impact: Under the ADF’s PRSSP-I to PRSSP-III series, Rwanda has transitioned from postconflict reconstruction to development. Its PFM systems have been restored and its governance indicators, including those relating to the Country Policy and Institutional Assessment (CPIA), have continued to improve.

Under PRSSP-III, Rwanda has reformed its laws aimed at better protecting investors. This has boosted its ranking in the World Bank’s “Doing Business Report 2010” by 76 positions to 67/183 in 2009, from a position of 143 in 2008.
Ex-ante Additionality and Development Outcome Assessment (ADOA) of Private Sector Operations

In 2009, 29 of the 30 private sector operations approved by the Bank underwent the ADOA assessment. The value Weighted Average Development Outcomes (WADO) ranged between good and satisfactory, with an average rating of 2.4 on a scale ranging from 1 (excellent) to 5 (unsatisfactory). The value Weighted Average Additionality and Complementarity (WAAC) ranged between positive and strongly positive, with an average rating of 1.7 on a scale ranging from 1 (strongly positive) to 4 (none). The two ratings surpassed the target of 2.5 for WADO and 2.0 for WAAC. These positive development outcomes can be attributed mainly to improved private sector development, and their effects on RMCs’ fiscal positions as well as enhanced infrastructure. The expected improvement in additionality arose mainly from improved project quality and the minimization of financial risk.

SUPPORTING ECONOMIC AND GOVERNANCE REFORMS

To address Africa’s governance challenges in this period of global financial turbulence, Bank Group efforts are guided by its Governance Engagement Principles, as laid down in its Governance Strategic Directions and Action Plan (GAP) for 2008-2012. Visionary leadership, effective institutions, and home-grown capacity constitute the bedrock for the realization of good governance. Credible leadership provides the basis of trust between the State and society that underlies public confidence in the State and expected development benefits, especially poverty reduction. Effective and accountable institutions are critical for delivering long-term development and for providing checks and balances.

In 2009 the Bank Group’s support for governance reforms continued to emphasize greater selectivity and results-orientation, focusing on strengthening economic governance and public financial management at the sector, country, and regional levels. The Bank Group prioritizes improvements in economic and financial governance as core elements to ensure effective, capable, and accountable states. Good economic and financial governance is the means to deliver effective poverty reduction (see Box 3.2).

Box 3.3: Botswana – The Economic Diversification Support Loan (EDSL)

Objective: EDSL, the first General Budget Support (GBS) operation approved by the Bank for Botswana, has the objective of creating competitive conditions for accelerated private sector growth, economic diversification, and poverty reduction. It was a stimulus package responding to the global financial and economic crisis and the country’s need to reduce dependence on its mineral revenues. The EDSL will promote fiscal sustainability by assisting the Government to implement the 2009/10 budget.

Expected Outcomes: (i) Emergence of vibrant non-mineral private sector activity; (ii) increased application of market efficiencies to commercial activities in which the Government continues to be involved; (iii) improved private sector regional competitiveness, while increasing the share of non-traditional exports in total exports; (iv) better regulation of non-bank financial institutions to position Botswana as the preferred offshore financial services center for Sub-Saharan Africa; (v) improved capital market development; (vi) increased FDI inflows; and (vii) enhanced governance in the financial sector.

Modalities: EDSL meets country needs by bridging the fiscal deficit that has arisen in the 2009/10 budget as a result of the global economic downturn. Its main strengths are:

- It uses country systems and monitoring mechanisms built around the national budget;
- It is focused on results;
- It collaborates closely with the IMF and World Bank for implementation and monitoring purposes;
- It enhances dialogue with the Government and other development partners to better address the remaining challenges facing the country, including macroeconomic (e.g. wage bill issues) and social (especially HIV/AIDS, inequality and poverty).

The Bank’s support for RMCs’ governance initiatives is provided from the ADB and ADF windows, as well as from the Fragile States Facility (FSF). The Bank Group uses, among its instruments, a mix of Policy Based Operations (PBOs). These are preferred by most RMCs because they ensure increased national ownership and leadership in the countries’ development efforts, including control over domestic and aid resources to deliver their own development priorities and plans. These operations are also in line with the Bank’s commitments under the Paris Declaration.
on Aid Effectiveness, and as reaffirmed by the Accra Agenda for Action. Presently, most of the Bank Group PBO interventions are in the form of general budget support to RMC governments.

In 2009 the Bank Group further aligned and harmonized its support with joint government donor frameworks, and was Chair of joint donor budget support groups in Burkina Faso, Malawi, and Tanzania. Bank Group PBOs (loans and grants) grew from UA 597.4 million in 2008 to UA 2.09 billion in 2009. An economic crisis-related stimulus package for Botswana accounted for UA 969.0 million (US$ 1.5 billion) of the 2009 total (see Box 3.3). Approvals of new complementary Bank Group institutional support projects to strengthen capacity increased from UA 29.1 million in 2008 to UA 59.3 million in 2009.

The Bank Group’s support to RMCs’ policy and institutional reforms, designed to improve service delivery, has resulted in tangible results (Box 3.4). Moreover, its support to Africa’s fiscal responses to the food, financial, and economic crises has helped to sustain the development momentum. These successes notwithstanding, serious challenges remain, as outlined in Box 3.5.

The Bank has also supported private sector development by promoting the enhancement of the business climate in RMCs.

Box 3.4: Governance - Delivering Results

Bank-supported governance initiatives in the areas below have led to the following outcomes:

**Revenue Management:** In Liberia the establishment of a One-Stop Shop (OSS) Customs Service Facility has improved revenue collection, facilitated pro-poor spending, and maintained the reform momentum during the finance, food, and fuel crises. Institutional reforms in the Gambia Revenue Authority led to an 8.3 percent increase in tax revenue over 2008-09. A 31.0 percent increase in Tanzania’s non-tax revenue occurred over 2005-09, following the implementation of key actions on Natural Resources Concessions and Licensing Management.

**Budget Management:** Automation of the interfaces between sectoral and central ministries in Mali enhanced the timeliness of budget preparation, improving coverage by 39.8 percent over 2008-09. In Comoros, the adoption of a legal framework for public finance management helped improve budgeting. Improved budget planning and execution in the Gambia led to an improved focus on poverty-related expenditure, which accounted for 50 percent of the total amount in 2009.

**Public Procurement:** Fund-supported enactment of the Procurement Act in Tanzania led to a 27 percent increase in compliant agencies. In Benin, ADF-sponsored actions against public procurement delays and fraud led to an average 8-month reduction in delays and to the enactment of fraud sanctions. In Togo, the modernization of public procurement led to a reduction in direct procurement, while in Burkina Faso ADF-backed drive for transparency in public procurement led to a reduction in direct procurement contracts from 15 percent in 2007 to 12 percent in 2009.

**Government Auditing:** Fund intervention reduced the 7-year backlog of audit reports in The Gambia from 7 to 2 years over 2007-09. Similarly, interventions in Sierra Leone and Liberia resulted in backlogs of audit reports declining significantly, while in Rwanda audit coverage of government expenditure improved from 50 percent in 2006 to 55 percent in 2007.

**Business Environment:** In Zambia, the average time needed to register a business decreased to 3-5 days in 2009 from 8 days in 2008 and 35 days in 2006. Similarly in Cape Verde, the average time needed to start up a new business fell from 52 days to just 1 day over the period 2007-08. In Rwanda, the adoption of bills on solvency, business registration, competition, and consumer protection strengthened the private sector regulatory and legislative environment. The timeframe required to transfer ownership of a business in Senegal almost halved from 117 to 60 days.

**Social Outcomes:** In Ethiopia, ADF budget support increased social welfare on a number of levels: regional level expenditure rose from 41 percent to 51 percent between 2004/5 and 2007/8; primary school enrollment increased from 11.4 million to 14.0 million between 2004/5 and 2006/7; net primary enrollment ratio increased by over 10 percent; while access to health services and safe drinking water by the rural population increased from 35 percent to 46 percent.
billion to strengthen public finances in RMCs through enhanced public and budget institutions and processes. The Bank has also invested in shared analytical work with other donors, for instance through the Public Expenditure and Financial Accountability (PEFA) analyses and other diagnostic work in 5 RMCs, and Country Governance Profiles in 3 other countries.

At the sectoral level: The Bank is scaling up its drive to improve governance and combat corruption in high-risk sectors, including infrastructure, water, energy, transportation, and extractive industries. Among other measures, the Bank has issued operations guidance for mainstreaming governance concerns into Bank Group operations. This support includes working through the Making Finance Work for Africa (MFW4A) Partnership, a G8 initiative launched in 2007 with the mission of establishing a common platform for the harmonization and facilitation of financial sector development and knowledge sharing in Africa. During 2009 the MFW4A Secretariat launched its website (http://www.mfw4a.org) to serve as a knowledge hub.

The Bank Group backs African countries’ efforts to improve revenue governance in the extractive industries sector through its support to the Extractive Industries Transparency Initiative (EITI). In 2009 the Bank provided such support to 8 RMCs, of which Liberia became the first African country to complete the EITI validation exercise.

At the regional level: The Bank Group supports a number of regional bodies, initiatives, and networks that promote economic and financial governance. These include the Collaborative African Budget Reform Initiative (CABRI), the African Organization of Supreme Audit Institutions (AFROSAl), and the African Tax Administrators Forum (ATAF) established in 2009. To support good governance in public procurement, in 2009 the Bank convened the heads of African public procurement agencies, to reinvigorate reforms in this area. It also provides financial support to the IMF-initiated African Technical Assistance Centers (AFRITACs).

During 2009 the Bank contributed to the development of a robust and systematic monitoring and reporting framework for the National Plans of Action and improved modalities for civil society engagement to enhance the work of the African Peer Review Mechanism (APRM). The Bank also supported APRM country reviews of Ethiopia, Lesotho, Mauritius, and Mozambique.

Knowledge development: In 2009 the Bank produced several PCRs involving institutional reforms. The lessons learnt from these PCRs include the following:

(i) Training, transfer of knowledge and equipment must be accompanied by appropriate structural, institutional, and organizational changes;

(ii) The successful modernization of public administration is dependent on the existence of national structures that have clear responsibilities for coordinating activities, and that are equipped with adequate resources and staffed with qualified personnel; and
(iii) An integrated framework of aid coordination, programming, and budgeting strengthens the alignment and harmonization of development programs, and helps prevent the duplication of tasks. Such a framework serves to maximize impact on institutional support and capacity development.

PROMOTING SOCIAL AND HUMAN DEVELOPMENT

As elaborated in the MTS, poverty reduction lies at the center of the Bank’s vision. The Bank Group’s interventions contribute to poverty reduction by focusing on activities that bring about strong and equitable economic growth. In the education and health subsectors, this means focusing on (i) higher education, science, and technology (HEST), with the aim of producing the human capital (scientists, engineers, researchers, doctors, etc.), who will serve in the countries’ centers of excellence and (ii) Technical and Vocational Education and Training (TVET) to address the skilled labor requirements of the productive sectors. Investment in the social sector (education, health, etc.) can in this way contribute to human development and poverty reduction.

This orientation of the Bank Group interventions is geared toward helping RMCs attain their respective MDG targets and achieve sustainable levels of economic advancement. Specifically, Bank Group support to the HEST and TVET programs aim to: (i) improve national and regional centers of excellence in science and technology; (ii) build and rehabilitate existing science and technology infrastructure, including tertiary education, and link programs to productive sectors in relevant countries; and (iii) assist RMCs to address critical shortages of trained health professionals and technicians, which is hampering the attainment of the health MDGs.

Bank Group’s Response to the Financial and Economic Crisis in the Social Sector

In response to the global financial and economic crisis, the Bank continued providing targeted support to programs that promote and enhance income opportunities, employment creation, and social protection. The Bank focused on measures aimed at: increasing social protection for unemployed youth; improving opportunities for increasing rural incomes and employment through capacity building; and improving access to financial services by the poor. In July 2009 the Bank, in collaboration with the Association for the Development of Education in Africa (ADEA) (now housed in the Bank) and the World Bank, hosted a conference of African Ministers of Education and Finance, development partners, civil society, and representatives of the private sector on the theme: “Sustaining the Education and Economic Momentum in Africa amidst the Current Global Financial Crisis.” The confer-
ence called for greater cooperation among education sector stakeholders and for better leadership in African countries to safeguard the hard-won gains achieved by RMCs over the past decade.

In 2009 the Bank approved UA 228.6 million for 17 operations in the social sector. Distribution by subsectors shows the dominance of education (UA 199.2 million), followed by poverty reduction and social protection (UA 20.7 million), and health, (UA 8.7 million). Notable approvals include the National Education Emergency Support Program in Morocco; the Improvement of Higher Education and Vocational Training in Public Services in Gabon (see Box 3.6); the Rural Income and Employment Enhancement Program in Uganda, and a grant to support the Network of Regional African Institutions of Science and Technology.

In addition, during 2009 the Bank used part of the US$ 1.0 million grant from the Nigeria Technical Cooperation Fund (NTCF) to finance the Mapping of Science and Technology for Industrial Development in Rwanda, and to support the African Scientific Merit Award program, both linked to the HEST initiative. It also approved 14 grant operations amounting to UA 7.9 million to fund important benchmark studies in 8 MICs. The Bank additionally approved 17 emergency humanitarian assistance operations amounting to UA 8.7 million to support: victims of cholera outbreaks in Zimbabwe and Guinea Bissau, victims of a meningitis outbreak in Chad, and flood victims in Burkina Faso and Comoros.

**Knowledge development:** The lessons and best practices learnt from PCRs conducted in 2009 for the social sector include the following:

(i) Identification of user needs through needs assessment studies to precede project design is critical to ensure that the resulting projects will be comprehensive and address all relevant aspects, such as the cross-cutting issues of gender and the environment, as well as social and economic concerns.

(ii) Community modes of construction have the potential for enhancing the capacity of the rural communities and should be encouraged for education and rural development projects.

(iii) The Bank should endeavor to minimize conditions that are legislative in nature to enhance the speedy fulfillment of loan conditions and effectiveness.

(iv) Effective and intensive community participation through extensive outreach is needed to consult and involve stakeholders from the inception of project design and preparation through to implementation, to ensure continued community support, commitment, ownership, and the success of the project.

**PROMOTING REGIONAL INTEGRATION**

Since its inception, the Bank has been active in regional integration activities in various forms, ranging from support to regional economic communities (RECs), to intra- and inter-regional trade enhancement, cooperation, and capacity building. During 2009 the Boards of Directors approved the Bank Group’s Regional Integration Strategy (RIS) (2009-2012). The Strategy proposes bolder and better-focused interventions for Africa’s
regional integration, as well as closer collaboration with key stakeholders such as the AUC, ECA, and the RECs. The Strategy hinges on regional infrastructure development and institutional capacity building, with aid for trade, regional financial integration, and the provision of regional public goods (RPGs) as cross-cutting dimensions. In 2009 the Bank also developed the first RIS for the Central Africa subregion (2009-2013), which is pending approval by the Boards.

The Bank has also been involved in the strategic formulation of the regional integration agenda of the continent. In particular, it participated in the design and operationalization of the NEPAD Short-term Action Plan (STAP), followed by the design and subsequent prioritization of the Africa Action Plan (AAP) and, recently in 2009, the formulation and design of the Program for Infrastructure Development in Africa (PIDA) (see Box 3.7). Projects recently approved under STAP in 2008/2009 include the Mombasa–Nairobi–Addis Ababa Road, the Bamenda–Mamfe–Abakaliki–Enugu (Cameroon–Nigeria) Highway, and a power interconnection project for Djibouti and Ethiopia.

Total approvals for the Bank Group’s multinational operations in 2009 stood at UA 1.17 billion, which is an increase of 57.9 percent over the 2008 level of UA 741.10 million. Figure 3.5 shows that in 2009, the largest share of multinational approvals went to infrastructure (48.0 percent) followed by finance (45.5 percent).

Private sector operations (PSO) also provide significant support to the Bank’s regional integration objective. The Bank also approved 10 private equity investments for multinational development projects in LICs (see earlier section “Deepening Private Sector Investment”).

Challenges in Regional Integration

The Bank is confronted with the following challenges in its effort to enhance regional integration.

- Inadequate institutional and regulatory frameworks (“soft” forms of infrastructure) to complement physical infrastructure development;
- Inadequate financial and logistical capacities at national and regional agencies involved in advancing the integration agenda;
- Lack of reliable indicators for measuring progress toward regional integration;
- Inadequate human resource capacity and political will to implement agreed integration initiatives; and
- Lack of adequate regional payments systems that will facilitate transborder financial transactions and regional trade.

Box 3.7: The Program for Infrastructure Development in Africa (PIDA)

PIDA is a merger of (i) NEPAD’s Medium- to Long-Term Strategic Framework (MLTSF) Study for the development of continental and regional infrastructure, (ii) continent-wide sector policies, and (iii) a Master Plan initiative that is supported by the African Union Commission (AUC). The merger of all existing African infrastructure initiatives was intended to provide a coherent and strategic framework that will serve as a common platform for defining, implementing, and monitoring regional and continental infrastructure development across Africa. The study is being cofinanced by the African Development Fund (ADF), the Nigerian Technical Cooperation Fund (NTCF), and other donors.

The objectives of PIDA — covering regional energy, transportation, ICT, and transboundary water resources — are to enable African decisionmakers to:

- Establish a strategic framework for the development of regional and continental infrastructure based on a development vision, strategic objectives, and sectoral policies;
- Establish an infrastructure development program around priorities and time horizons up to 2030; and
- Prepare an implementation strategy and process including, in particular, a priority Action Plan.

The Bank Group has been designated as the Executing Agency for PIDA and is implementing the study in collaboration with the AUC and the NEPAD Secretariat. The completion date of the study will be 2011.
As a result of these constraints, many well-intended decisions and action plans taken at African development forums on regional integration have only been partially implemented. The Bank, aware of the critical importance of integration to the realization of Africa’s development goals, has resolved to intensify its investments in both “physical” and “soft” infrastructure to spearhead the continent’s economic progress. At the same time, the Bank will continue to work closely with development partners to address the aforementioned challenges by building and supporting consensus and related action plans, including the following:

(i) Investing in institutional development and capacity building and in the harmonization of trade legislation, policies, technical standards and regulations, thereby facilitating regional trade. In this regard, the Bank in 2009 supported the NEPAD Secretariat through the enhancement of its technical capacity and the facilitation of its transformation into the NEPAD Planning and Coordination Agency (NPCA) of the AU. It provided technical and financial support to the AUC in the formulation of its Infrastructure Strategy, which was subsequently endorsed at the AU Summit in February 2009. The Bank also provided capacity-building support to various RECs, especially ECCAS, UMA, COMESA and ECOWAS, in addition to funding studies to enhance economic and financial integration.

(ii) Building strong partnerships with African institutions like the ECA, AUC, NEPAD, and with RECs and global agencies such as WTO and World Bank to deliver on continent-wide programs such as the STAP and PIDA. The following were some of the activities undertaken under the aegis of these partnerships:

- The publication of Assessing Regional Integration in Africa (ARIA), jointly produced by the ECA–ADB–AUC;
- The establishment of the ADB–AUC–ECA Joint Secretariat Support Office (JSSO), which is, entrusted with the coordination of joint projects and programs;
- Trade facilitation activities with the World Customs Organization, UNCTAD, and the World Bank; and

SUPPORT FOR FRAGILE STATES

The Fragile States Facility (FSF) was established with resources totaling UA 647.8 million provided by both the ADB and the ADF to support the recovery process of the Bank’s fragile member states. The FSF’s grant-supported windows provide: (i) operational support in excess of the performance-based allocation (PBA) for infrastructure rehabilitation and reconstruction; (ii) arrears clearance; and (iii) targeted support for economic and sector work, capacity-building and technical assistance, including secondments.

In 2009 the economic performance of fragile states was badly affected by the global financial and economic crisis. Falling export earnings and declining capital inflows caused serious balance of payments and fiscal difficulties. The accompanying exchange rate volatilities and job losses resulted in per capita income falling by more than 50 percent of forecasts in some countries. This has undermined gains from economic reforms and advances made in the fight against poverty in most fragile states. In response to this critical situation, the Bank approved UA 364.8 million from the FSF to finance 12 operations in Central African Republic, Comoros, Côte d’Ivoire, Guinea-Bissau, Liberia, Sierra Leone, and Togo. Of the 2009 FSF approvals, UA 240.9 million was for arrears clearance for Côte d’Ivoire.

In addition, the Bank has established strong partnerships with the Bretton Woods Institutions, UN agencies, and other organizations supporting governance reforms and providing technical assistance and capacity-building services in fragile states. The Bank is a member of the OECD’s International Network of Conflict and Fragility, and the MDB’s Working Group on Fragility and Conflict. The institution has also intensified collaboration with the AUC and UN agencies, especially UNECA, in undertaking Economic and Sector Work (ESW) on peace and state-building in Africa.

SUPPORT FOR MIDDLE-INCOME COUNTRIES (MICs)

The Bank Group’s approved operations for Middle-Income Countries (MICs) in 2009...
(excluding multinational projects and programs) stood at UA 4.35 billion, which is over 3 times the 2008 level of UA 1.11 billion. This significant increase is primarily the outcome of intensive demand for the Bank’s resources, against the backdrop of the global financial and economic crisis, and the Bank’s subsequent response.

In terms of the Bank’s sectoral focus in MICs, infrastructure remains the top priority at 54.2 percent, followed by multisector at 37.2 percent. The remainder is shared among social (3.9 percent); finance (3.6 percent); and agriculture (1.1 percent) (see Figure 3.6).

The geographic distribution of the MICs’ financing program in 2009 recorded a major shift. Departing from the pattern of the previous 6 years, Sub-Saharan Africa received the majority share (78.2 percent) compared with North Africa (21.8 percent), as shown in Figure 3.7. This shift is the result of the large loans approved for South Africa (UA 1.73 billion for the Medupi Power Project) and Botswana (UA 969.0 million for the Economic Diversification Budget Support Loan).

In terms of financing instruments, project lending (for both public and private sectors) was the major financing vehicle in 2009, accounting for 65.3 percent of total approvals for MIC operations, while policy-based loans (including countercyclical ELF and TFI financing instruments) represented 34.1 percent (see Figure 3.8). Guarantees and grants from the MICs Technical Assistance Fund (TAF), the African Water Facility (AWF), and Special Relief Fund (SRF) made up the remaining 0.3 percent of the resources. The 2009 MICs financing program featured a greater use of small grants from the MICs-TAF, the AWF, and SRF, than in previous years.

In implementing its MICs strategic framework approved in 2008, the Bank deepened its business approach of being more responsive, flexible, and innovative, and thereby more competitive in 2009. In particular, the Bank adjusted its product and pricing flexibility to better meet the needs of MICs.

Agriculture and Rural Development

The Bank Group’s strategy for supporting African agriculture and rural development (ARD) is rooted in the fact that the sector is the mainstay of the economic and social life of most African communities. Consequently, success in this area has an immediate and wide-ranging effect on poverty reduction and improved living standards in most RMCs. The strategy seeks to promote food security by encouraging investments in irrigation infrastructure and agro-processing transportation networks, including storage facilities, markets, and related equipment.

Technologies for Productivity Enhancement and Food Security

The application of irrigation and other agricultural technologies has made high-performing developing countries in East Asia and the Pacific food-secure, as per capita production has outstripped demand. In much of Africa, however, per capita annual growth in production has stagnated at less than 1 percent due to a lack of investment in improved technologies and production methods. In recent years, a promising development has appeared in parts of West, East, and Southern Africa, where the use of NERICA rice seed and hybrid maize combined with properly targeted subsidies for key inputs, have resulted in highly improved yields and output.

To enhance agricultural productivity and production, as well as facilitate efficient distribution and conservation (reducing post-harvest losses), the MTS encourages investments in irrigation infrastructure and in marketing networks (transportation, storage, markets, and related equipment) to ensure food security. It also advocates policies and regulations for the efficient management of food stocks, their unhindered movement within and between countries, as well as good governance of public financial and fiscal resources. In 2009 the Bank approved UA 218 million for 25 agricultural operations. Most approvals were for projects and programs aiming to increase food security through productivity enhancement, infrastructure development, and natural resources and climate change management.
Infrastructure Development, Climate Change Management, and Food Security

The high unit costs and the Group’s disappointing experience with large-scale public irrigation projects have led the Bank to refocus its support for irrigation operations. Currently, the Bank encourages private capital for large-scale irrigation programs, while it concentrates its public funding on promoting small-scale, farmer-operated irrigation and water management systems. The Massingir Dam Project in Mozambique, the Mali Irrigation Development Program, and the National Irrigation Water Saving Program Support Project in Morocco, all approved in 2009, are designed to increase irrigation capacity for small-scale farmers.

The Bank’s forestry interventions mitigate threats to the stability of the ecosystems. These interventions contribute to climate change mitigation and adaptation by enhancing the management of renewable natural resources (water, forestry, and land resources) that provide fundamental life support and reduce the effects of desertification, deforestation, and soil degradation. For instance, the Congo Basin Ecosystems Conservation Support Program approved in 2009 aims to contribute to the sustainable management of forest resources and protected areas, thereby helping to preserve the ecological balance of the planet. The Program seeks to enhance the socioeconomic wellbeing of the affected population while enabling them to adapt to climate change.

Inter-Agency Cooperation for Improved Delivery of Food Security Outcomes

Most agricultural projects approved in 2009 are designed to be implemented within the framework of existing inter-agency partnerships in respective RMCs. Cooperation enables the Bank to draw from other partners’ experiences and expertise, while ensuring inter-agency harmony in accordance with the Paris Declaration on Development Effectiveness. The Bank is working in partnership with the AUC and the ECA in ClimDev Africa, and with the World Bank in implementing the Pilot Program for Climate Change Resilience in Zambia and Mozambique.

The 2009 AfDB/IFAD evaluation of agriculture and rural development projects and programs in Africa reaffirmed the importance of this sector for the continent’s socioeconomic development, while identifying a wide range of challenges and constraints. The evaluation concluded that there is a need to strengthen sectoral policies, especially at the country level; to improve the operational performance of lenders and governments; and to develop a more efficient division of labor and stronger partnerships among stakeholders. While recommending the Bank’s continued engagement in agriculture, the evaluation urged greater selectivity and alignment with the Bank’s strategic priorities, with a focus

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<td>Irrigation Activities</td>
<td>Weak capacity of national contractors; weak irrigation management systems</td>
<td>Relevant training programs; private sector participation in large-scale irrigation</td>
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<td>Pre- and Post Harvest Loss (PHL) technologies</td>
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<td>Inadequate resources for the sector</td>
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<td>Several of the 2009 approvals being undertaken jointly with partner institutions.</td>
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on innovative approaches within the Bank’s areas of comparative advantage and strategic priorities. Accordingly, most agricultural interventions approved in 2009 relate to infrastructure, as this is key to achieving food security and is therefore assigned the highest priority in the MTS. In addition, the Bank took account of the findings and recommendations of the AfDB/IFAD evaluation in preparing its Agriculture Sector Strategy (2010-2014) in 2009, which will be considered by the Boards of Directors in 2010.

To improve portfolio supervision and delivery in its operations, the Bank is progressively delegating authority and strengthening the skills mix in its Field Offices. Consequently, 58.5 percent of agricultural projects were rated as satisfactory and only 5.7 percent as problematic during 2009, compared to 50.0 percent and 13.0 percent respectively in 2007. These achievements are encouraging but the sector’s development continues to encounter serious challenges (see Box 3.8).

Knowledge development: The main lessons learned from the PCRs prepared during 2009 for agriculture and rural development interventions can be summarized as follows:

(i) In cofinanced interventions, coordination and communication between the cofinanciers and district, regional, and national authorities are vital for the smooth and successful implementation of the project;

(ii) Improving smallholder agriculture through projects that combine agriculture and infrastructure development components is important and should be adopted more widely in relevant Bank Group operations;

(iii) Cofinancing demand-led agriculture and rural development programs with IFAD has proven to be cost-effective; the PCRs also illustrate the advantages of communal land ownership in protecting the rights of access to land and water by the poor, including women;

(iv) The successful transformation of the microfinance project implementation unit for the Rural Microfinance Project in Uganda into a fully-fledged Center for Microfinance Operations based on private sector principles is worth emulating.

Africa Food Crisis Response (AFCR) Implementation: Status and Results
The AFCR initiative was adopted as the framework for accelerated Bank support to RMCs facing food shortages and exorbitant prices. Over the short-term, AFCR sought to reduce the risk of increased poverty and hunger by supporting food production, using funds raised from the realignment of various types of operations including: (i) revisions of List of Goods and Services (LOGS) of ongoing agricultural operations and scaling up the food production components; (ii) use of undisbursed balances of closed operations and of savings from completed agricultural and non-agricultural operations; (iii) budget and balance of payment support programs; (iv) allocations from the Bank’s surplus income; and (v) increased NERICA rice seed production and dissemination.

During 2009 the Bank allocated UA 415.6 million, from the various sources indicated in Box 3.9, to finance the AFCR short-term program. Of this amount, UA 339.0 million, representing 81.6 percent of the allocated amount, has been disbursed. At the end of the program period in July 2009, about 2.1 million beneficiaries (34 percent women) in 28 RMCs had received agricultural inputs.
from the AFCR interventions. Preliminary results for this support provided during the 2008/2009 crop season show significant increases in production during 2009/2010, compared to 2007/2008: rice production rose to 715,400 mt from 159,530 mt; maize to 3,550,000 mt from 182,170 mt; sorghum, 644,680 mt from 146,750 mt; and millet, 215,000 mt from 66,700 mt. The NERICA rice seed initiative increased seed production from 1,390 mt in 2007/2008 to 16,674 mt in 2009/2010.

In the medium to long term, AFCR has focused on improving primary and rural infrastructure, water resource management, and increasing access to inputs. Efforts are continuing to operationalize the Africa Fertilizer Financing Mechanism, to expand NERICA rice seed production and distribution, build capacity, enhance policy dialogue, promote trade and agricultural research, and establish the Africa Food Crisis Response Facility.

The Bank’s private sector window has initiated a number of different approaches: to channel LOCs to agricultural SME producers; direct lending to strategic partners involved with smallholder farmers; to set up private agribusiness equity funds; to support fertilizer projects; and to promote public–private partnerships in agriculture. The AfDB-cofinanced AgriVie Project approved in 2009 will avail equity funds of between US$ 3.0 million and US$ 7.0 million per qualifying agribusiness firm. In 2009 the Bank also approved a business plan to increase Africa’s water storage capacity by at least 8.5 billion m³.

CROSS-CUTTING ACTIVITIES

Environment and Climate Change

During 2009 the Bank approved the Climate Risk Management and Adaptation (CRMA) Strategy as a follow-up to the Clean Energy Investment Framework (CEIF) for Africa. The CEIF set the agenda for mainstreaming clean energy options, by promoting investments in accessing cleaner energies and strengthening energy efficiency in all sectors. The CRMA Strategy on the other hand seeks to: (i) improve the effectiveness of Bank-financed investments by reducing their vulnerability and promoting their resilience to climate variability and (ii) ensure sustainability by building RMCs’ capacity and knowledge to address the challenges of climate change through policy and regulatory reforms. Both the CEIF and the CRMA constitute the Bank Group’s policy on climate change.

In 2009 the Bank reviewed about 170 projects in its 2010–2012 pipeline to identify those eligible for carbon financing from the Clean Development Mechanism (CDM) so that CDM components may be built into the qualifying projects at project design. The Bank also carried out staff training to help identify projects suitable for carbon financing and to build relevant implementation measures into project design. The Bank has successfully offset its carbon footprint (compensated for global carbon emissions) attributable to air travel of its participants to its 2009 Annual Meetings and for its participation at the Copenhagen Climate Change Conference.

In order to implement the CRMA during the year, the Bank undertook a preliminary assessment of 206 projects approved since 2007 in infrastructure, energy, water and sanitation, and agriculture in respect to their exposure to climate risks. Of these, about 66 (32 percent) were classified as susceptible to climate change. In 2009 the Bank secured UA 4.5 million from the GEF (Global Environment Facility) resources in order to “climate-proof” some of its projects. Efforts are being made to find more resources to climate-proof all Bank projects. The Bank has collaborated with the World Bank’s Climate Change Team to develop a computer-based, climate-risk screening tool for use at project/ program design stage. At the country level, the Bank has carried out capacity building for mainstreaming climate change, risk reduction in the National Development Plans of 3 RMCs, and has mobilized GEF resources to build climate resilience into projects in 6 RMCs, and in one regional operation in the Congo Basin.

In addition, the Bank has undertaken audits of the implementation of the Environmental and Social Management Plans (ESMPs) of selected Category 1 and 2 infrastructure projects. The audit reports indicated the need for more thorough environmental supervision by experienced staff during project implementation; it also proposed comprehensive environmental and social impact monitoring checklists.

Bank’s Support to RMCs to Deliver on Copenhagen Outcomes

In preparing for the Copenhagen Conference on Climate Change, the African Ministerial Conference on the Environment (AMCEN) and the African Union requested technical assistance from the Bank to: (i) equip African negotiators with relevant negotiating skills on key issues; (ii) organize consultations to harmonize subregional positions into a single coherent African position; and (ii) provide technical and analytical support during negotiations. The Bank provided consultants in legal, finance, and policy areas. It also organized a training workshop focusing on Reducing Emissions from Deforestation and Avoiding Degradation (REDD+) for the negotiators and other designated national officials. At the conference, the African Group proposed the creation of a short-term Climate Change Fund to be administered by the AfDB. The Copenhagen Accord that emerged from the conference endorsed the establishment of the Copenhagen Fund, consisting of a US$ 30 billion short-term funding for immediate actions until 2012 and US$ 100 billion annually by 2020 in long-term financing.
Gender Mainstreaming
In cognizance of the findings and lessons drawn from the mid-term review of the Gender Plan of Action 2004-2007 (GPA-1), the Bank approved the Updated Gender Plan of Action 2010–2012 (UGPA) in July 2009. The Bank also undertook gender assessments in poverty reduction, health, and education projects, and a multinational study on gender-responsive budgeting. In addition, it finalized Country Gender Profiles for South Africa and Kenya and sensitized RMCs on the need to provide gender-disaggregated data at all levels.

To improve quality-at-entry, the Bank has strengthened the focus on gender-responsive indicators and monitoring throughout the institution and has developed gender mainstreaming checklists. In addition, it provided training for Bank staff on the use of the checklists, the design of appropriate gender-responsive strategies, and ways of identifying appropriate entry points for gender mainstreaming during project design.

For the purposes of inter-agency collaboration, coordination, harmonization, and exchanging lessons of experience and best practices in gender mainstreaming, the Bank is represented in the OECD GenderNet and participated in the MDB workshop on Gender Mainstreaming in Infrastructure Projects. The Bank is also working closely with partners in the Steering Committee, preparing for the upcoming Beijing+15 in addition to responding to gender violence in fragile states.

RESOURCE MOBILIZATION
Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Progress Report
The Enhanced HIPC Initiative provides debt relief to the poorest and most heavily indebted countries after they have reached their decision and completion points. During 2009, two RMCs (Burundi and Central African Republic) reached their completion points, while Togo and Côte d’Ivoire reached their decision points. As at end-December 2009, 21 RMCs had reached their completion points and qualified for irrevocable HIPC debt relief, 8 were in the interim period between decision and completion points, and 4 were at the pre-decision point (see Figure 3.9).

Irrevocable HIPC debt relief of UA 161.6 million and UA 65.9 million was approved at completion point for Burundi and the Central African Republic, respectively, while HIPC relief of UA 11.6 million and UA 133.4 million was approved at decision point for Togo and Côte d’Ivoire, in that order. The total HIPC debt relief approved in 2009 amounted to UA 372.6 million.

Cost of the HIPC Initiative
The overall cost of debt relief for the 40 countries around the world that are potentially eligible for HIPC assistance is currently estimated at US$ 74.0 billion in nominal terms, of which the costs to multilateral creditors account for about 46.0 percent (US$ 34 billion). The Bank Group’s share is estimated at US$ 5.77 billion, representing about 8.0
percent of the HIPC Initiative’s cost to all creditors and 17.0 percent of the cost to multilateral creditors. The total debt relief of US$ 5.77 billion (UA 3.58 billion) in nominal terms, equivalent to US$3.87 billion (UA 2.40 billion) in NPV terms, has been committed by the Bank Group to the 33 RMCs under the HIPC Initiative. The breakdown of the costs by HIPC status and the amount delivered from the commitment is shown in Figure 3.10 and in Annex II-15.

**Multilateral Debt Relief Initiative (MDRI)**
The MDRI provides additional debt relief to eligible RMCs that have reached their HIPC completion point. Under the MDRI, donors are committed to cancel ADF loans for debts outstanding and disbursed as of the cut-off date of end December 2004, and 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 estimated cost of the MDRI is UA 5.54 billion (US$ 8.92 billion) (see Annex II-16). MDRI debt relief of UA 3.2 million and UA 59.9 million were approved for Burundi and Central African Republic, respectively, which will be spread over a 50-year period. The total debt relief provided to the 21 MDRI-eligible RMCs in 2009 is estimated at UA 47.1 million (US$ 75.8 million).

**ADF-XI Resources, Allocation, and Utilization as at end-December 2009**
The total resources for the ADF-XI 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 ADF-XI resources available amount to UA 5.95 billion. The amount set aside from ADF-XI resources for the Fragile States Facility (FSF), regional operations, Project Preparation Facility (PPF) and contingencies total UA 1.81 billion. This leaves UA 4.14 billion available for allocation to the 40 ADF-eligible RMCs under the Performance-Based Allocation (PBA) process. As of end-December 2009, UA 2.70 billion (65.2 percent) of the available resources using the PBA had been allocated and committed.

The PBA system determines the amount of ADF resources 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 2009 is presented in Box 3.10.

**ADF-XI Mid-Term Review/ADF-XII Replenishment Consultations**
The meeting for the ADF-XI Mid-term Review was held in Helsinki, Finland, from October 20-21, 2009. Participants included ADF Deputies, Bank Management and observers from other MDBs, and 4 Ministers of Finance from Burkina Faso, the Democratic Republic of Congo, Liberia, and Uganda. The meeting broadly endorsed the implementation of Management’s commitments and priorities agreed for ADF-XI and the progress achieved at mid term. The key issues considered focused on infrastructure, regional integration, results management, institu-
tional reforms, and endorsement of the PBA system (see Box 3.11). The meeting also paved the way for launching the ADF-XII Replenishment Process.

**Sixth General Capital Increase (GCI-VI)**

In 2007 the High-Level Panel laid out a vision for the Bank to become the premier development finance institution in Africa. The Bank’s Medium-Term Strategy (MTS) 2008-2012 espoused the principles laid out by the High-Level Panel report and charted a way forward for the Bank. Since 2007, the Bank’s lending volumes have been on an upward trajectory, in response to increasing demand from RMCs. The MTS therefore projects the need for a capital increase by 2012.

The ability of African countries to raise funds to finance their development programs and investments has been particularly affected by the global financial crisis. This is attributable mainly to a collapse in demand for, and in most cases also the price of, commodities that constitute the bulk of Africa’s exports. Furthermore, RMCs’ access to capital markets has deteriorated significantly.

As a result, the demand for lending from the Bank has increased. Pre-crisis demand for 2009 was estimated at UA 5.0 billion and was increased to UA 8.06 billion as at end-December 2009. The demand is projected to remain high in the medium to long term. Accordingly, at the Bank’s 2009 Annual Meetings held in Dakar, Senegal, the Board of Governors authorized the Governors’ Consultative Committee (GCC) to meet and make a compelling case for a Sixth General Capital Increase. The meeting was held in Tunis on September 11, 2009 to launch the GCI-VI consultative process. Various scenarios for a capital increase were considered. Given expectations of a sustained high demand from RMCs for Bank support, a significant capital increase with a substantial paid-in portion would be required for the Bank to continue to deliver on its mandate.

**Non-Voting Callable Capital Increase**

During the year ending December 31, 2009, the Board of Directors endorsed a proposal made by Canada and the Republic of Korea offering to subscribe temporarily to additional non-voting callable capital of the Bank for the amounts of US$ 2.60 billion and US$ 306.0 million respectively. On December 24, 2009, the Board of Directors submitted the proposal to the Board of Governors for consideration.

**PARTNERSHIPS AND COOPERATION ACTIVITIES**

The Bank has continued to reinforce its strategic relationships during 2009 with various development partners, including bilateral aid agencies, multilateral development institutions, African civil organizations, regional economic communities (RECs), and private sector organizations. This has involved consultations with representatives of all 18 bilateral and multilateral development partners of the Bank. These consultations helped to identify common areas of interest and to examine how best to collaborate in order to move forward the African development agenda.

The purpose of the Bank’s partnerships and cooperation activities is to supplement Bank Group lending and human resource capacity through the mobilization of financial inputs and technical assistance, mainly via cofinancing, technical cooperation arrangements, and secondments. This approach is fully in line with the Paris Declaration on Aid Effectiveness.

**Cofinancing Operations**

During 2009 the Bank approved 36 cofinancing projects, compared to 31 in 2008. The total cost of these projects amounted to UA 19.16 billion, compared to UA 8.05 billion in 2008, which is an increase of 138.0 percent. The Bank Group’s contribution amounted to UA 3.89 billion (20.3 percent of the total), external partners contributed UA 11.66 billion (60.9 percent), while government and other local contributions accounted for UA 3.61 billion (18.8 percent). The amount invested by the Bank Group in cofinancing projects in 2009 is by far the highest since the start of its activities (see Figure 3.11).
The total amount invested in cofinancing activities is also a record amount, mainly due to the pooling of efforts by multilateral and bilateral agencies to jointly cope with the negative impact of the global financial crisis.

Over the 12-month period to end-December 2009, the Bank Group mobilized UA 11.66 billion from its external partners to cofinance 28 national projects and 8 multinational projects, compared with UA 4.74 billion in 2008, i.e. an increase of 141.8 percent (see Table 3.1). The volume mobilized in 2009 from multilateral and bilateral partners was UA 4.75 billion, which is a 3.2 percent increase over the UA 4.60 billion mobilized in 2008. Among the multilateral partners, the main cofinanciers were: the World Bank, the European Union (EU), the European Investment Bank (EIB), the Islamic Development Bank (IsDB), and the OPEC Fund. The principal bilateral cofinanciers were France, the United Kingdom, Japan, the Netherlands, and Germany (see Figure 3.12).

In addition to contributions from multilateral and bilateral partners, a further UA 6.92 billion was provided by private sector institutions, compared to UA 139.2 million in 2008. The private sector played a key role by financing 3 regional and 6 national projects.

Local firms, governments, and other beneficiaries committed UA 3.61 billion to projects and programs in 2009, a 95.1 percent increase from 2008 when the local contribution stood at UA 1.85 billion.

The sector that benefited the most from cofinancing in 2009 was infrastructure (power, transportation, communications, and water and sanitation), which rose sharply to UA 13.96 billion from UA 1.05 billion in 2008. This reflects the Bank’s heavy investment in power interconnections, to which public–private partnerships contributed UA 6.55 billion, while the Bank and multilateral partners

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**Table 3.1: Cofinancing Operations by Source and Sector, 2009, (UA millions)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>SOURCE OF COFINANCING</th>
<th>Bank Group Contribution</th>
<th>External Sources</th>
<th>Multiannual Projects</th>
<th>Total</th>
<th>Multiplier Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADB</td>
<td>ADF</td>
<td>NTF</td>
<td>Total</td>
<td>Bilateral</td>
<td>Multilateral</td>
</tr>
<tr>
<td>Agriculture and Rural Development</td>
<td>0.65</td>
<td>50.50</td>
<td>-</td>
<td>51.15</td>
<td>30.25</td>
<td>69.97</td>
</tr>
<tr>
<td>Social</td>
<td>64.63</td>
<td>-</td>
<td>-</td>
<td>64.63</td>
<td>43.08</td>
<td>33.64</td>
</tr>
<tr>
<td>Water Supply &amp; Sanitation</td>
<td>49.29</td>
<td>8.00</td>
<td>-</td>
<td>57.29</td>
<td>54.27</td>
<td>4.15</td>
</tr>
<tr>
<td>Power</td>
<td>1,926.11</td>
<td>50.00</td>
<td>-</td>
<td>1,976.11</td>
<td>109.02</td>
<td>2,098.13</td>
</tr>
<tr>
<td>Communications</td>
<td>83.66</td>
<td>-</td>
<td>-</td>
<td>83.66</td>
<td>73.87</td>
<td>31.93</td>
</tr>
<tr>
<td>Transport</td>
<td>106.50</td>
<td>685.09</td>
<td>-</td>
<td>791.59</td>
<td>237.45</td>
<td>429.44</td>
</tr>
<tr>
<td>Finance</td>
<td>33.32</td>
<td>-</td>
<td>-</td>
<td>33.32</td>
<td>-</td>
<td>33.22</td>
</tr>
<tr>
<td>Multisector</td>
<td>605.53</td>
<td>81.30</td>
<td>-</td>
<td>686.83</td>
<td>298.49</td>
<td>702.97</td>
</tr>
<tr>
<td>Industry, Mining and Quarrying</td>
<td>111.75</td>
<td>-</td>
<td>-</td>
<td>111.75</td>
<td>67.05</td>
<td>118.13</td>
</tr>
<tr>
<td>Environment</td>
<td>-</td>
<td>32.00</td>
<td>-</td>
<td>32.00</td>
<td>-</td>
<td>5.00</td>
</tr>
<tr>
<td>Total</td>
<td>2,981.33</td>
<td>906.87</td>
<td>-</td>
<td>3,888.22</td>
<td>913.48</td>
<td>3,031.58</td>
</tr>
</tbody>
</table>

Source: ADB 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.
provided UA 1.98 billion and UA 2.10 billion, respectively. It also reflects the Bank’s selectivity in line with the priority areas identified in its MTS, namely to focus on infrastructure projects in its RMCs and thereby enhance regional integration. The second largest beneficiary was the social sector, which received UA 2.64 billion; followed by multisector, UA 1.73 billion (see Table 3.1).

Technical Cooperation Activities
The Bank mobilizes and manages Technical Cooperation Funds (TCFs), as well as in-kind expertise (technical assistance, seconded staff, etc.) from donors to complement its own resources. During 2009, a total of 16 staff was seconded to the Bank and 10 Technical Assistance experts continued to work with the Bank. The TCFs were provided in the form of bilateral or multidonor trust funds.

Bilateral Trust Funds
Use of Bilateral Trust Funds: As at December 31, 2009, a total of UA 12.0 million had been approved under the bilateral trust funds for 64 activities, compared with UA 12.5 million in 2008. These activities were in the priority areas of the Bank, namely, infrastructure, governance, private sector, regional integration, and climate change. Italy was the largest donor (UA 2.6 million), followed by Korea, (UA 1.7 million), and Finland (UA 1.38 million).

Multidonor Thematic Funds
Mobilization of Funds: In 2009 a total of UA 21.7 million was mobilized for multidonor thematic funds. These funds included: UA 13.7 million (EUR 15.0 million) from Spain for the new Microfinance Trust Fund; UA 5.5 million (EUR 6.0 million) from France; and UA 129,000 (US$ 200,000) from IFAD for the Migration Trust Fund. Switzerland contributed UA 1.9 million (CHF 3 million) to the new thematic Trust Fund on Governance.

Institutional Partnerships
During 2009 the Bank continued to follow up on the implementation of MOUs with emerging donors, private sector, knowledge institutions, and traditional partners. New agreements were signed with the Exim Bank of India, the Public Procurement Service of Korea, Germany, Japan Bank for International Cooperation (JBIC) and African Humanitarian Action (AHA). During the year, the Bank conducted a review of progress and achievements made under each partnership agreement.