

**THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN AFRICA'S  
DEVELOPMENT: A CASE STUDY OF THE AFRICAN DEVELOPMENT BANK**

**BY**

**CHEROTICH HAYZEL SEREM**

**R51/69199/2013**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF DIPLOMACY,**

**UNIVERSITY OF NAIROBI**

**OCTOBER 2016**

**DECLARATION**

I, Cherotich Hayzel Serem hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed..... Date.....

Cherotich Hayzel Serem

**R51/69199/2013**

This project has been submitted for examination with my approval as University Supervisor;

Signed..... Date.....

Dr. Patrick Maluki

## **DEDICATION**

This project is dedicated to my parents and siblings.

## **ACKNOWLEDGEMENTS**

I would like to thank the Almighty God, and my supervisor Dr. Patrick Maluki for his great support throughout the project not forgetting the African Development Bank for their commitment and resources.

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	<b>ii</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>iv</b>
<b>TABLE OF CONTENTS</b> .....	<b>v</b>
<b>LIST OF FIGURES</b> .....	<b>vii</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>viii</b>
<b>ABSTRACT</b> .....	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background.....	1
1.2. Statement of the Problem.....	2
1.3. Objectives of the Research .....	3
1.3.1. General Objective .....	3
1.3.2. Specific Objectives .....	3
1.4. Justification.....	4
1.5. Literature Review .....	6
1.6. Theoretical Framework.....	14
1.7. Research Methodology .....	16
1.7.1. Research Design.....	16
1.7.2. Study Area .....	17
1.7.3. Target Population .....	17
1.7.4. Sampling Procedures.....	17
1.7.5. Data Collection Procedure.....	17
1.7.6. Research Instruments .....	18
1.7.7. Data Analysis .....	18
1.7.8. Scope/Delimitations of the Study .....	18
1.8. Chapter Outline .....	19

<b>CHAPTER TWO: EVALUATING THE IMPACT OF IFIS ON AFRICA’S DEVELOPMENT .....</b>	<b>20</b>
2.1 Impact of IFIs on Africa’s Development.....	20
2.1.1 Defining Development.....	20
2.1.2 Africa’s Development in the Pre and Post-Colonial Era .....	21
2.1.3 Perspectives on Africa’s Development.....	22
2.2. Eradicating Poverty in Africa .....	25
2.3. The Role of the African Development Bank .....	28
2.3.1 Trends in Africa’s Trade.....	31
<b>CHAPTER THREE: AFRICA’S DEVELOPMENT FROM 1990 TO PRESENT DAY.....</b>	<b>35</b>
3.1 Tracking Africa’s Development.....	35
3.1.1 Human Development.....	36
3.1.2 Economic Performance, Inclusiveness, and Structural Transformation .....	36
3.1.3 Governance, Fragility, And Security .....	38
3.1.4 Regional Integration, Trade, and Investment .....	39
3.1.5 Infrastructure Development .....	40
3.1.6 Agriculture, Food Security, and A Greener Environment.....	41
3.2 The Current State of African Development.....	41
<b>CHAPTER FOUR: SUCCESSES AND CHALLENGES OF THE AFRICAN DEVELOPMENT BANK .....</b>	<b>46</b>
4.1. The Strengths of the AfDB .....	46
4.2. Key Challenge: Lending to Middle-Income Countries .....	47
4.2.1. Business Practices and Financial Policies of the AfDB .....	48
4.2.2. Comparison of AfDB to other MDB .....	51
<b>CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS.....</b>	<b>62</b>
5.1 Recommendations for the AfDB.....	63
<b>BIBLIOGRAPHY .....</b>	<b>68</b>

## LIST OF FIGURES

Figure 1. Inequality among SSA regions, (Populations in %) 1995-2010. AfDB Working Paper Series.....	27
Figure 2: Assessment of the Trade Finance Market in Africa Post-Crisis (1999-2009) .....	32
Figure 3: Assessment of Africa’s Exports. African Development Bank Group Working Paper Series 118.....	33
Figure 4: World Human Development Index 2013 .....	44
Figure 5: Proposed portfolio of new approvals for 2010 and 2015 (new approvals, loans and grants). African Development Bank Group Working Paper Series. ....	66

## **LIST OF ABBREVIATIONS**

AfDB	African Development Bank
AICHA	Agricultural Initiative to Cut Hunger in Africa
AsDB	Asian Development Bank
AU	African Union
CSOs	Civil Society Organizations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Highly Indebted Poor Countries
IFI	International Financial Institutions
IMF	International Monetary Fund
MDBs	Multilateral Development Bank
MDGs	Millennium Development Goals
NGO	Non-Governmental Organizations
OAU	Organization of African Unity
ODA	Overseas Development Assistance
SAPs	Structural Adjustment Programmes
SDG	Sustainable Development Goals
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
UNIRD	United Nations Institute of Research and Development
WTO	World Trade Organizations



## ABSTRACT

Africa's development, despite having billions injected into its advancement still remains at best gradual. Poverty levels still remain relatively high as compared to other parts of the globe hampering socio-economic growth in the continent. The interplay between economic and non-economic factors are vital in understanding the dynamics of socio-economic development. The latter justifies the inefficiencies of conditional loans imposed by IFI's as history depicts these organizations as lacking knowledge of the environments in which they distribute their loans. Therefore, IFI's have been ineffective in achieving development in the African continent. The overall objective of the AfDB Group is to support the economic development and social progress of African countries individually and collectively, by promoting investment of public and private capital in projects and programs designed to reduce poverty and improve living conditions. Combating poverty is at the heart of the Bank's efforts to assist the continent to attain sustainable economic growth. Despite its growing profile, however, the AfDB's standards and capacity to implement them remain behind similar institutions when it comes to social and environmental responsibility. It is making strides with its new disclosure policy and the development of a modern safeguards system. At the same time, with increasing demand from Civil Society Organizations (CSO's) for participation and accountability, the AfDB is slowly becoming more responsive to the public it is meant to serve. However, even as the Bank becomes more open, its appetite for risky projects continues unabated, particularly within the infrastructure, energy and agriculture sectors.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

International Financial Institutions (IFI's) are multilateral institutions established to foster economic development particularly in low and middle income economies<sup>1</sup>. Ordinarily, their role has been to provide aid and low interest loan programs to governments. IFI's equally have a significant role in supporting the private sector in less developed countries (LDC's) achieve sustainable growth and development through poverty reduction strategies.

Notable examples of IFI's include the Bretton Woods institutions which encompass the World Bank and the International Monetary Fund (IMF). These institutions have come under close scrutiny as they have had dismal unsatisfactory outcomes especially in Africa despite having a relationship with the continent for over two decades. Africa's economic growth is gradually progressing with limited accolades awarded to the Bretton Woods systems. Paradoxically, the Bretton Woods policies appear to have negated most of Africa's economies by rendering them heavily indebted poor countries (HIPC's)<sup>2</sup>. Subsequently, this incompetence necessitated the emergence of other IFI's that sought to reconstruct the fallen economies without creating more debt and avoiding dependency through various strategies such as entrepreneurial initiatives. The African Development Bank exemplifies the latter.

Established in 1964 with a mandate to reduce poverty and promote economic and social development in Africa, the African Development Bank is becoming a major financier for

---

<sup>1</sup> David Williams. (2000). *Aid and sovereignty: Quasi-states and the international financial institutions*. Review of International Studies. British International Studies Association.

<sup>2</sup> William Easterly. (2002). *How Did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief*. Center for Global Development, Institute for International Economics, Washington DC, USA.

development on the continent. Long considered a small player, AfDB is making strides toward fully joining the ranks of its sister institutions under increasing scrutiny from civil society. The African Development Bank (AfDB) is similar to the World Bank in that it lends money and gives grants to African governments and invests in private companies operating in Africa. The AfDB is increasingly taking a leadership role in initiatives to promote infrastructure financing and regional integration in Africa. In 2008, AfDB lending on the continent surpassed that of the World Bank for the first time<sup>3</sup>.

Despite making great strides as an African based IFI, AfDB still faces a few challenges which include; insufficient capital growth, poor governance, unfair competition compared to other international donors and its loan structures. These shortcomings render the AfDB ineffective in its mandate to fight poverty in the continent. This research project seeks to determine the AfDB's growth, shortcomings and successes since its inception as regards Africa's development process.

## **1.2. Statement of the Problem**

Africa's instability can be attributed to several variable factors which include; economic, political, population, climate and environment, ethnic composition, militarization, poor growth and political corruption. However, none of these factors can unilaterally explain the relationship between poverty, conflict and development issues in Africa's instability<sup>4</sup>. In spite of the fact that the African continent exceeds in its size and natural resources the combined territories of Europe, the United States and China, yet most Africans must struggle for bare survival<sup>5</sup>. In much of

---

<sup>3</sup> Jacob Pritchard. (2013). *The role of development banks in the economic revival of transition economies*. ECN 5100 Economics of Transition.

<sup>4</sup> Ikejiaku Brian-Vincent. (2009). *The Relationship between Poverty, Conflict and Development*. *Journal of Sustainable Development Vol 2. No. 1*. Research Institute for Law, Politics and Justice. Keele University.

<sup>5</sup> Seidman, A. Seidman, R and Mbana, P. (2006). *African Challenges: Using Law for Good Governance and Development*. Africa World Press: USA.

Africa, very little economic growth has occurred over the past fifty years. Some countries are even poorer today than they were thirty years ago. Sub-Saharan Africa has had the lowest Gross Domestic Product (GDP) for decades. Statistics confirm that Africa has a population of about 600 million, more than double that of the United States, yet it is estimated that average real GDP per capita growth is 11% in Africa, which is lower today than it was in 1970. Evidence shows that 200 million Africans have no access to proper health care, and proper hygiene. Another 47% are without access to safe water. In some parts of Africa the power supply is constantly interrupted or almost non-existent<sup>6</sup>.

### **1.3. Objectives of the Research**

#### **1.3.1. General Objective**

Can the African Development bank surpass the misconception of the reflective conditional loans and accelerate Africa's development into at least a middle income continent by 2030?

#### **1.3.2. Specific Objectives**

This study seeks to determine;

1. Evaluating the impact of IFIs on Africa's development during pre and post-colonial eras
2. Tracking Africa's development process from post-Cold War to its current state
3. Assess the successes and challenges faced by the AfDB in achieving economic development in Africa
4. Suggest appropriate recommendations to the African Development Bank to hasten Africa's development

---

<sup>6</sup> Marke, D. (2007). *Will Africa Ever Be Able To Replicate Successful Economies?* December 16, 2007.

#### 1.4. Justification

The International Community has an obligation to ensure that the MDG's are achieved by 2015. However, most African states shall not beat the 2015 deadline as poverty rates are still extremely high. Africa, as a volatile mix of poverty and conflict has continued to be poorly developed. This underdevelopment can be attributed to the high magnitude of corruption. Corruption by political leaders has been identified as one of the major causes of poverty, and the failure in the development of developing countries, particularly in Africa<sup>7</sup>. The embezzlement of public funds by unscrupulous and ineffective leaders of most African countries leads to poverty, high debts and other socio-economic associated problems in these countries.

Campbell observes that Billions of pounds, enough to pay for the entire primary health and education needs of the world's developing countries are being siphoned off through offshore companies and tax havens<sup>8</sup>. Aid organizations are alarmed that money which should be used for building the infrastructure of the poorest countries is being hidden in the havens by corrupt politicians and multinational companies exploiting tax loopholes<sup>9</sup>. Political corruption in Africa impacts negatively to the economic development because African leaders rather than investing their stolen wealth in the continent, reserve them abroad.

The Human needs theory championed by Burton<sup>10</sup> argues that there is conflict and instability in developing countries because people are denied not only their biological needs, but also psychological needs that relate to growth and development. The overriding importance of this theory is that it understands that needs, particularly basic needs (such as food, water, shelter and

---

<sup>7</sup> Ikejiaku Brian-Vincent. (2009). *The Relationship between Poverty, Conflict and Development. Journal of Sustainable Development Vol 2. No. 1*. Research Institute for Law, Politics and Justice. Keele University.

<sup>8</sup> Campbell, D. (2004). *Havens that have become a tax on the world's poor, Guardian*: UK, available at [http://www.odiousdebts.org/odious/index.cfm?DSP \(05/02/07\)](http://www.odiousdebts.org/odious/index.cfm?DSP (05/02/07)).

<sup>9</sup> Ibid

<sup>10</sup> Ibid

health) unlike interest cannot be traded, suppressed, or bargained for; thus any attempt to do this, leads to conflict. According to Aristotle, social strife and revolutions are not brought out by the conspiratorial or malignant nature of man, rather revolutions are derived from poverty and distributive injustice<sup>11</sup>. Therefore, when the poor are in the majority and have no prospect of ameliorating their condition, they are bound to be restless and seek restitution through violence. No government can hold stability and peace when it is created on a sea of poverty<sup>12</sup>.

The IMF notes that there is a close association between corruption and slow growth, as well as between corruption and political instability<sup>13</sup>. Similarly, the World Bank the World Bank agrees that by distorting the rule of law and weakening the institutional foundation of economic growth, corruption is the single greatest obstacle to economic and social development<sup>14</sup>. It is also worth noting, despite the reservations on the concept of conditionality while giving loans, the AfDB opted to use it as a way of curbing political corruption in the continent. Therefore IFI's play a fundamental role in accelerating Africa's development which will eventually reduce conflict in the region as per the Human Needs Theory. Therefore, greater flexibility in determining the best solutions and more investment in alternative and longer-term forms development in the continent are vital thus making this study relevant. This study seeks to determine the role of IFI's and their contribution to Africa's development. A focus on AfDB's successes and challenges as regards Africa's development will be the central element of this paper. Future studies on the role of IFI's will also borrow a lot from the findings and results made from this study.

---

<sup>11</sup> Okanya, O. (1996). *Political Thoughts, an Unpublished Mimeo*, Department of political Science, Enugu State University: Nigeria.

<sup>12</sup> Ibid

<sup>13</sup> Mauro, P. (2004). *The Persistence of Corruption and Slow Economic Growth*, IMF staff papers Vol. 51, No1, 2004.

<sup>14</sup> United Nations Office on Drug and Crime (2005). *Crime and development in Africa (2005)*, UNODC: New York.

## 1.5. Literature Review

African states were still colonies during the formation of IFI's and therefore their interests were not directly represented. The post-colonialism era characterized mostly by the Bretton Woods institutions as the major IFI's did not adjust the indirect representation of African states. The Bretton Woods institutions had a weighted voting system which was an impediment to the African voice as their contribution was non-existent. Subsequently the continual unequal distribution of voting power within the IFI's dictated world economic affairs. Naturally, the African continent demanded to have its own voice especially as regards loans from IFI's. As a result they pursued collective representation in the G-77 and argued successfully for the creation of the United Nations on Trade and Development (UNCTAD) to address economic matters<sup>15</sup>.

Various International Relations scholars view the concept of westernization as the cancer that plagues Africa's crippled development. The New World Order exemplifies a skewed global system that was and still is controlled mainly by the United States (US) which sets the terms in which countries negotiate especially with regards to trade. In the 20<sup>th</sup> century, The US, the World Bank, the World Trade Organization (WTO) and the International Monetary Fund (IMF), posed as vital IFI's that characterized global policies that regulated global economies subjecting weaker economies to Structural adjustment Programs (SAP's). This necessitated African states to borrow money and in turn ensure stabilization, liberalization, deregulation, and finally privatization of most sectors.

The imposition of SAP's compelled a paradigm shift from the Keynesianism school of thought that assumed the equal involvement of the government and the private sector in the management of the economy was essential; to the Neo-Liberal school of thought that vetoed the involvement

---

<sup>15</sup> Thomas Caroline. (2009). *The international financial institutions' relations with Africa*. INTR 4045/7073 July 25-October 2011.

of the government in market trade. This weakened African states as most decisions did not include their governments hence losing sovereignty, a fundamental aspect of statehood.

The 1970's oil crisis justified the IMF, World Bank and the US decision to impose SAP's on developing countries with loans from the World Bank. Oil prices had increased thus the Organization of Petroleum Exporting Countries (OPEC) had too much money (petro dollars) and this surplus money was borrowed by African states for SAP's via the US<sup>16</sup>. The US unexpectedly increased the interest of loans given to these African countries which necessitated the Lagos Plan of Action by the Organization of African Unity (OAU) that wanted to address the issue. In an attempt to justify the interest increase, the Berg report that defined the structure of SAP's claiming that they will accelerate the development process in Africa and also significantly address the debt crisis. However, a decade later, the debt was approximately three times worse.

The SAP's were not country specific, not unique to a country's needs as independence was attained at different times therefore they proved to be problematic. African states were weakened by the SAP's as they lost sovereignty to external actors due to donor funding, the privatization of state owned companies, basically African governments were not in control of the national economic project. As a result, this saw a decline in important sectors such as the agricultural sector and at worst, the debt crisis led to debt slavery. By 1992, Africa's total debt stood at an estimated \$300bn which was then equivalent to more than 100% of the continents Gross National Product (GNP). In comparison with other regions in the global South, Africa's debt is increasing following the continual fall of raw materials and the changing interest rates which

---

<sup>16</sup> Mkangji, K. (1993). *The African Debt Crisis: A Radical Human Perspective*. P. 9. Nairobi. ACLCA.



devaluates the continents currencies<sup>17</sup>. It is also worth noting that the Bretton Woods systems interfered in almost all aspects of economic, political and social life thus infringing sovereignty.

It took 15 years for the international community to realize the practicality of SAP's by IFI's and other multilateral donors had been more of a failure than a success. Questions emerged on the legitimacy of economic efficacy and social impact of the SAP's. The United Nations Institute of Research in Social Development (UNRISD) had no option but to admit the evident failures of SAP's to deliver on its promise, pointing out that the advocates of adjustment saw cuts in public services, increases in unemployment and deepening poverty as painful but unavoidable by-products of economic modernization. They hoped for a trade-off: short-term social cost set against long-term economic gain. However, they did not foresee the social impact that could itself frustrate the desired economic effect<sup>18</sup>.

Africa's development, despite having billions injected into its advancement still remains at best gradual. Poverty levels still remain relatively high as compared to other parts of the globe hampering socio-economic growth in the continent. The interplay between economic and non-economic factors are vital in understanding the dynamics of socio-economic development. The latter justifies the inefficiencies of conditional loans imposed by IFI's as history depicts these organizations as lacking knowledge of the environments in which they distribute their loans. Therefore, IFI's have been ineffective in achieving development in the African continent.

Consequent to the SAP's, most African countries have neglected their Agricultural sectors and put more focus on other sectors thus explaining the increased hunger and poverty rates. Despite the fact that agriculture accounts for 70 percent of full-time employment in Africa, 33% of its

---

<sup>17</sup> Mkangji, K. (1993). *The African Debt Crisis: A Radial Human Perspective*. P. 12. Nairobi. ACLCA.

<sup>18</sup> UNRISD. (1995), p.42.

total gross domestic product (GDP), and 40 percent of its total export earnings, productivity has stalled (IFPRI, 2002). Nigeria exemplifies the latter as by 1960, its agricultural sector accounted for approximately 70 percent of exports. Owing to the fact that it discovered oil, more focus was given to the petroleum industry neglecting the agricultural sector. In spite of the fact that Nigeria is one of the fastest growing economies, it still suffers as one of the countries with an extremely high rate of poverty with 70 percent out of its 140 million living on less than USD 1 per day<sup>19</sup>.

Resulting to the Neo-Liberal school of thought, privatization of key sectors such as the agricultural sector led to the trend to favor large scale farmers and to disregard small scale farmers has been one of the greatest factors in crippling the African agricultural sector. In the past decade, the demand for maize has rapidly exceeded the rate at which it is produced. This has resulted to a call for the return to primary and basic functions of food which is to nourish communities as opposed to food production for the extraction of certain by products<sup>20</sup>. The latter can be exemplified by the high demand of maize to produce ethanol for fuel purposes as an alternative of nutritional purposes thus more maize is grown at the expense of other food crops and without doubt increasing the price of maize.

According to the Agricultural Initiative to Cut Hunger in Africa (AICHA), whose mandate it to speed up small scale farming in Africa, it is fundamental for subsistence farming to be practiced as it encourages self-sustenance which will reduce the poverty rate in the continent and in turn increasing their incomes and food security and also reduce national food prices. Contrary to

---

<sup>19</sup> Economy Watch. (2010).

<sup>20</sup> Development & Peace. (2008). *Hunger and the Pursuit of Profit*. Retrieved on 10/03/2015.

popular belief small scale farmers actually adhere to meaningful incentives as in the case of Zimbabwe in the late 1980's<sup>21</sup>.

The 2008 food crisis caused major ripples in the African continent. Food prices were at an all-time high causing a rise in the number of poverty stricken people necessitating protests from the entire continent including; Burkina Faso, Ivory Coast, Cameroon, Egypt, Mauritius, Mozambique, Senegal just to mention a few. Amid the years 2005-2008, food prices had increased by 83 percent and between January and May of the same year, the price of rice had tripled. People in the Global South spend up to 80% of their incomes on food, meaning either they earn too little or the cost of food is unacceptably high, or both<sup>22</sup>.

A focus on the agricultural sector is fundamental in the comprehensive analysis of Africa's development as its economy is largely dependent on the agricultural sector. Food insecurity is at the forefront of socio-economic issues thus the Millennium Development Goals (MDG's) first mandate is to eradicate extreme hunger and poverty, which is also the mandate of the AfDB.

Formally the African Development Bank group, AfDB was created as an extension of the African Union (AU) as a way of African regionalism to reach new potential and to create independence from foreign development aid institutions. Initially the Bank was exclusive to regional members however, due to most member states having poor economies, embracing states from the global north was necessary to acquire sufficient resources to facilitate lending capabilities. Currently the bank has 53 regional members and 24 non-regional members, the latter being major donors of the bank<sup>23</sup>.

---

<sup>21</sup> IFPRI. (2002). *Only the Small Farmer*. Retrieved on 10/03/2015.

<sup>22</sup> Development & Peace. (2008). *Hunger and the Pursuit of Profit*. Retrieved on 10/03/2015.

<sup>23</sup> E. Philip English and Harris M. Mule. (1995). *The African Development Bank, p.29*. Boulder, Colorado: Lynne Rienner.

AfDB is divided into three; the AfDB, the African Development Fund and The Nigeria Trust. The US and Japan pose as the largest shareholders<sup>24</sup>. The AfDB has a unique factor that limits the power of non-regional parties. Arguably the shareholders are not directly in control of policies however, they control where and what the funds are spent on<sup>25</sup>. AfDB offers conditional loans through the African Development Fund. The latter has raised concern as regards the non-influential aspect of foreign shareholders as they championed conditional loans. Most pan-African scholars view conditional loans as the manifestation of the detrimental ‘best practices’ in development strategies that limit the potential of many countries. It serves as a reflection of power relations that dominate its structure<sup>26</sup>.

AfDB resources are made up of ordinary and special funds. The ordinary resources include:

- i. Capital subscriptions by member countries,
- ii. Income generated from loan repayments
- iii. Funds raised through borrowings in the international financial markets,
- iv. Other income received by the Bank e.g. through bilateral and multilateral donors or income from investment<sup>27</sup>

The overall objective of the AfDB Group is to support the economic development and social progress of African countries individually and collectively, by promoting investment of public and private capital in projects and programs designed to reduce poverty and improve living

---

<sup>24</sup> AfDB. (2013). <http://www.afdb.org/en/about-us/> (accessed 15/03/2015).

<sup>25</sup> Jacob Pritchard. (2013). *The role of development banks in the economic revival of transition economies*. ECN 5100 Economics of Transition.

<sup>26</sup> Alesina, Alberto, and David Dollar. (2013). *‘Who Gives Foreign Aid to Whom and Why?’* Journal of Economic Growth.

<sup>27</sup> African Development Bank Group. (2013). *AfDB in Brief*. External relations and communication unit, Temporary relocation agency (Tra), Tunisia.

conditions. Combating poverty is at the heart of the Bank's efforts to assist the continent to attain sustainable economic growth.

The Bank Group therefore strives to mobilize internal and external resources to promote investment and provide technical assistance to the Regional Member Countries (RMCs). Additional resources are usually mobilized through co-financing with bilateral and other multilateral development agencies as well as from the financial markets. The AfDB Group also promotes international dialogue on development issues concerning Africa. It supports policy reforms, capacity building, knowledge sharing, studies and preparation of development projects.

As from 2006, the Institution has placed greater emphasis on the following strategic areas: Investing in infrastructure; the private sector, supporting economic and governance reforms; promoting higher education, technology and vocational training; promoting regional integration. Through these core investment areas, the AfDB Group provides support to fragile states, low income countries, middle-income countries, agriculture and rural development, social and human development, the environment and climate change, and gender issues.

The African Development Bank faces a paradox: at exactly the time when it could have a major catalytic impact on Africa's development path, it faces significant restrictions to its operational ability. Many countries in Africa are showing signs of establishing a virtuous cycle of stability, growth and human development. As a leading African development institution, the African Development Bank Group (AfDB) could play a critical part in facilitating this transition through project finance and knowledge transfer. Instead, a series of operational and financial restrictions

limit its relevance, especially for the region's emerging middle-income countries that are becoming Africa's growth engines<sup>28</sup>.

In the recent past AfDB has undergone a lot of scrutiny with regards to their conditional loans. Critics argue that a 'one size fits all' strategy is not a pragmatic approach especially since it has been attempted before and proved at best inefficient. Offering loans tied to a pre-conceived theory of political economics, the AfDB is ignoring variables that separate different countries<sup>29</sup>. They continue to emphasize that development assistance should be country specific and should be used according to a country's needs.

AfDB has been criticized to hold too much control of what recipient country's do with their development assistance. However, it is worth noting that unlike the Bretton Woods systems, the ultimate deciding parties are comprised of development experts from recipient countries. Consequently making AfDB more effective in maintaining Africa's people solving Africa's problems therefore securing regional sovereignty. AfDB specialist have reconfigured conditional loans as a way to ensure good governance a key factor in Africa's lack of development. The latter providing an alternative perspective to conditional loans as regards the African context.

Despite its growing profile, however, the AfDB's standards and capacity to implement them remain behind similar institutions when it comes to social and environmental responsibility. It is making strides with its new disclosure policy and the development of a modern safeguards system. At the same time, with increasing demand from Civil Society Organizations (CSO's) for participation and accountability, the AfDB is slowly becoming more responsive to the public it is

---

<sup>28</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

<sup>29</sup> Jacob Pritchard. (2013). *The role of development banks in the economic revival of transition economies*. ECN 5100 Economics of Transition.

meant to serve. However, even as the Bank becomes more open, its appetite for risky projects continues unabated, particularly within the infrastructure, energy and agriculture sectors.

The AfDB is in danger of losing relevance to its middle-income country members, which affects the viability of institution. Like several other multilateral development banks (MDBs), the AfDB has two lending “windows”: one for middle-income member countries at market-based financial terms, and a second for poorer member countries on highly concessional terms. The AfDB’s market-based operations are facing difficulties, with many members not borrowing despite pressing investment needs, due to a combination of demand and supply factors. This challenge is common to all MDBs in current global conditions, but is particularly difficult for the AfDB, and threatens to undermine the financial solidity and developmental relevance of the bank as a whole. The AfDB’s business practices and financial policies need to change for the bank to maximize its development impact in Africa in the coming decades<sup>30</sup>.

## **1.6. Theoretical Framework**

The North-South divide has largely been characterized by the different poverty rates. Many scholars from the International Relations academia have attempted to expound on this diversity through various schools of thought. At the forefront of this debate include Capitalism, Globalization, Liberalism and the Dependency theory. However, they all try and explain Africa’s complex and gradual development in different ways. This is done through analyzing patterns in Africa’s behavior making possible predictions about possible nature and direction of change.

The end of the Cold War era was characterized by, the demise of Communism and the rise of Capitalism as the defining ideology. This ideology believes in Comparative Advantage which

---

<sup>30</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

assumes that all participants benefit from Free Trade. The developed world extracts raw materials cheaply and effectively from less developed countries for manufacturing, producing and exporting at higher prices. However, proponents against Capitalism argue that it has increased the gap between the rich and the poor. Similarly, they claim that there is no shift of capital from the developed states to the less developed state. Consequently, Capitalism has ensured skewed developmental patterns that make the rich richer and the poor, poorer thus the Global South is always depending on foreign aid.

Globalization is a process in which the world becomes a global village where political, social, economic, religious and cultural events become interconnected. According to Realist Chris Brown, Globalization poses as the major cause of global inequality. It lacks the transfer of capital from the developed to the under developed worlds hence Globalization is uneven as it enhances social and economic gaps between the North and the South. He views it as a form of Western Imperialism. This paradigm creates more winners than losers as it allows more efficient expansion of the western countries at the expense of developing countries. The requisition of economies and societies to rapidly adapt to the ever changing trends in the International System creates a wave of uneven development.

This study will give focus to the Dependency Theory. This theory emerged as a counter to Capitalism as the proponents of this theory believed that international capitalism as the source of underdevelopment. According to this theory, the world is partitioned into three categories; the core, the periphery and the underdeveloped world. Exports from the underdeveloped world and from the periphery are cheap while imports from the core are extremely costly thus there are major economic disparities in the world system. These disparities ensure that the core remains the most dominant politically and economically necessitating peripheral states to be dependent



on donor aid and economic assistance<sup>31</sup>. According to Andre (1969), it is also worth noting that the center will provide donor aid as a tool to ensure that the periphery remains dependent and loyal to the center.

The dependency theory will serve to be relevant to this discussion as we attempt to acquire an equilibrium in the skewed global systems. Similarly, being a transitional economy, Africa attracts a significant amount of foreign direct investment (FDI) as a result of its growing potential. Africa has received FDI specifically for agricultural production nonetheless, it is conditional. Thus explaining the gradual growth in this sector which can be accelerated investors adopt the economic development model in which recipient countries tailor their development strategies and development investment to their specific needs. It is also worth noting that transitional economies must show a significant level of economic autonomy as a gateway towards achieving economic independence.

## **1.7. Research Methodology**

This section provides the description of the area of study, population and sample of study, sampling procedures, research design and methodology, research instruments, research variables, data collections and analysis procedures.

### **1.7.1. Research Design**

The research design for this study was descriptive research design of the ex-post facto type. This is an appropriate design for fact finding and results in pertinent principles of knowledge and

---

<sup>31</sup> Lewellel, T. (1995). *An Introduction to Third World*. London: Bergin & Garvey Publishers.

solutions to fundamental problems<sup>32</sup>. This design was adopted as it aided in critically assessing the role of AfDB as an IFI as regards Africa's development.

### **1.7.2. Study Area**

This study was conducted in Kenya with access to both the AfDB and the World Bank regional offices in Nairobi.

### **1.7.3. Target Population**

The target population of the study comprised of the African countries, key staff from relevant regional offices: AfDB, the World Bank and Government agencies specifically the Ministry of Finance.

### **1.7.4. Sampling Procedures**

Purposive, stratified and simple random sampling procedures were used in the study. Purposive sampling was used in the selection of Agencies. To ensure participation of all subjects the sampling entailed the use of clusters and quotas. Stratified and Simple Random sampling techniques were used to select various African countries as case studies to provide conclusions.

### **1.7.5. Data Collection Procedure**

This research was informed by both primary and secondary data. Sources of primary data included; interviews from relevant staff from various agencies mainly including the AfDB. Secondary data was collected from relevant secondary sources, including research institutes and publications, NGOs, internet, research studies, administrative records, existing statistics and

---

<sup>32</sup> Kerlinger, F.N (1986) , 3<sup>rd</sup> Ed, *Foundations of behavioral research*. (New York: Holt, Rinehart and Winston).

multilateral agencies. These ensured that adequate data with in-depth details was collected to enhance validity and reliability.

#### **1.7.6. Research Instruments**

Structured questionnaires and interview schedules were administered. This ensured many questions asked are strictly answered within the context of the research objectives. Each item in the questionnaire was developed to address a specific objective. The questionnaires were developed and administered to all the respondents by the researcher with assistance from trained research assistant, after getting permission from the university administration. Interview schedules with questions of semi-structured and unstructured types were also used. The interview questions were similar in intent with the questionnaire to give validity to the responses received and check the consistency of responses. Respondents were taken through the questions by the researcher personally to ensure that the research intentions are consistently adhered to.

#### **1.7.7. Data Analysis**

Both quantitative and qualitative data analysis will be used in this study.

#### **1.7.8. Scope/Delimitations of the Study**

This study assessed the process of Africa's development and the role of the AfDB. A key limitation of the study is the definition of development and what the measurement of a developed state is after achieving the baseline of the basic food, clothing and shelter. The latter is a key limitation as modernization and westernization is often confused for development.

## 1.8. Chapter Outline

**Chapter One:** This chapter introduces the topic (*The Role of International Financial Institutions in Africa's Development: A Case Study of the African Development Bank*) by outlining the study objectives, justification, literature review, theoretical framework and research methodology.

**Chapter Two:** This chapter evaluates the impact of IFIs on Africa's development pre and post the colonial era with an introduction to the role of the African Development Bank in Africa's development

**Chapter Three:** This chapter tracks Africa's development process from post-Cold War to the current state of the continents development.

**Chapter Four:** This chapter looks at the successes and challenges faced by the bank in achieving economic development in Africa.

**Chapter Five:** Provides the summary, conclusions of the study, gives recommendations and provides suggestions on areas for further study.

## CHAPTER TWO

### EVALUATING THE IMPACT OF IFIS ON AFRICA'S DEVELOPMENT

#### 2.1 Impact of IFIs on Africa's Development

The evolution of development thinking was championed by the early works of W. Arthur Lewis and Paul Rosenstein-Rodan and has been influenced by new and varied schools of thought. There has been a paradigm shift from capital accumulation and technical progress to human capital investment and social inclusion. Consequently, institutions have gained importance having a prominent role for markets and for the state as drivers of development. Underlying these views were practicalities that shaped the way countries dealt with their need for foreign capital, the management of the macro-economy, and their responses to economic and financial crises<sup>33</sup>.

This chapter will analyze Africa's development and the implication of IFIs on the continents development. A focus on the role of the AfDB will also be fundamental in the analysis of Africa's development while mentioning the failure of other IFIs, to be precise the Bretton Woods system during the pre and post-Cold war era. This chapter gives a chronological encounter of Africa's development to aid in the comprehension of the continents background.

##### 2.1.1 Defining Development

Development can be defined as a process that indicates a level of material wellbeing. According to Amartya Sen, development is 'freedom' from want, fear and indignity. This process entails an increase in skills and positive transformations in a people's productive capacity as well as

---

<sup>33</sup> Danny Leipziger (2013). *The Role and Influence of International Financial Institutions*.

improved living standards. Real Development is seen as Social transformation and is not necessarily associated with technological advancement<sup>34</sup>.

### **2.1.2 Africa's Development in the Pre and Post-Colonial Era**

Slavery and the stagnation of industrial progress, demographic impacts, social and political turbulence and conflicts have proved to be the most significant factors in Africa's stalled development. Colonialism as a form of 'Development' facilitated the exploitation of natives; this colonial project deliberately subdued the Africa's cultural, political and economic development. According to Walter Rodney Colonialism served as development by contradiction as for the colonials to benefit from the natives, there was need for development of the extractive industry, plantations, ports, railroads, and telecommunications. All these sectors were in need for manpower and empowerment of the natives. Subsequently, the locals had to be a bit literate so as to enable communication between them and their colonial masters. The inadequate substandard education produced new social forces and changes irrespective of the will of the colonists<sup>35</sup>.

The colonial economy necessitated the production and export of raw materials and unprocessed agricultural produce. In colonial logic, the peripheries existed to build and develop the countries at the core through wealth transfer. Production of raw materials, mainly food products was determined by the buyers of African produce<sup>36</sup>. Post-colonialism and the advent of neo-colonialism which is the continuation of colonial domination beyond the formal transfer of political power, in economic terms, was manifested among others in terms of trade as a difference or ratio between a the value of a country's exports and its imports. Methods of wealth transfer from Africa included; exchange of raw materials for manufactured-valued-added imports

---

<sup>34</sup> Orwa M. (2010).

<sup>35</sup> Orwa M. (2010).

<sup>36</sup> Davidson B. (1994).

from Europe, fixing of export-import prices so that you export cheaply but import at exorbitant prices and debt-and-interest payment. The dilemma of export crops versus food crops has adversely affected development of domestic agriculture, subsistence farming, and food production hence food security and food sovereignty of African states is the current most prominent predicament in the twenty first century.

### **2.1.3 Perspectives on Africa's Development**

The African continent has been and is currently facing economic stagnation that it cannot seem to overcome. This stagnation has been blamed on various factors and according to Collier; the major 'trap' is conflict. Most African countries have stalled development due to civil war that has ravaged their countries resulting to the destruction of infrastructure and inevitably stalled development. He also suggests that Africa's stalled development is as a result of the youth engaging themselves into war thus there is a large number of the youth who are illiterate therefore hindering development<sup>37</sup>.

Similarly the trap of natural resources has posed as a major challenge faced by the continent. Some scholars define this using the Peace Research or Neo-Malthusian debate which uses the scarcity variable to explain the role of natural resources that lead to conflict and hence stalled development. Rapid population growth, environmental degradation, resource depletion and unequal distribution of resources results to poverty and income inequality thus rebellion and social conflict. In addition, other scholars use the resource abundance school of thought. Abundance has negative economic consequences as countries grow overly dependent on these resources while neglecting investment in other sectors.

---

<sup>37</sup> Collier P. (2009).

The continent's conduct of politics has also been blamed for stalled development. African politics is characterized by the 'Personal Rule Paradigm' which can be traced back to Max Weber's Patrimonialism of traditional authority. It entails job positions based on loyalty to superiors, personalization of government resources and a lack of public interest. It is founded upon the structure of colonial states, failures of the international system to reward statehood in practice, and a narrow economic base of post-independent African states as they are export oriented to primary production from enclaves<sup>38</sup>.

According to Fantu Cheru, Africa's frequent and complex catastrophes are as a result of both domestic and international actors that are inseparable. Some of the domestic factors include governance, corruption and bad governance has necessitated gradual development in Africa. Personal Rule and 'Big man' politics have fueled greed amongst African leaders. High revenue from ODA has proved to provide no incentives for African leaders to ensure policy reforms that will boost their domestic economies. Consequently, the gap between the rich and the poor keeps getting wider.

Another factor poses as a decline in the agricultural sector. Growth in agricultural production has declined or stagnated at best while population has risen, hence growing dependence on the expensive option of food imports. This decline is attributable to environmental factors, civil strife, systematic decline in government, expenditure in agriculture through extension services to small producers especially, subsidies to farm inputs, and dilapidated rural infrastructure. In the same regard, a poor record in manufacturing and industrialization which is related to structural over-reliance on borrowed technology, capital and skills as drivers of industrialization.

---

<sup>38</sup> Leonard D. & Straus S. (2003). *Africa's Stalled Development: International Causes & Cures*. Boulder: Lynne Rienner.



External factors that have hindered Africa's development include; the failure of trade Africa must abandon the idea that it can export its way out of poverty in a global environment that is heavily skewed against it. African states have largely focused on enclave production which focuses on the production of raw materials for cheap exportation to be manufactured and imported at exorbitant prices. Subsequently, Africa faced a great depression in the 1980's marking the start of the debt crisis which has hindered development in Africa. During this depression, the International Community took an upper hand in Africa's economy by offering financial assistance via the IMF and the World Bank and in turn imposing SAP's that have proven to be a failure in ensuring the growth of Africa's development<sup>39</sup>.

The uneven patterns of Foreign Direct Investment (FDI) by transnational corporations driven by globalization are progressively crossing borders with capital to invest, in search of cheap labor and materials, relaxed laws, and tax incentives. Even though Africa has liberalized her economy and countries have enacted laws to attract FDI, globally, FDI has been largely skewed in favor of high income countries such as the TRIAD (USA, Japan and EU) who received more than three times what developing countries received.

Unsustainable debt levels debt servicing diverts scarce resources away from education, health, and infrastructure. Financial institutions and loaner countries gave loans to the wrong people, including dictators and corrupt African leaders for unworthy projects (white elephants). Part of it developed due to the need to adjust to the oil crises of the 1970s. Then in 1979 the US Federal Reserve arbitrarily increased the interest rates, from negative interest rates in the 1970s to a 5% (2% above the 1980s average annual growth rate of world economy)

---

<sup>39</sup> Leonard D. & Straus S. (2003). *Africa's Stalled Development: International Causes & Cures*. Boulder: Lynne Rienner.

Loss of sovereignty by African states – African have been denied the autonomy and right to determine their development paths. By assuming significant role in determining development patterns, priorities and models, IFIs and donor countries have usurped the national sovereignty of African states and stifled the latter's ability to formulate national economic policies. Cross-conditionality among donors has further compelled even the most resilient and tactful of African countries to surrender, since donors often peg their assistance and loans to a needy country's adherence to harmful IMF policies. Seal of approval and the ability to borrow in the international financial/credit market. In the final event, such development initiatives lack ownership within the very communities they purport to seek to help.

## **2.2. Eradicating Poverty in Africa**

The MDG's intended to eradicate extreme hunger and poverty while fast-tracking the development process by 2015. However, the 15 year timeline proved to be rather time constrained for the African continent considering the vast challenges facing the continent both chronological and contemporary. Despite the failure of entirely achieving the MDG's, it is not all gloom and doom in the continent as there has been significant progress in the continent. The latter can be exemplified by the population living under \$ 1.25 reduced by 10% in 10 years between the years 2000 and 2010, infant mortality rates declined significantly, and access to education generally improved<sup>40</sup>. Similarly, the African economy is one of the fastest growing economies estimated at has been growing between 3.4% and 3.7% per year or three to four times the 0.9% to 1.1% growth reported using national accounts data<sup>41</sup>.

---

<sup>40</sup> McMillan Margaret & Harttgen Kenneth, (2014). *What is Driving the African Growth Miracle?* Working Paper Series 209. African Development Bank Group.

<sup>41</sup> Young, Alwyn, (2012). *The African Growth Miracle*. Journal of Political Economy, 120: 696-739.

The post-2015 era has been characterized by the onset of the UN Sustainable Development Goals (SDG's) designed to universally eradicate extreme poverty by 2030<sup>42</sup>. Sub Saharan African (SSA) is still plagued by high inequality and disproportionate reliance of the economy on natural resources and agriculture. Accordingly, poverty reduction requires an all-inclusive growth to ensure growth benefits are shared across the population, including the poorest. In the same way, green growth will help leverage SSA's natural resources and adapt to climate change which could otherwise have devastating impact on the continent especially the poorest<sup>43</sup>.

Growth generated by labor intensive sectors such as agriculture or manufacturing is more poverty-reducing than growth from the mineral sectors. Consequently, within Africa a decline in poverty as a result of growth was thus slower in resource rich countries. In addition, resource-dependence high initial income inequality hampers the poverty-reducing effect of growth in SSA. The extent to which growth reduces extreme poverty depends on redistributive policies and access to services that would enable the poor to benefit from growth. Once resource-dependence and inequality are controlled for, the gap between growth elasticities of poverty globally and in Africa narrows<sup>44</sup>.

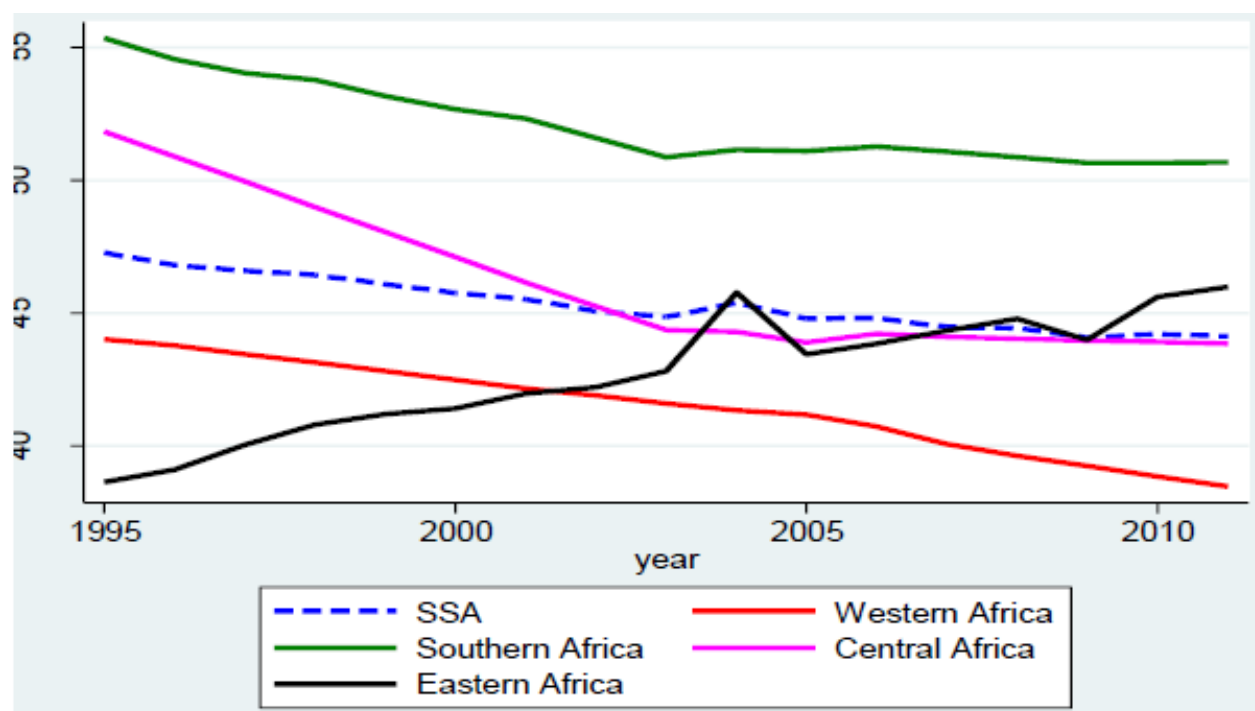
---

<sup>42</sup> United Nations (2014). *Open Working Group Proposal for Sustainable Development Goals*. United Nations: New York.

<sup>43</sup> African Development Bank, (2013). *At the Center of Africa's Transformation: Ten Year Strategy 2013 – 2022*. AfDB: Tunis.

<sup>44</sup> World Bank, (2013). *The World Bank Group Goals: End Extreme Poverty and Promote Shared Prosperity*. World Bank: Washington, DC.

**Figure 1. Inequality among SSA regions, (Populations in %) 1995-2010. AfDB Working Paper Series**



Eradicating extreme poverty is a key challenge for SSA, given its high poverty rates, despite the recent decline. Further, according to the PovcalNet data, the number of people living below \$1.25 has not been falling in SSA, in contrast to other regions. Progress going forward will also depend on the poverty depth, which at \$0.71 average income for the extremely poor is substantial and again below that of any other developing region. Moreover, the poverty line of \$1.25 computed with ppp reflecting prices of all goods in consumer basket may not be appropriate for the poorest. One reason is that food prices often rise faster than the general price level while food takes up a disproportionate share of the poor’s budget<sup>45</sup>.

<sup>45</sup> African Development Bank, (2014). *Addressing Fragility and Building Resilience in Africa: The African Development Bank Group Strategy 2014 – 2019*. AfDB: Tunis.

According to prominent scholars Theodore Schultz and Arthur Lewis, the persistence of low productivity in agriculture is a major root cause of poverty. True to the latter, among the extremely poor poverty is clustered in the rural areas. Furthermore, almost 60% of SSA's jobs and 78% of its poor workers obtain their livelihoods from agriculture, the least productive sector. This underscores the importance of its transformation as well as creation of alternative sources of livelihoods<sup>46</sup>.

### **2.3. The Role of the African Development Bank**

IFI's such as the World Bank and AfDB have underscored the importance the SDG's subsequently highly prioritizing it on their policy agendas. To tackle extreme poverty, African policymakers and development partners both traditional and emerging will need to anticipate long term drivers of change. Several recent studies that have examined megatrends provide useful context and allow better understanding of the macroeconomic scenarios for growth, poverty and inequality discussed in the previous section. The African Development Bank has emphasized the following key drivers of change/long term trends impacting the continent:

1. Changing structure of global markets and shift in economic power, with expanding middle class and private sector, and declining importance of traditional aid;
2. New technologies and innovation, especially in health, agriculture and energy;
3. Changes to physical environment such as climate change contributing to land, energy and water scarcity; massive and pervasive infrastructure deficit;
4. Delayed demographic transition, continued heavy burden of HIV;

---

<sup>46</sup> Zorobabel Bicaba, Zuzana Brixiová and Mthuli Ncube. (2015). *Eliminating Extreme Poverty in Africa: Trends, Policies and the Role of International Organizations*. Working Paper Series 223. African Development Bank Group.

## 5. Private sector development and democratization<sup>47</sup>.

The long term trends emphasized by the African Development Bank are consistent with those articulated by the African Union in the Agenda 2063: *The Future We Want for Africa*. Similarly, these long term trends together with the aftermath of the global financial crisis and subdued global recovery, will likely have a negative impact on the underlying trend growth in SSA<sup>48</sup>.

According to Donald Kaberuka the President of AfDB, Africa's private sector is maturing as it is poised to become the main engine of growth for the African continent. However, Africa's private sector still faces a daunting array of challenges, including inadequate infrastructure, unfair tax regimes, a mismatch of skills, and limited access to finance. It is not yet generating the jobs needed to make major inroads into African poverty. Moreover, four out of every five private sector jobs in Africa are informal, many of them unpaid<sup>49</sup>. AfDB addresses the limitations in the development of the private sector as it is fundamental in an all-inclusive economic growth as it is a key revenue source. Pursuing this further, the AfDB made private sector development one of the four priorities of our Medium Term Strategy 2008–2012, together with infrastructure, governance and higher education. The goals of the bank include improving the business environment, promoting inclusion through local enterprise development, and promoting social and environmental responsibility<sup>50</sup>.

Most African countries recognize the critical role that the private sector can play to help the continent reach its full economic and social potential. The private sector reduces poverty and

---

<sup>47</sup> African Development Bank. (2011b). *Africa in 50 Years' Time*. AfDB: Tunis.

<sup>48</sup> Zorobabel Bicaba, Zuzana Brixiová and Mthuli Ncube. (2015). Eliminating Extreme Poverty in Africa: Trends, Policies and the Role of International Organizations. Working Paper Series 223. African Development Bank Group.

<sup>49</sup> African Development Report 2011.

<sup>50</sup> African Development Report 2011.

drives economic growth and job creation, while empowering poor people by increasing their incomes and providing a broad range of products and services at lower prices. This requires an environment that supports small, medium and large companies alike. It also requires the creation of a favorable business climate (including the legal and regulatory environment), addressing the continent's infrastructure deficit, improving access to finance, strengthening human capital and skills development, fostering entrepreneurship, and improving corporate governance. All too often, however, Africa lags behind other developing regions in addressing these challenges, and ongoing efforts need to be intensified<sup>51</sup>.

In the African context, it is worth noting the intrinsic nexus between security and development. The traditional concept of security has been extended to a focus on human security therefore protecting human life at all costs. Security is an important aspect of sustainable development and plays a critical role in reducing poverty and addressing human rights in post-conflict and fragile states. There is a growing consensus that longer term development cannot be achieved in the absence of security, and that short term security operations will not bring about sustainable benefits if they are not coordinated with long-term development efforts<sup>52</sup>. The UN re-affirms the latter stating that security reforms is critical to the consolidation of peace and stability, promoting poverty reduction, rule of law and good governance, extending legitimate state authority, and preventing countries from relapsing into conflict<sup>53</sup>.

The conflict burden in Africa has necessitated the formation of the Justice and Security Sector for reforms within the AfDB. The Bank is currently financing a wide array of peace building,

---

<sup>51</sup> African Development Report 2011.

<sup>52</sup> Policy Brief by the Fragile States Unit of the African Development Bank, (2013). *Enhancing Stability and Development in Africa; The Role of the African Development Bank*. International Security Sector Advisory Team of the Geneva Centre for the Democratic Control of Armed Forces (DCAF/ISSAT).

<sup>53</sup> United Nations Security Council (2007), Security Council SC/8958.

state building and democratization processes in post conflict and fragile states. These activities contribute to the broader stabilization and reconstruction effort that can directly have an impact on JSSR processes<sup>54</sup>.

### **2.3.1 Trends in Africa's Trade**

African trade has grown rapidly over the past decade, driven by growth in south-south trade and the growing importance of Africa as a supplier of raw materials to emerging Asia. In 2008, 73% of Asia's raw materials were imported from Africa. China is Africa's second largest trading partner and is among the top ten trading partners of 26 African countries. African exports performed less poorly than global exports during the financial crisis while imports declined faster than global imports. The period 1999 to 2008 saw rapid growth of African trade with the world. According to the WTO, African trade grew from 2.2% of the continent's GDP in 1995 to 3.3% in 2008<sup>55</sup>.

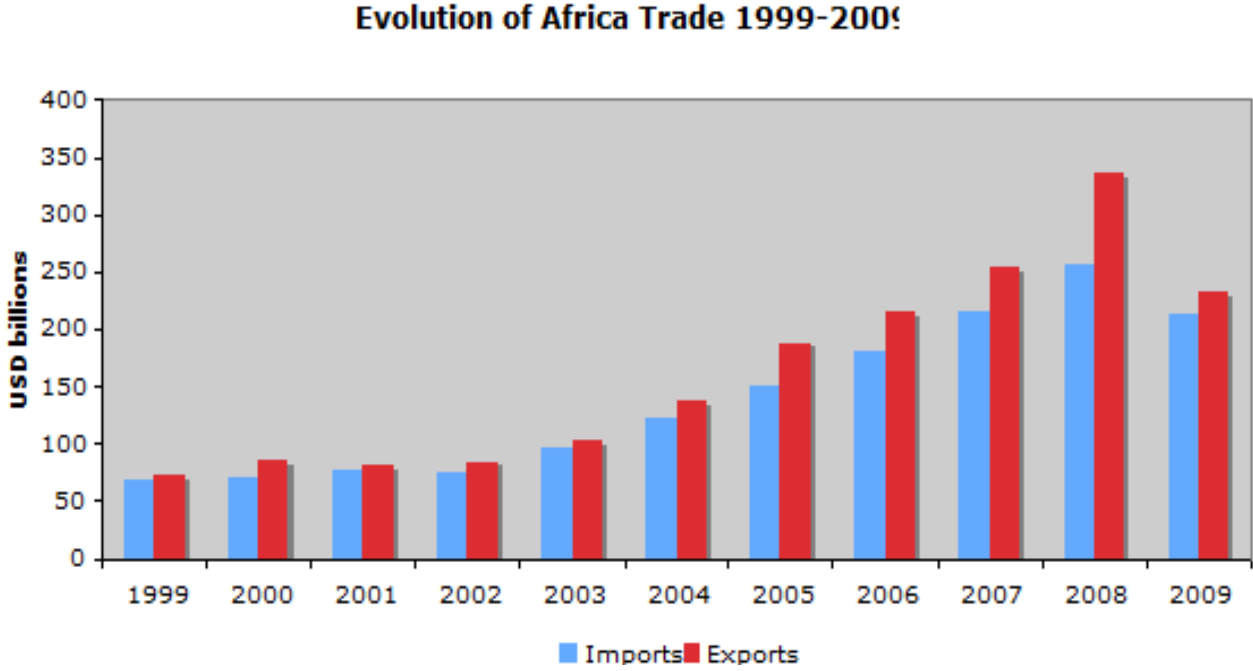
---

<sup>54</sup> Policy Brief by the Fragile States Unit of the African Development Bank, (2013). *Enhancing Stability and Development in Africa; The Role of the African Development Bank*. International Security Sector Advisory Team of the Geneva Centre for the Democratic Control of Armed Forces (DCAF/ISSAT).

<sup>55</sup> Timothy Turner, Leila Mokaddem and Ghazi Ben Ahmed. (2010). *Assessment of the Trade Finance Market in Africa Post-Crisis*. Working Paper Series 118. African Development Bank Group.



**Figure 2: Assessment of the Trade Finance Market in Africa Post-Crisis (1999-2009)**

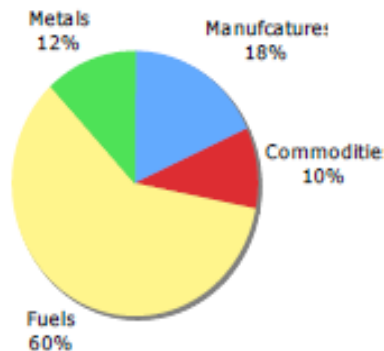


As seen in figure 2, Africa’s exports have dominated its trade which ideally should fast-track an economy. Nevertheless, enclave production which is the primary exportation of raw materials has characterized Africa’s trade. Accordingly, this is detrimental to Africa’s economic growth as the continent is forced to import already manufactured products at exorbitant prices thus creating skewed trading patterns. Figure 3 below exemplifies the latter.

**Figure 3: Assessment of Africa's Exports. African Development Bank Group Working Paper Series 118.**

---

**Africa Exports to Rest of World 2004 to 2006**



Enclave production serves as an example of Capitalism's comparative advantage assuming that all parties benefit from free trade. The African case study falsifies the latter assumption. In the same way, Capitalism has proven to create skewed developmental patterns broadening the gap between the rich and the poor as is the case in Africa and the rest of the industrialized world. Enclave production within the African context demonstrates the Dependency Theory vividly as Africa exports its raw materials cheaply only to import already manufactured products at a more expensive rate. Therefore, creating a vicious cycle of uneven trade hence, dependency on industrialized economies.

In conclusion of this chapter, we have noted that the African continent still has a high population of those living below \$ 1.25 per day as exemplified in figures 1, 2 and 3. The development process in Africa has been gradual consequent to various factors majorly including corruption, mismanagement of resources, enclave production and conflict within the continent. Noting the mentioned issues, the AfDB has taken great strides in attempting to tackle the continent's

setbacks through setting short, medium and long term goals through their various strategies such as the strategy 2008 to 2012. The next chapter shall assess the successes and challenges facing the AfDB in ensuring Africa achieves developed status by 2030.

## CHAPTER THREE

### AFRICA'S DEVELOPMENT FROM 1990 TO PRESENT DAY

#### 3.1 Tracking Africa's Development

As indicated in the preceding chapter, many factors have led to Africa's stalled development. Proponents of economism consider growth in real incomes of a country as sufficient yardstick of development. This chapter examines alternative approaches to development consequent to the failure of mainstream theories in hastening Africa's development. Alternative economic theories maintain the assumption that increased wealth creation, reflected in bigger national income, is not an end in itself but a means to the improvement of human welfare, which they conceive as the essence of development<sup>56</sup>.

Hard evidence on the ground requires us to better understand the intricacies of Africa's development challenges and make informed policies, programs and strategies to move the continent towards a brighter future. Africa is endowed with rich and diverse renewable and non-renewable natural resources, yet its people remain among the poorest in the world. Improving the welfare of people in Africa requires sustainable development supported with peace and stability, and with human, institutional and organizational capacities to address immediate challenges, such as poverty and diseases.

The multiple challenges to development in Africa have necessitated the use of a holistic approach that integrates economic, social and environmental dimensions, and generates new knowledge, policies and actions. The Sustainable Development Report on Africa (SDRA) tries to fill in the gap in knowledge left by largely single dimensional reports produced at the United

---

<sup>56</sup> Martinussen, J. (1997). *Society, State & Market*, London: Zed Books, p. 37

Nations Economic Commission for Africa (ECA) by monitoring and assessing the interrelationships between the three dimensions. This is because measuring and managing Africa's sustainable development challenges is key to achieving the MDGs and other internationally agreed development goals<sup>57</sup>.

### **3.1.1 Human Development**

Human capital promises to be the key driver of African growth. With booming population and increased urbanization, the importance in education, healthcare, and housing becomes increasingly evident. Over the last 20 years the continent's population has grown rapidly and in 2011 exceeded the 1 billion mark. Of all global regions, Africa will lead population growth over the next 50 years. Linked to this megatrend of rapid population growth is that of urbanization. The people of Africa will increasingly be city dwellers. Since 1960, the urban share of Africa's population has doubled from 19 to 39 percent, equivalent to an increase of more than 416 million people in 2011<sup>58</sup>. This means that Africa will have some of the largest mega-cities in the world. With a large population, Africa can harness and build on the expanded workforce to spur economic growth. However, this is conditional on Africa improving access to and equity within health systems, articulating right education policies, and creating employment opportunities.

### **3.1.2 Economic Performance, Inclusiveness, and Structural Transformation**

The past decade of unparalleled growth has changed perceptions about Africa for the better. Seven of the world's ten fastest growing economies are in Africa today, poverty has been falling since the start of the millennium, and a middle class is fueling growth in domestic consumer demand. With new investments and a growing economy, Africa clearly has an opportunity over

---

<sup>57</sup> Josue Dione et al. (2005). *Sustainable Development Report on Africa; Managing Land-Based Resources for Sustainable Development*. Economic Commission for Africa.

<sup>58</sup> AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.

the next decade to become a prosperous continent that creates more employment for all. Africa is on the rise. On aggregate, the region's GDP growth is expected to average more than 5 percent over 2013–2015. Average inflation in Africa stood at 8.9 percent in 2012 and has since edged down to 6.7 percent in 2013, having been largely contained in most African countries<sup>59</sup>.

Macroeconomic stability, trade and exchange rate liberalization, and new policies and incentives supportive of the private sector have helped drive private sector development. Supported by the strong economic growth, the proportion of people living in poverty has fallen from over 50 percent in 1981 to less than 45 percent in 2012. This is coupled with the continent's emerging middle class, grown to some 350 million people and projected to reach 1.1 billion by 2060<sup>60</sup>. Africa's growth, however, has not been even across all countries. Six of the ten most unequal countries in the world are in Africa, and there is not yet any evidence of progress in reducing income inequality.

With the endowment of a young growing workforce on the one hand and natural resources on the other, Africa has an important opportunity for inclusive growth. The challenge is to seize it through well executed investment in infrastructure, increased access to education and relevant training, the development of capable institutions, and support for private investment and job creation. Structural economic change is indispensable to achieve the desired progress of Africa and to bring prosperity to the continent's populations. In order to alleviate poverty and reduce income inequalities, Africa will need to embrace structural transformation while maintaining robust economic growth. Fostering diversification through transition to high-productive sectors will be a catalyst for industrial upgrading and technological innovation which in turn will increase job creation. The path toward obtaining the status of middle-income and high-income

---

<sup>59</sup> AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.

<sup>60</sup> AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.

countries will necessitate diversifying African economies away from dominant sectors such as agriculture and commodities.

### **3.1.3 Governance, Fragility and Security**

Economic growth can only lead to sustainable and equitable development if it is based on a foundation of just, inclusive, accountable, transparent, and efficient governance, and institutions administered by the capable state. Governments, along with regional and continental institutions, having increasingly understood the vital link between poor governance, fragility, and social unrest. Together, they are taking greater responsibility for strengthening institutions of accountability and the rule of law, resolving conflicts, and overcoming fragility, thus fostering economic stability and sustainable growth.

Africa's rapid economic growth is transforming the lives and livelihoods of Africans at an unprecedented pace. Such growth is underpinned by improvements in governance: over the period of 2000-2012, around 89 percent of African countries have improved their capacity to deliver economic opportunity and human development; 67 percent of countries made progress in fostering political participation, gender equality, and human rights; and 40 percent of countries strengthened their safety and rule of law<sup>61</sup>. Tackling corruption remains an essential part of Africa's development agenda.

Africa is growing, creating both opportunities and risks. Change is intrinsic to the development process; if managed effectively, they can help unlock Africa's development potential. Yet change can also be disruptive: urbanization and slum development, the youth bulge, inequality and social exclusion, climate pressures, environmental damage, new resource rents and resource

---

<sup>61</sup> AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.

scarcity, and weak governance all have the potential to place African societies under considerable strain. Fragility comes about where these pressures become too great for countries to manage within the political and institutional process, creating a risk that conflict spills over into violence. Despite tough challenges posed by fragility, progress is possible.

While various fragile states have lost ground in terms of economic growth during earlier periods of conflict, such as the case of Liberia where GDP dropped by as much as 90 percent in 20 years<sup>62</sup> many of them, with peace and stability, are now on the path of growth and recovery. More effective and better coordinated efforts, tailored to each individual situation, must be made to assist countries affected by fragility and conflict, and countries in transition in managing political, security, economic, and environmental stresses that make them and their citizens vulnerable.

### **3.1.4 Regional Integration, Trade and Investment**

Africa is emerging as an attractive investment destination and a key market for goods and services. With a working population of 600 million set to double by 2040, overtaking both China and India, and an improving business environment, Africa is poised to become the world's next emerging economy. To turn its economic gains into sustainable growth and shared prosperity, Africa's public and private sectors must work together to connect the continent's markets, deepen regional integration, and adopt reforms that enhance competitiveness.

In recent years, Africa has emerged as a frontier market, having increasingly attracted the attention of investors. In 2012, Africa's foreign direct investment (FDI) inflow grew to USD 50

---

<sup>62</sup> AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.



billion while exports amounted to USD 641 billion<sup>63</sup>. At the same time, intra-African trade remains low. Integration remains essential for Africa to realize its full growth potential, to participate in the global economy, and to share the benefits of an increasingly connected global marketplace. With plans to establish regional- and continental-wide free trade areas well underway, political commitment will be required to translate the trade agendas into sound policy and regulatory reforms to maximize the benefits.

### **3.1.5 Infrastructure Development**

Infrastructure development is a key driver for progress across the African continent and a critical enabler for productivity and sustainable economic growth. It contributes significantly to human development, poverty reduction, and the attainment of the Millennium Development Goals (MDGs). Investment in infrastructure accounts for over half of the recent improvement in economic growth in Africa and has the potential to achieve even more.

As Africa continues to urbanize, the importance of public investment in infrastructure becomes increasingly evident. Basic amenities such as housing, drinking water, and sanitation facilities are needed to provide Africa's growing population with a better standard of living. Investments in energy and transport will also help increase access to affordable and reliable electricity, improve transport connectivity, and reduce transport cost and time. At the same time, Africa's rising consumer class has resulted in a surge in mobile-cellular subscriptions and internet usage. As it stands, broadband coverage is at 16 percent and will likely reach 99 percent by 2060<sup>64</sup>.

---

<sup>63</sup> AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.

<sup>64</sup> AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.

### **3.1.6 Agriculture, Food Security and a Greener Environment**

Promoting agriculture continues to be the most effective way of driving inclusive growth and poverty-reduction in Africa. The continent needs its own green revolution to improve yield and commercialize agriculture. Agricultural production has increased, but mainly by bringing more land under cultivation rather than by improvements in yields. Feeding the expanding urban population will present a challenge that will entail adoption of the latest technologies and high-yielding crop varieties as a way of raising productivity.

Strengthening agriculture and food security through an integrated value chain approach can improve the livelihoods of Africans who live in rural areas. Many are reliant on subsistence farming, and a sizable proportion is chronically vulnerable to climatic uncertainty. Africa lives off its land, and more than 227 million Africans work on the land, which too often fails to provide for their needs. By continuing to invest in rural infrastructure including rural roads, irrigation, electricity, storage facilities, access to markets, conservation systems, and supply networks, countries can increase their agricultural productivity and competitiveness.

### **3.2 The Current State of African Development**

The economic performance of Africa as a whole has improved tremendously in recent years. As highlighted by numerous observers in recent years<sup>65</sup> many countries in Africa are showing signs of establishing a virtuous cycle of stability, growth and human development. Average annual GDP growth in the continent was nearly 5 percent over the last decade, despite the negative effects of the global financial crisis on key export markets, and is projected to reach 6 percent in

---

<sup>65</sup> The Economist magazine. (2013). *Africa Rising*. March Cover.

the coming years<sup>66</sup>. External investment in Africa is also rising sharply. Total external financial flows to Africa have risen from under USD 50 billion in 2001 to an estimated USD 200 billion in 2013<sup>67</sup>. Cumulative net foreign investment in 2001-2012 was six times as high as the previous decade<sup>68</sup>. Public finances are also, on the whole, much improved, with public debt in Africa's poorest countries averaging around 43 percent of GDP in 2012 (down from 112.6 percent in 2005),<sup>69</sup> driven down by debt relief programs, windfall commodity revenues and improved fiscal management. Despite these impressive gains, many African countries continue to face very serious economic weaknesses. The composition of investment inflows is highly uneven. For example, low-income countries in Africa attract about 25 percent of external flows, despite comprising 50 percent of the continent's population, and 70 percent of portfolio investment goes to one country (South Africa)<sup>70</sup>.

Many countries affected by social unrest such as Mali, Somalia, South Sudan, Democratic Republic of Congo, among others receive minimal investment, far below what is needed to break the cycle of poverty and conflict. Foreign direct investment remains focused on commodity extraction, and the majority of infrastructure investment is geared toward telecommunications services, with huge unmet needs in transport, water and energy. For example, African with over 1 billion people generates about as much electric power as Germany, with only 80 million. A World Bank study estimates that Africa requires USD 93 billion a year in infrastructure investment to sustain economic growth, with a gap of nearly USD 50 billion per year<sup>71</sup>. The

---

<sup>66</sup> Annual Development Effectiveness Review, AfDB 2014.

<sup>67</sup> African Economic Outlook, 2014.

<sup>68</sup> Ibid.

<sup>69</sup> IMF Regional Economic Outlook: Sub-Saharan Africa, (2013). p. 80. The figures are unweighted averages of public debt levels from all borrowing countries eligible for concessional lending from the World Bank and AfDB

<sup>70</sup> Private Participation in Infrastructure Database, World Bank ([ppi.worldbank.org](http://ppi.worldbank.org)).

<sup>71</sup> World Bank, (2009). Africa's Infrastructure: *A Time for Transformation; Africa Infrastructure Investment Report*. Commonwealth Business Council.

broad economic upswing in the continent over the last several years has not yet led to major improvements in the lives of most Africans. Because so much economic activity is based on capital intensive commodity production, job creation has been weak, particularly among youth, a shocking 60 percent of whom are unemployed<sup>72</sup>.

Extractive industries account for more than half of all exports from sub-Saharan Africa, and in some countries more than 90 percent, compared to just 10 percent in Asia. Agriculture still accounts for two-thirds of Africa's workforce, much of it small-scale or subsistence farming with low productivity and earnings. Real incomes are up 30 percent in the past decade, but poverty remains very high, with over 40 percent of the continent's population more than 400 million people living on less than \$1.25 per day and economic <sup>73</sup>inequality on the rise. Sub-Saharan Africa accounted for more than a third of the world's extreme poor in 2010, up from only 11 percent in 1981<sup>74</sup>. Social indicators are also sobering. Of the 46 countries with the lowest scores on the 2013 United Nations Human Development Index (HDI), 36 are in Africa, while only five African countries are in the top 100 in HDI as shown in figure 4 below.

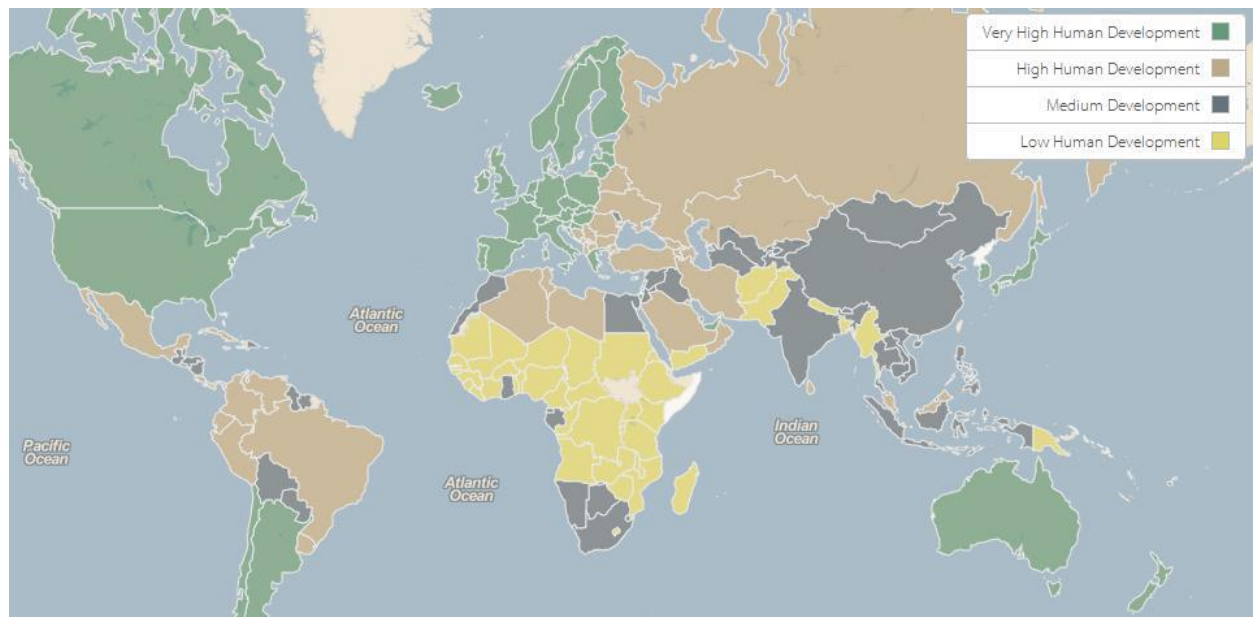
---

<sup>72</sup> AfDB Investor Presentation, 2014.

<sup>73</sup> AfDB *Annual Development Effectiveness Report, 2014*.

<sup>74</sup> World Bank, (2013). State of the Poor: *Where are the Poor and Where are they Poorest?* PREM.

**Figure 4: World Human Development Index 2013**



The demographic landscape in the coming decades adds even greater urgency to accelerating economic growth and translating it into job opportunities. Africa's current population of 1.1 billion is expected to more than double to 2.4 billion by 2050, which will then equal one quarter of the world's population<sup>76</sup>. The evolution of the working population (15-64 years of age) between 2010 and 2050 is predicted to be -19 percent for Europe, -15 percent for China and +159 percent for the Africa continent<sup>77</sup>. Each year on average for the next four decades, an additional 22.7 million people are projected to enter the workforce. This is an incredible opportunity for dynamic development if these workers find productive outlets for their energy, but at the same time a massive risk for social instability if they do not.

Much of North Africa's unrest in recent years has been driven by youth frustrated by a lack of opportunities, and this is a warning sign of what could occur in the rest of the continent in

---

<sup>75</sup> United Nations Development Program (2013). *Human Development Report 2013*.

<sup>76</sup> United Nations, World Population Prospects: the 2012 Revision.

<sup>77</sup> Ibid, Vol. 1, Table A.31.

coming years. External development cooperation can play an important role in helping convert the continent's optimistic potential into reality. Development cooperation particularly from multilateral development banks like the AfDB can:

- i) Overcome market failures and provide the security needed to attract private investment to projects with high financial and development returns but also high risks and;
- ii) Support investments and policy reforms needed to strengthen social development outcomes and create the conditions for dynamic, sustained economic activity.

Africa is on the cusp of a virtuous cycle of stability, economic growth and improved living standards, and development cooperation can facilitate this process.

Over the last several decades, Africa has embarked on a process of economic and social transformation. Robust growth is lifting Africans out of poverty at an impressive rate and propelling a growing number of African countries towards middle-income status.

The AfDB is a unique proposition: as an African organization serving Africans, it is a motor for economic progress and integration, and the voice of Africa and African development across the continent and far beyond. In its new Ten Year Strategy (2013-2022), the African Development Bank has outlined its commitment to support Africa's ambitions to be a stable, integrated, and prosperous continent with competitive, diversified, and growing economies participating fully in global trade and investment, and aspiring to become a future growth pole and the next global emerging market. The Strategy, therefore, reflects Africa's vision for itself a vision that is achievable, as the bank continues to track Africa's progress in the coming years.

## CHAPTER FOUR

### SUCSESSES AND CHALLENGES OF THE AFRICAN DEVELOPMENT BANK

The global economic crisis in 2008 necessitated the re-definition of the role IFIs and their relevance in Africa's development. Global economic trends in the twenty-first century do not favor MDBs. The eastward shift exemplifies the latter as south-south trade has become a market reality courtesy of China's continued rise. At the same time, flush liquidity in global financial markets in the early 2000s made access to capital easier than ever for developing economies<sup>78</sup>. The phenomenon of Africa rising has become a reality attracting FDIs consequently IFIs are losing relevance as developing economies seem to have found alternatives to aid in their development process. Bearing in mind the current global trends, this chapter examines the strengths and challenges of the AfDB.

#### 4.1. The Strengths of the AfDB

The AfDB has an exclusive set of distinctiveness that cannot be easily simulated by other development institutions operating in Africa. The AfDB plays an intermediary role on substantial resources worth several billion USD each year at very low interest rates and long maturities, which is fundamental to the long-term nature of tackling developmental challenges. Although the AfDB's financial position has weaknesses, as this chapter will discuss in some detail, nonetheless, it has a solid equity capital bases that can sustain non-concessional development lending operations for many years to come without need for shareholder contributions. The multilateral nature of the AfDB positions it well in terms of legitimacy and development effectiveness. Bilateral development projects are often fragmented and respond to the domestic political agendas of the donor country, and not always the priorities of recipient countries. As

---

<sup>78</sup> Danny Leipziger (2013). *The Role and Influence of International Financial Institutions*.

well, bilateral funding is vulnerable to budgetary restrictions and changes in political administrations in donor countries. Countries such as China, India and Brazil are increasing their involvement in Africa, but are in many cases focused mainly on securing contracts for national companies or access to natural resources, as opposed focusing on African development<sup>79</sup>.

By grouping together 78 shareholding countries under an international treaty, the AfDB's governance gives its operations a less politicized and more technical character compared to the aforementioned bilateral donors thus, reinforcing its legitimacy. There are other multilateral development institutions that operate in Africa, however, none have the AfDB's continent-wide perspective and African ownership.

The AfDB character is truly African created by Africans, 60 percent owned by African countries, and the largest development institution dedicated solely to the continent. As such, it can develop a vision for the region's engagement with the world economy and promote both national and regional activities to realize that vision. Its trajectory and majority African staff give it a repository of specialized knowledge and understanding of Africa therefore, it has the scale and credibility to play an important convening role amongst governments, private sector and other international organizations.

#### **4.2. Key Challenge: Lending to Middle-Income Countries**

Lending from the AfDB's non-concessional finance window is flat or even declining, which poses a major challenge to the institution as a whole. Weak non-concessional lending threatens the basic financial model of the AfDB, and indicates that it is not doing its job to be relevant to middle-income borrowing countries. Maintaining its usefulness to middle-income countries

---

<sup>79</sup> H. French, New York Times 16 May 2014 "Into Africa: China's Wild Rush"  
T. Moran, (2010) "China's Strategy to Secure Natural Resources," Peterson Institute.



poses as a challenge, due to the increasing complexity of government structures and demands for improved MDB services<sup>80</sup>. Middle-income countries are skeptical to accept traditional development loans such as conditional loans based on an MDB's priorities and timeline.

Recent indications observe that the AfDB has not yet been able to acclimatize to this novel actuality consequently, it is not well-positioned to sustain a rapidly moving Africa. A number of the 14 non-concessional African countries are borrowing only small amounts from the AfDB or not at all. Accordingly, lending is falling well below AfDB's capacity, based on its capital. This underperformance means that a sizeable share of the non-concessional lending window's capital is sitting idle<sup>81</sup>.

#### **4.2.1. Business Practices and Financial Policies of the AfDB**

The cause of a decline in market-based lending relate to the AfDB's business practices and financial policies among others. Several countries eligible for lending on non-concessional terms such as South Africa, Angola, Botswana and Namibia are not borrowing, even though they have many pressing investment needs and still have headroom to take on loans with the AfDB. Others, particularly countries in North Africa, are restricted from borrowing more due to the AfDB's concerns about high portfolio exposure to countries perceived as risky by credit markets<sup>82</sup>.

The AfDB's operating environment is in many ways more challenging than other MDBs. The relative underdevelopment of many African countries limits the AfDB's ability to undertake development operations. Out of 30 countries in the world experiencing significant social

---

<sup>80</sup> World Bank 2006  
AsDB 2006

<sup>81</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

<sup>82</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

violence or open conflict in 2012, 14 are in Africa<sup>83</sup>. Three of these countries; Nigeria, the Democratic Republic of Congo and Egypt are among the four most populous nations on the continent, meaning their conflict has an outsized impact on the well-being of the region's population thus destabilizing what should be the most powerful poles of economic growth. It is also worth noting, 24 out of the world's 47 "fragile states" are in Africa<sup>84</sup>. The situation of many African countries means that AfDB clients both public and private, have on the whole less implementation capacity for investment projects compared to other regions. Similarly, in many cases most African countries have weak institutional frameworks and socio-political stability.

Unconventional sources of external finance are growing hastily in many African countries, and are in some cases replacing the AfDB. In the recent past China and India have been very active in Africa and are being followed by an expanded presence of the Brazilian development bank (BNDES). The new MDBs being created by the BRICS member countries will potentially undertake major operations in Africa. The flow of FDI to the region rose from USD 12 billion in 2002 to over USD 60 billion in 2012, and access of African governments to international capital markets is increasing quickly. Sub-Saharan governments issued USD 4.6 billion in bonds in 2013, the highest level ever<sup>85</sup>. These flows are expected to continue rising steadily in the coming years.

These new financing sources give many countries choices that did not exist in the past, which is putting competitive pressure on the AfDB. Many countries may prefer other financiers to the AfDB for a number of reasons which include; including speed and volume of lending, lack of environmental or social safeguards, or political reasons, among others. The increased choice is

---

<sup>83</sup> Uppsala Conflict Data Program, 2014.

<sup>84</sup> OECD DAC (2013). *International Network on Conflict and Fragility*.

<sup>85</sup> Dirk Willem te Velde (2014). *Sovereign Bonds in Sub-Saharan Africa: Good for Growth or Ahead of Time?*, Overseas Development Institute.

certainly positive from the point of view of borrowers, but it also brings risks. Political leaders may choose to take more expensive loans from other sources to suit their short-term interests, even though they may have less positive developmental impacts and can increase a country's debt load. The same pressures are impacting the IADB in Latin America and the AsDB in Asia, but those MDBs have been much quicker to react and change to remain attractive to their borrowing clients.

A key reason some countries are less inclined to borrow from the AfDB is the bank's highly bureaucratic and inflexible operating style, according to a recent client survey<sup>86</sup>. In some ways the AfDB still operates as if its borrowing clients had no other options for financing. Clearly, this is no longer the case, and it is essential that the bank change its mentality and business processes to keep up with the new reality in the region.

According to survey feedback many governments and private firms would like to work more with the AfDB, but are not willing to put up with the lengthy delays and bureaucratic hurdles. Delays represent a significant opportunity cost, especially for projects with high economic and developmental impacts. It should come as no surprise that some borrowers are willing to pay higher interest rates in exchange for accessing resources in a matter of weeks, rather than the two years or more between beginning loan preparation and first disbursement at the AfDB.

Slow procedures at the AfDB (and other MDBs) are the result of a culture of risk aversion and process obsession, derived largely from mandates and controls imposed by shareholders. Over the decades, the AfDB has accumulated a perplexing array of policies, procedures and requirements that borrowers must contend with to access bank services. Understandably, shareholders wish to ensure project quality nonetheless, the levels of control and oversight has

---

<sup>86</sup> AfDB, (2012). *The Preferred Partner? A Client Assessment of the African Development Bank*.

left staff risk-averse and process-obsessed. While each individual element may have been put in place for a valid reason, the cumulative effect has left the AfDB extremely slow. Public sector loans take on average more than a year to reach board approval, or even longer for private sector loans. In an age of much greater choice and with a growing focus on the private sector, borrowers especially middle-income countries with various financing options will not accept this<sup>87</sup>.

An AfDB project must face 20 formal review and approval steps between the initial request for financing and board approval,<sup>88</sup> including i) initial screening by the country economist; ii) writing and approving the project brief; ii) writing and approving the project identification report (two approvals); iii) writing and approving the project preparation report; writing and approving the project concept note (seven approvals); and writing and approving the project appraisal report (nine approvals including board). In each case, documents must be written and circulated in advance of meetings, and in the case of concept note and appraisal report, peer review and comments incorporated. The appraisal report must also be officially translated prior to the board meeting, adding further weeks of delay. Four or sometimes five country missions are required throughout this process<sup>89</sup>.

#### **4.2.2. Comparison of AfDB to other MDB**

The AfDB is similar to the World Bank in terms of loan approval speed, but slower than the other two major regional multilateral banks. The recent experiences of the IADB show what concerted efforts to improve business processes can accomplish. IADB loan processing speed

---

<sup>87</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

<sup>88</sup> AfDB Operations Manual, Revised March 2013.

<sup>89</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

has dropped in half during the last five years, from 12 months in 2009 to under six months in 2012<sup>90</sup>. The AsDB has also revised business processes starting in 2011, shortening the length of loan documents to accelerate preparation and review stages and instituting summary procedures for loans under USD 200 million and other types of lower risk projects. Reforms to AfDB business procedures in 2013 included a number of improvements, including electronic document processing and some changes in the level of approval required for projects of different value. However, on the whole the changes are relatively minor and unlikely to result in significant efficiency gains.

Smaller MDBs are frequently much faster. For example, the CAF in Latin America is well-known for approving loans in under three months for most operations, or even under a month when governments make urgent requests<sup>91</sup>. Anecdotal reports suggest that the PTA Bank in southern Africa and BOAD in West Africa, both of which compete with the AfDB for clients, are much faster than the AfDB. The fact that these banks have limited or no input from non-borrowing members points to the role of shareholding and governance in loan approval policies.

Project implementation following approval is equally problematic for the AfDB. The average length of time between approval and first disbursement at the AfDB was 11 months in 2013 overall and 16 months for private operations, compared with the AsDB's 10 months in 2012 for all operations<sup>92</sup>. The IADB measures the gap between effectiveness and first disbursement at 21

---

<sup>90</sup> IADB's Development Effectiveness Overview, 2010-2013.

<sup>91</sup> Humphrey and Michaelowa 2013.

<sup>92</sup> AfDB (2014). *Annual Development Effectiveness Review*  
AsDB (2012). *Development Effectiveness Review*

days for sovereign operations in 2012 and 8 days for non-sovereign, compared to about 60 days for all AfDB operations in the same year<sup>93</sup>.

Bank processes are part of the cause of these delays, and are perceived as such by clients. In surveys, borrower clients fault the AfDB for being below average in terms of processes after loan approval but prior to loan effectiveness as well as procurement and disbursement times after loan effectiveness<sup>94</sup>. Implementation delays result in higher costs in procurement, AfDB administrative budget, and opportunity costs and threaten the success of the project.

AfDB market-based loans are more attractive than most other financing sources in financial terms. Although the loan terms of different MDBs are not directly comparable, the maturities and interest rates offered by the AfDB's non-concessional window match up well with other MDBs, and are far better than the vast majority of African countries can access from commercial banks or through bond issues on global or domestic capital markets. The 10 African countries issuing sovereign bonds on international capital markets between 2007 and 2013 raised USD 8.1 billion at an average interest rate of 6.2 percent and an average maturity of 11.2 years, compared to about 1 percent and 20 years for the AfDB<sup>95</sup>.

Traditional bilateral sources of development finance are often at financial terms comparable to the AfDB, though in relatively small quantities, while new bilateral relationships with Africa (notably China and India development and export import banks) tend to offer terms better than the markets but well above the AfDB, and with significant restrictions on how the resources can be spent. As a result, on purely financial terms AfDB loans appear very attractive.

---

<sup>93</sup> IADB (2012). *Development Effectiveness Report*

<sup>94</sup> African Development Bank, (2012). *The Preferred Partner? A Client Assessment*

<sup>95</sup> The Guardian, (2013). *Sub-Saharan Africa's Eurobond Borrowing Spree Gathers Pace*, 26 June

The size of available AfDB loans is an important limitation for borrowers. African countries face a tremendous deficit in infrastructure investment nearly USD 50 billion a year according to some estimates<sup>96</sup> and urgently seek financing to close the gap. However, the scale of infrastructure projects and the relatively small envelope of resources the AfDB can offer due to risk and exposure restrictions mean that the bank's loans are not significant enough to meet country demand. Transformative projects in energy generation and transportation, especially those at the regional level that the AfDB is prioritizing, require hundreds of millions or even billions of dollars to complete, in many cases well beyond the AfDB's capacity. This partly explains the willingness of many countries to pay considerably higher interest rates to new bilaterals such as China or for private bond issues: they can offer the large amounts of resources needed.

Other MDBs have dealt with this problem by seeking to leverage private resources along with their own loans. MDBs can utilize their activities, relationships and regional knowledge to attract and channel other resources into projects, particularly through loan syndication for private sector projects. Syndication generally can take two forms, either as an A/B loan program wherein the MDB is the lender of record ("A"), and the external financier provides a set amount of resources as part of the overall loan package via the MDB ("B") or as a parallel loan wherein the MDB and the external source each conclude separate loan agreements with the borrower, on a project designed and administered by the MDB. The EBRD and especially the IFC have very strong loan syndication programs, while the AsDB is making a concerted push in this direction in recent years. Syndication for public sector loans is not currently feasible for MDBs, but may be worth exploring going forward<sup>97</sup>.

---

<sup>96</sup> World Bank 2009.

<sup>97</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

The AfDB has only recently begun an active syndication program. The guidelines for loan syndication at the AfDB were issued first in 2008, and the first transaction (USD 410 million B loan in South Africa) was not signed until 2011. Since then, only one other transaction has reached signing, the Lake Turkana Wind Farm in 2014 (USD 10 million B loan)<sup>98</sup>. Scaling up these activities going forward should be an integral part of the AfDB's push to mobilize greater external resources. The AfDB's syndication team (based in the private sector operations division) is small. This is an area where the AfDB may wish to dedicate resources to hiring staff with considerable private sector experience and networks, as the payoff in terms of maximizing developmental impact with a limited use of risk capital.

Other MDBs have implemented various incentives to mobilize external project resources. The publicized headline financing numbers of the EBRD and IFC—the two multilaterals most successful in this area—are not the amounts of actual direct commitments by the MDBs themselves, but rather the total amount of resources brought to bear for developmental purposes, including both own resources and those brought in through their activities. The AsDB has also begun this practice, a strong signal to its staff and its clients of the priority it is beginning to place on its role as an assembler of development finance, and not just a direct lender. The IFC also gives individual investment officers who originate projects formal credit for all external resources mobilized as a material incentive. The EBRD is currently moving in this direction as well. The AsDB now offers incentives at the level of regional departments, granting an increase of at least 2 percent for two years in the regional allocation over the original amount if certain third-party finance mobilization targets are achieved<sup>99</sup>.

---

<sup>98</sup> Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.

<sup>99</sup> AsDB, (2012). *Developmental Effectiveness Review*.



A perceived weakness in developmental knowledge and policy advice also limits country demand for AfDB services. As countries move into middle-income status, they increasingly seek out multilateral knowledge as much or more than pure financing. This is a key attraction of World Bank, partly offsetting its lengthy and bureaucratic loan procedures. Extensive interviews with government officials in Latin America highlight the extreme importance they place on knowledge services as a key factor in their desire to engage in operations with the World Bank. The new AfDB Strategy for 2013- 2022<sup>100</sup> highlights knowledge products as critical, and focuses on the AfDB as a “knowledge broker” rather than just a direct generator of knowledge itself. While this may be a laudable aim in light of the AfDB’s limitations, the strategy does not spell out how this will happen in operational terms such that the bank is perceived as providing valuable value-added to clients—essential to maintain close links with middle-income countries.

The AfDB is not well known for its knowledge services, and quality is perceived to be low by clients. In a recent client survey, 90 percent of respondents reported that they either occasionally or never use AfDB statistics and research, due to lack of awareness or a perception that the material was not current or useful to address real world policy decisions<sup>101</sup>. Similarly, only 24 percent of regional government officials felt that the AfDB provided above-average policy advice, while 42 percent said it was below average<sup>102</sup>. The AfDB’s production of research is also weak—only 31 products in 2012, down from 60 in 2009 and well below the 2012 target of 112<sup>103</sup>. These findings are further substantiated by an internal evaluation of the bank’s economic and sector work (ESW)<sup>104</sup>. The evaluation reported that AfDB ESW production is not well

---

<sup>100</sup> AfDB Strategy for 2013-2022: *At the Center of Africa’s Transformation*.

<sup>101</sup> African Development Bank, 2012. *The Preferred Partner? A Client Assessment*

<sup>102</sup> Ibid.

<sup>103</sup> AfDB, (2012) *Development Effectiveness Review*.

<sup>104</sup> African Development Bank, (2013). *Review of the African Development Bank’s Economic and Sector Work*, AfDB Operation Evaluations Department.

coordinated or thought out strategically within the bank, it does not have high visibility in client countries, and is not well used by AfDB operations staff in conjunction with development operations.

A legacy of financial weakness, cautious shareholder-driven policies and the views of capital markets all limit AfDB's room to maneuver in offering financing to member countries. Expanding non-concessional lending to new public and private sector borrowers is essential for the AfDB to increase its relevance and strengthen its finances. However, shareholders have imposed restrictive financial policies that hamstring the AfDB's ability to provide services to Africa through the non-concessional lending window, which in turn further weakens the AfDB's finances.

High concentration in the AfDB's non-concessional loan portfolio and the risk perception of rating agencies further restricts lending. AfDB's non-concessional loan portfolio is highly exposed to its top five borrowers over 80 percent, similar to the AsDB but well above the IADB and CAF. While portfolio concentration is to a degree inevitable for regional MDBs, two of the AfDB's top five borrowers Tunisia and Egypt are currently facing serious sociopolitical difficulties that negatively impact the perceived riskiness of the bank in the eyes of capital markets. By contrast, the largest borrowers from the other major MDBs (such as China, India, Indonesia, Brazil and Mexico) are all relatively stable politically and economically. Because of this concentration problem, the AfDB is restricted from increasing non-concessional lending to North African countries, although several would borrow more to address pressing investment needs.

The AfDB's credit policy was put in place in the wake of the debt crises of the 1980s and 1990s, but no longer fits current reality. Due to difficulties faced by the AfDB in the 1980s and 1990s,

when many borrower countries faced severe debt distress and the bank's financial stability was uncertain, shareholders imposed a strict credit policy that follows the same criteria as the World Bank's IBRD/IDA. This policy works well for the World Bank, because the high number of eligible non-concessional borrowers means it has a strong non-concessional portfolio. However, it is excessively rigid for the AfDB because it structurally exacerbates an already concentrated portfolio (as discussed above) and undermines the bank's ability to support regional borrowers.

Management recognized the need for change in the credit policy, and proposed a modification that shareholders approved in May 2014<sup>105</sup>. The new policy opens market-based lending to "green" and "yellow" category countries, but with several caveats. Notably, a country must have a "sustainable macroeconomic position" and the loan must be approved by the AfDB's Credit Risk Committee<sup>106</sup> both requirements that offer considerable degree of leeway to the bank. As well, the policy calls for more rigorous assessment of project development impact. How this will play out in practice is not yet clear, but the change is clearly a step in the right direction. If well implemented, this new policy has the potential to increase the AfDB's development impact through projects in more countries, improve its own financial strength and loan portfolio, and reduce the fiscal burden of debt repayments to borrower countries compared to private sources of finance (due to the lower interest rates on AfDB loans).

Private sector activity is growing rapidly and has very high potential development impact, but it also brings risks. The AfDB is shifting to include a significant share of non-sovereign guarantee operations along with the more traditional public sector activity from its non-concessional lending window, as directed by shareholders and similar to the other two main regional MDBs.

---

<sup>105</sup> AfDB/COSP, (2014). *Diversifying the Bank's Products to Provide Eligible ADF-Only Countries Access to the ADB Sovereign Window*.

<sup>106</sup> *Ibid*, p. 4.

The AsDB is targeting 25 percent of approvals for private sector operations by 2020,<sup>107</sup> the IADB establishing a more flexible ceiling of around 20 percent of risk capital usage,<sup>108</sup> and the AfDB projecting a rise to 39 percent of annual commitments and 26 percent of the portfolio in non-sovereign operations by 2020<sup>109</sup>. The AfDB has moved most quickly toward reaching these goals—evidence of the very high demand and limited alternative supply of financing available to the private sector in the region.

The sharp increase in private sector activity may have outpaced the AfDB's capacity, and could weaken the overall portfolio. Private sector financing operations are inherently riskier than sovereign guaranteed loans, and this is particularly true in a less developed region such as Africa. This is not a reason to shy away from them the AfDB's job is to assume risks in the interests of development but it does require close attention. The AfDB, with about one-fifth of the non-concessional portfolio dedicated to private sector operations, already has a high level of non-performing loans relative to other MDBs, and most of these loans are to the private sector. Ratings agencies have flagged the growth in private sector lending as an area of concern for the AfDB, and are closely watching how the bulge of new private sectors loans will perform in coming years, as loan grace periods finish<sup>110</sup>.

Part of the reason private sector lending is a greater risk at the AfDB compared to other multilaterals is a lack of internal capacity and a culture of public sector lending. The huge and sudden upswing in lending and equity investments for the private sector has occurred in an institution that is designed for public lending. This is exemplified by the fact that the AfDB

---

<sup>107</sup> AsDB, (2014). *Mid-Term Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*, P. 32.

<sup>108</sup> Inter-American Development Bank, (2010). *Report on the Ninth Increase in the Resources*, p. 15.

<sup>109</sup> Proposal for a Framework for Managing GCI Resources and Large Loans, 2011, p. 7.

<sup>110</sup> Standard and Poor's, (2014). *African Development Bank*, January 27.

private sector group does not have its own vice-presidency. By contrast, the AsDB and IADB each have their own vice-presidency, and the World Bank Group's International Finance Corporation (IFC) is an entirely separate institution with a strong culture of specialized expertise that strengthens the quality of private sector activity. In light of the rapid recent and project future growth of this area, and the experiences of other MDBs, upgrading the institutional status of private sector operations at the AfDB should be considered.

The financial and organizational obstacles described above limit the AfDB's ability to take risks in the interests of development in Africa. Despite the AfDB's many strengths African ownership and legitimacy, convening power, shareholder support, specialized knowledge of African developmental issues, financial capital it is at the moment falling short of its potential to catalyze improvements to the living standards and economic opportunities of Africans. The factors limiting AfDB effectiveness are especially problematic for middle-income countries borrowing at market-based terms. However, they affect all borrower countries: weak non-concessional project lending means less net income for poorer countries, less developmental experience that can be transferred from middle-income to poorer countries via the AfDB, and a bank unprepared for an increase in countries accessing market-based lending as Africa grows.

This also makes the AfDB less useful to non-borrowing shareholders, who contribute capital and take part in the AfDB's governance on the premise that the bank is a key channel to have a positive impact on African development. The AfDB's performance in non-concessional project lending is also weakening its own financial sustainability, which in turn reduces its potential development impact even further. Not addressing the problems discussed above has the potential to become a vicious cycle, with the AfDB's financial situation deteriorating, leading to greater caution in lending, leading to further deterioration in finances and development impact. Weak

demand by some borrowers and inability expand market-based lending to others due to financial caution mean that a sizeable portion of shareholder capital currently sits idle, not being employed in development operations. At the same time, the AfDB is not generating as much net income from non-concessional lending operations as it otherwise could, which could be used to contribute to developmental initiatives for the poorest via the concessional lending window.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

The Bank has made significant improvements in its management and lending practices, but it still needs to reconcile the interest of the non-regional and regional members. With the continued support of the non-regional members, the African Development Bank is likely to be providing an increasing proportion of the funds to underpin any economic recovery in Africa. The next few years will be critical to the AfDB's efforts to fully recover and establish itself as a key player in Africa's economic and social development. The challenges the AfDB faces are framed by Africa's context: historical low growth, exclusion from the global expansion in world trade and investment, and a fragmented region of 53 mostly small economies. In addition, as the AfDB continues its rebuilding efforts, it must find ways of operating effectively in a crowded aid field with many larger players.

Responsibility for the AfDB's difficult history rests on many shoulders. The combined pressure from shareholders on all sides has muddied the Bank's mission, fragmented its operations, and undermined its ability to make strategic choices. These pressures led to the near collapse of the Bank in 1995 and to a development agency that is today struggling to reassert itself as a principal player in African development.

The recommendations are based on the belief that the Bank's first challenge is to rebuild its operational reputation; it should do this by focusing on a single sector in which it has some comparative advantage, and only after it has built competence in this area should it consider taking on additional responsibilities.

## 5.1 Recommendations for the AfDB

1. Define your future: Promoting economic growth should be the Bank's primary objective. Africa's development agenda is both wide and deep, but nothing else will matter unless the continent finds a way to grow rapidly, grow equitably, and grow sustainably. The Bank must therefore focus the bulk of its resources on helping to generate greater economic activity. Establishing growth as the AfDB's overarching goal implies that the Bank will have to work to:

- Promote private sector development. Unleashing Africa's entrepreneurial energy is a necessary precondition for long-term economic progress. Private economic activity and only private economic activity can provide future employment and the ongoing tax revenues needed to support investments in social services.
- Help to connect Africa's markets. Given the continent's relatively small markets, Africa's future economic growth will depend on linking its internal markets as well as connecting to the global economy. There are three parts to this connectivity challenge. First, poverty will be reduced only if the poor are tied into national markets, especially rural and agricultural producers with urban consumers. Second, the continent's fragmented national economies must be integrated in order to reduce transaction costs to intraregional trade and investment and to create markets of sufficient size to promote efficiency and attract external investors. Third, African economies can and must be linked to global markets.
- Improve governance. More transparent and accountable interactions between the government and other actors and containing corruption are necessary if Africa is to put itself on a sustainable path to prosperity.



3. Refine your operation skills: The AfDB needs to specialize in one area that supports economic growth. Infrastructure should be the Bank's focus because it is one of the most serious constraints to growth and a sector where the Bank can make a difference. A fundamental precondition for the Bank's rebound is that it prove its ability to be a serious player among Africa's donors. Given current human resources, the bank should focus at least initially narrowly on its operational activities.

This paper recommends that the AfDB concentrate, over the course of the next 3-5 years, exclusively on infrastructure especially on transportation, electricity, and water infrastructure deficits that can be shown to be key constraints to private sector development. It is worth noting that the AfDB should not become solely an infrastructure bank, but rather that the next step along the road to full recovery must be to demonstrate operational competency in one area critical to Africa's development.

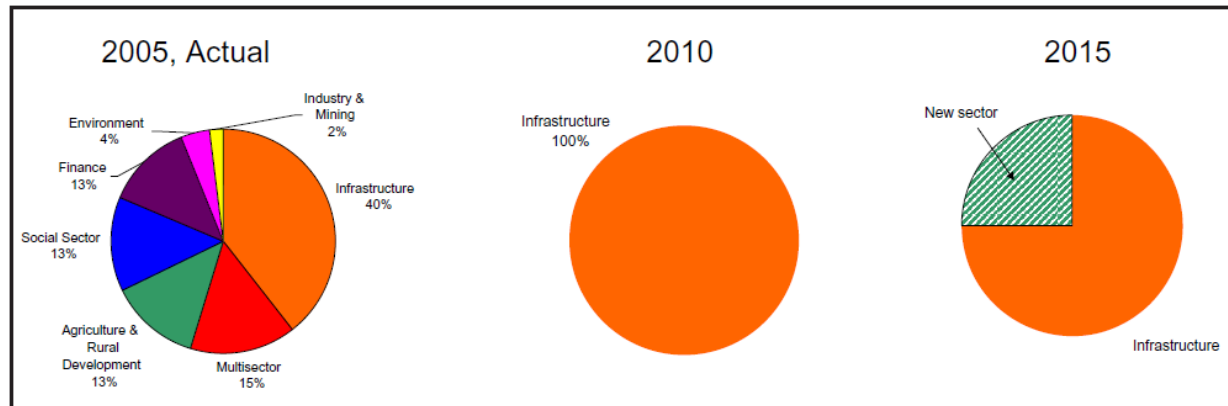
Infrastructure was selected as the focus because it is a sector:

- Of relative internal strength. The AfDB already has substantial experience in infrastructure (representing nearly 40% of new project approvals) and it has built a relatively positive reputation in this sector.
- Relevant for clients in both lending windows. Infrastructure investment and expertise is in strong demand by the entire spectrum of AfDB borrowers, allowing the Bank Group to build capacity that can be used by both the hard and soft windows. This is not only a more efficient use of limited staff and capital, but it also helps to ensure that the Bank remains relevant, especially to its North African borrowers.
- Where the Bank has an existing mandate. The AfDB has already been given responsibility for managing infrastructure investment and promotion by the New

Partnership for Africa's Economic Development (NePAD) and a special coordinating role by the Infrastructure Consortium for Africa launched in late 2005.

- That can serve many needs. Addressing infrastructure needs and investment is one constructive way to approach the three areas of the growth agenda defined above.
- Recent evidence suggests that the cost and reliability of transport and energy are major barriers to private sector competitiveness in Africa.<sup>3</sup>
- Infrastructure investment is an essential means to connecting the poor to markets, to promoting regional integration, and to fostering the flow of goods and services. Multi-country roads and electricity grids in particular are seen as critical to enhancing cross-border trade and more efficient energy distribution.
- Infrastructure governance is an important part of the broader governance agenda, and an area in need of major improvement. If the AfDB could help upgrade selection, tendering, procurement, construction, and management of infrastructure, it would make a valuable contribution toward Africa's fight to reduce corruption and demonstrate its ability to improve governance.
- Many other critical challenges for Africa, such as social sector targets embodied in the Millennium Development Goals, have significant infrastructure components.

**Figure 5: Proposed portfolio of new approvals for 2010 and 2015 (new approvals, loans and grants). African Development Bank Group Working Paper Series.**



4. Lead, but don't lend, on key regional issues: The AfDB's role is much greater than its own operations. The President must use the authority of his office to provide an African voice on critical regional and global issues. The AfDB's President has an imperative beyond managing a regional development bank: to serve as a voice for Africa on African and global issues. The President must therefore use his office to provide intellectual leadership on critical issues within the development community and as a rallying point for influencing governments within the region on a range of common issues. But playing this leadership role must be explicitly separated from Bank lending operations.

This paper recommends the following sectors for leadership by the AfDB;-

1. Governance beyond infrastructure. Corruption and governance are high on the international agenda, yet some Africa nations chafe at the notion that rich countries can and should dictate positions on these issues. The President can and must play a critical role as a bridge between the demands of donor nations and the legitimate frustrations of recipient nations trying to cope with a difficult, systemic long-term problem.

2. Business climate awareness and reforms. As part of the AfDB's drive to strengthen Africa's private sector, the President can elevate the prominence of business climate analysis and reforms, helping to push changes to make it easier to open, invest, and operate businesses.
3. Global or regional public goods. The right investments in global public goods, such as Africa-oriented agricultural or medical research, could improve the lives of millions of Africans. The creation of an anti-malarial vaccine or new drought-resistant crops would produce immediate gains for the continent. Although the AfDB should not devote its own resources to such projects, the President could use his position to promote initiatives that would impact Africa and bring a credible regional perspective to some of the debates about investing in and deploying such technologies.

#### Recommendations for shareholders

1. Back off: The number and scope of shareholder demands must be reduced. Shareholders are notorious for creating laundry lists for the multilaterals, but such demands are especially damaging for the AfDB. Shareholders must give management space and time to implement the strategy.
2. Lighten up: Transform the Board into a non-executive, non-resident body. The costs, financial as well as staff and management time, of resident executive boards are being questioned in other multilaterals, and the problem is even more acute for the AfDB.
3. Confront the location issue: The unsettled "temporary" headquarters status is a roadblock to a successful future and this uncertainty must be resolved as soon as possible.

## BIBLIOGRAPHY

- AfDB, (2011). *African Development Report*. African Development Bank, Tunis.
- AfDB, (2013). *Operations Manual*. AfDB Operation Evaluations Department, Tunis.
- AfDB, (2014). *Annual Development Effectiveness Report*. AfDB, Tunis.
- AfDB, (2014). *Annual Development Effectiveness Review*. African Development Bank, Tunis.
- AfDB, (2014). *Investor Presentation*. AfDB, Tunis.
- AfDB. (2013). <http://www.afdb.org/en/about-us/> (accessed 15/03/2015).
- AfDB. (2014). *Tracking Africa's Development in Figures*. African Development Bank, Tunis.
- AfDB/COSP, (2014). *Diversifying the Bank's Products to Provide Eligible ADF-Only Countries Access to the ADB Sovereign Window*. AfDB, Tunis.
- African Development Bank Group. (2013). *AfDB in Brief*. External relations and communication unit, Temporary relocation agency (Tra), Tunis.
- African Development Bank, (2012). *The Preferred Partner? A Client Assessment*. AfDB, Tunis.
- African Development Bank, (2013). *At the Center of Africa's Transformation: Ten Year Strategy 2013 – 2022*. AfDB: Tunis.
- African Development Bank, (2013). *Review of the African Development Bank's Economic and Sector Work*, AfDB Operation Evaluations Department, Tunis.
- African Development Bank, (2014). *Addressing Fragility and Building Resilience in Africa: The African Development Bank Group Strategy 2014 – 2019*. AfDB, Tunis.
- African Development Bank. (2011b). *Africa in 50 Years' Time*. AfDB, Tunis.
- African Economic Outlook, (2014). [www.africaneconomicoutlook.org](http://www.africaneconomicoutlook.org) (Accessed 19/06/2015)

- Alesina, Alberto, and David Dollar. (2013). *'Who Gives Foreign Aid to Whom and Why?'* Journal of Economic Growth.
- AsDB (2012). *Development Effectiveness Review*. Asian Development Bank.
- AsDB, (2006). *Development Effectiveness Review*. Asian Development Bank.
- AsDB, (2014). *Mid-Term Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*, P. 32. Asian Development Bank.
- Campbell, D. (2004). *Havens that have become a tax on the world's poor*, Guardian: UK, available at <http://www.odiousdebts.org/odious/index.cfm?DSP> (accessed 05/02/07).
- Collier P. (2009). *The Bottom Billion: Why the Poorest Countries are failing and what can be done about it*. OUP (UK, USA)
- Danny Leipziger (2013). *The Role and Influence of International Financial Institutions*.
- David Williams. (2000). *Aid and sovereignty: Quassi-states and the international financial institutions*. Review of International Studies. British International Studies Association.
- Davidson B. (1994). *Critical Thinking: A Perspective and prescriptions* . UK
- Development & Peace. (2008). *Hunger and the Pursuit of Profit*. (Accessed on 10/03/2015).
- Dirk Willem te Velde (2014). *Sovereign Bonds in Sub-Saharan Africa: Good for Growth or Ahead of Time?* Overseas Development Institute.
- E. Philip English and Harris M. Mule. (1995). *The African Development Bank*, p.29 .Boulder, Colorado: Lynne Rienner.
- Economy Watch. (2010). [www.economywatch.org](http://www.economywatch.org) (Accessed on 06/03/3015).
- H. French, (2014). *Into Africa: China's Wild Rush* New York Times May 16

- Humphrey C. and K. Michaelowa (2013). *Shopping for Development: Multilateral Lending, Shareholder Composition and Borrower Preferences*. World Development Vol. 44, No. 4, pp. 142-155.
- Humphrey Christopher. (2014). *The African Development Bank: Ready to face the Challenges of a changing Africa?* University of Zurich, Stockholm.
- IADB (2012). *Development Effectiveness Report*. Inter-American Development Bank Group.
- IADB's (2010-2013). *Development Effectiveness Overview*. Inter-American Development Bank Group.
- IFPRI. (2002). *Only the Small Farmer*. Retrieved on 10/03/2015
- Ikejiaku Brian-Vincent. (2009). *The Relationship between Poverty, Conflict and Development*. *Journal of Sustainable Development Vol 2. No. 1*. Research Institute for Law, Politics and Justice. Keele University
- IMF Regional Economic Outlook (2013). *Sub-Saharan Africa*, p. 80. The figures are unweighted averages of public debt levels from all borrowing countries eligible for concessional lending from the World Bank and AfDB.
- Inter-American Development Bank, (2010). *Report on the Ninth Increase in the Resources*. , p. 15. IADB.
- Jacob Pritchard. (2013). *The role of development banks in the economic revival of transition economies*. ECN 5100 Economics of Transition.
- Josue Dione et al. (2005). *Sustainable Development Report on Africa; Managing Land-Based Resources for Sustainable Development*. Economic Commission for Africa.
- Kerlinger, F.N, (1986). 3<sup>rd</sup> Ed, *Foundations of behavioral research*. (New York: Holt, Rinehart and Winston).
- Leonard D. & Straus S. (2003). *Africa's Stalled Development: International Causes & Cures*. Boulder: Lynne Rienner.

- Lewellel, T. (1995). *An Introduction to Third World*. London: Bergin & Garvey Publishers.
- Marke, D. (2007). *Will Africa Ever Be Able To Replicate Successful Economies?* December 16, 2007.
- Mauro, P. (2004). *The Persistence of Corruption and Slow Economic Growth*, IMF staff papers Vol. 51, No1, 2004.
- McMillan Margaret & Harttgen Kenneth, (2014). *What is Driving the African Growth Miracle?* Working Paper Series 209. African Development Bank Group.
- Mkangi, K. (1993). *The African Debt Crisis: A Radial Human Perspective*. P. 9. Nairobi. ACLCA.
- OECD DAC (2013). *International Network on Conflict and Fragility*.
- Okanya, O. (1996). *Political Thoughts, an Unpublished Mimeo*, Department of Political Science, Enugu State University: Nigeria
- Orwa M. (2010). *Defining Development*. United States International University, Nairobi.
- Policy Brief by the Fragile States Unit of the African Development Bank, (2013). *Enhancing Stability and Development in Africa; The Role of the African Development Bank*. International Security Sector Advisory Team of the Geneva Centre for the Democratic Control of Armed Forces (DCAF/ISSAT).
- Private Participation in Infrastructure Database, World Bank ([ppi.worldbank.org](http://ppi.worldbank.org)). Retrieved on 22/07/2015
- Proposal for a Framework for Managing GCI Resources and Large Loans, 2011, p. 7.
- Seidman, A. Seidman, R and Mbanja, P. (2006). *African Challenges: Using Law for Good Governance and Development*. Africa World Press: USA.
- Standard and Poor's, (2014). *African Development Bank*, Retrieved on January 27.
- T. Moran, (2010). *China's Strategy to Secure Natural Resources*. Peterson Institute.



The Economist magazine. (2013). *Africa Rising*. March Cover.

The Guardian, (2013). *Sub-Saharan Africa's Eurobond Borrowing*. Spree Gathers Pace, 26 June

Thomas Caroline. (2009). *The international financial institutions' relations with Africa*. INTR 4045/7073 July 25-October 2011.

Timothy Turner, Leila Mokaddem and Ghazi Ben Ahmed. (2010). *Assessment of the Trade Finance Market in Africa Post-Crisis. Working Paper Series 118*. African Development Bank Group.

United Nations (2014). *Open Working Group Proposal for Sustainable Development Goals*. United Nations: New York.

United Nations Development Program (2013). *Human Development Report 2013*.

United Nations Office on Drug and Crime (2005). *Crime and development in Africa (2005)*, UNODC: New York.

United Nations Security Council (2007). *Security Council SC/8958*.

United Nations, *World Population Prospects: the 2012 Revision*.

UNRISD. (1995), *Annual Report*. p.42.

Uppsala Conflict Data Program, (2014). *Annual Report*.

William Easterly. (2002). *How Did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief*. Center for Global Development, Institute for International Economics, Washington DC, USA.

World Bank (2009). *Annual Report*. World Bank Group.

World Bank, (2006). *Annual Report*. World Bank Group.

World Bank, (2009). *Africa's Infrastructure: A Time for Transformation; Africa Infrastructure Investment Report*. Commonwealth Business Council.

World Bank, (2013). *State of the Poor: Where are the Poor and Where are they Poorest?* PREM.

World Bank, (2013). *The World Bank Group Goals: End Extreme Poverty and Promote Shared Prosperity*. World Bank: Washington, DC.

Young, Alwyn, (2012). *The African Growth Miracle*. *Journal of Political Economy*, 120: 696-739.

Zorobabel Bicaba, Zuzana Brixiová and Mthuli Ncube. (2015). *Eliminating Extreme Poverty in Africa: Trends, Policies and the Role of International Organizations*. Working Paper Series 223. African Development Bank Group.