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Committee

**DFID and the African
Development Bank**

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International Development Committee

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Footnotes

In the footnotes for this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by the page number as in 'Ev 12'.

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Summary

The Department for International Development's (DFID) recent doubling of support to the African Development Bank (AfDB) is an affirmation of early successes in the Bank's reform programme. The Bank's President Donald Kaberuka and his staff, supported by influential donors such as DFID, are overseeing critical changes—notably the decentralisation and 'results' agendas—that will help the AfDB fulfil its potential as the driver of development in Africa.

The record donor support pledged under the eleventh replenishment of the African Development Fund (ADF 11) offers the opportunity to make real changes to poor people's lives—but only if the effectiveness of AfDB strategies are maximised. Infrastructure investments must do more to build local industry and capacity. Compliance with global transparency benchmarks must be a pre-requisite for AfDB financing of extractive industry projects. Lending to the private sector must 'add value'—for instance by building capacity—and help drive pro-poor growth.

DFID has influenced many of the most significant reforms to the Bank and deserves credit for this. It must now keep a watchful eye on the implementation of these reforms and use its position of influence to push for more meaningful delegation of responsibility to decentralised offices. The Department must be clear on what it expects from the Bank in its work on climate change in Africa and it should continue to press for closer collaboration between the AfDB and the World Bank.

DFID should argue for a reconfigured Board structure that enables the leverage of DFID and other major donors at the Bank to be commensurate with their increasing contributions to the institution. The success of the Bank's new results agenda will depend on the ability accurately to monitor outcomes. DFID must help ensure that both the Bank's key performance indicators and the extent to which its own objectives are being met are rigorously assessed.

The AfDB's contribution to achieving the Millennium Development Goals goes far beyond its direct expenditure of development resources to encompass its role as a Bank for Africa and a collective voice for development on the continent. The Bank has the potential to become a regional leader. DFID must continue its worthwhile and highly creditable support to ensure the institution fulfils this promise.

1 Introduction

1. As the Committee said in its recent report, ‘DFID and the World Bank’, DFID is channelling increasing amounts of its budget—over 40%—through multilateral institutions.¹ Regional Development Banks (RDBs) have been beneficiaries from this rise. The UK is a shareholder and contributor to the African, Asian, Caribbean and Inter-American Development Banks and DFID is responsible for the oversight of UK policy towards these institutions. The UK contribution to the African Development Fund (ADF)—the ‘development arm’ of the African Development Bank (AfDB)—doubled in the latest replenishment in November 2007 from approximately £200 million for 2005–07 to £417 million for 2008–2010.² This increase will make the UK the largest single contributor to the AfDB, overtaking France for the first time.

2. We decided to focus on the AfDB under the second phase of the Committee’s assessment of DFID’s work with multilateral institutions.³ The AfDB receives more than double the amount from DFID which any of the other RDBs receives.⁴

3. The AfDB’s primary aim is to support economic and social progress within its regional member countries and to assist African countries in achieving the Millennium Development Goals (MDGs). The AfDB has three arms:

- The Bank itself, a ‘hard’ lender, which provides non-concessional resources lent at market rates;
- The African Development Fund (ADF), a ‘soft’ lender, which offers concessional loans and grants to low income countries, as well as technical assistance such as macro-economic advice (the ADF is comparable to the International Development Association, IDA, at the World Bank); and
- The Nigeria Trust Fund, financed by the Nigerian Government, which makes limited financial resources available at below-market rates.

Demand for the ADF is very high because most African countries are not eligible to borrow from the AfDB because of their economic status and must therefore share the pool of limited ADF concessional funds.

The 11th Replenishment of the African Development Fund

4. The Bank was established in 1964, modelled in many respects on the World Bank but becoming the only Bank focused entirely on the development of Africa. The Bank Group’s spend is relatively modest: the ADF is only the seventh largest source of aid for Africa, behind donors such as the Netherlands. Its current three-year donor replenishment round

1 DFID, *Statistics on International Development 2002/03–2006/07*, 2007, p.10

2 DFID Press Release, 26 November 2007, ‘Douglas Alexander announces doubling of UK support for African Development Fund’

3 The first phase of this assessment was published in February 2008 as the Sixth Report of Session 2007–08, *DFID and the World Bank*, HC 67

4 DFID, *Statistics on International Development 2002/03–2006/07*, 2007, p.117

(its eleventh, ADF 11) amounts to half of the World Bank's current IDA replenishment round spend in Africa (IDA 15, totalling approximately \$20 billion across the continent).

5. However, ADF 11, concluded in December 2007, saw record donor support. The UK's doubling of funds was emulated by the other members of its constituency: Germany increased its contribution by nearly 80% and the Netherlands and Portugal by 50%.⁵ The constituency's total contribution now represents one-third of all donor funds to ADF 11. The replenishment, worth £4.5 billion—a 52% increase compared with ADF 10—will assist the AfDB in raising its profile over the next three years. At the ADF 11 negotiations in London, donors were agreed that priority areas for ADF 11 should be infrastructure, governance and regional integration. These areas of focus, along with other major issues for the Bank such as climate change, will be explored in Chapter 2.

A 'Bank for Africa'

6. Since the early 1980s, the AfDB has been run as a 'Bank for Africa' rather than an African Bank owned solely by African Governments. Current shareholders include 53 African and 24 non-African countries. As well as owning the majority of shares, African countries play a leading role in managing the institution: for example, the Bank's President is always African. The UK has been a member of the AfDB since 1983 and has 1.676% of the capital, placing it in the sixth position among non-regional shareholders.

7. In the mid-1990s, the Bank came close to collapse due to poor management and a loss of confidence from both borrowers and donors. In 1995 the AfDB became the first international financial institution to lose its triple-A credit rating.⁶ President Donald Kaberuka, elected to lead the Bank in 2005, is thus overseeing an institution in the process of renewal. Major structural and operational changes have been put in place over the past few years including decentralisation of activity to 23 new field offices, a restructuring of key departments including expanded divisions working on governance and the private sector, the implementation of a new human resources strategy bringing in substantially more staff and a narrowing of focus in order to pursue a tighter selection of issues within African development.

Structure of this report

8. In 2007, a report was published by the High Level Panel (HLP) appointed by President Kaberuka to provide a 'roadmap' for the Bank's reform.⁷ Both this and a 2006 report from the Center for Global Development (CGD) concluded that the AfDB has the potential to play a leading role in Africa's development—but that this potential will only be fully realised if certain changes are made in the way the Bank operates.⁸

5 2007-2008 Constituency Report, AfDB Constituency representing Germany, the Netherlands, Portugal and the UK, p.3. 'Constituency' refers to the practice of sharing the 18 seats on the AfDB Board between several members. The UK shares a constituency with Germany, the Netherlands and Portugal (see Paragraph 55 for more details).

6 Credit rating agencies use letter designations such as AAA, B and C as a financial indicator to assess the credit worthiness of a corporation's debt issues.

7 'Investing in Africa's Future: The ADB in the 21st Century': Report of the High Level Panel for the African Development Bank (2007)

8 Center for Global Development, 'Building Africa's Development Bank: Six Recommendations for the AfDB and its Shareholders' (2006), p.12

9. We broadly agree with this conclusion and were generally impressed with what we saw of the Bank's operations in Tunis and with what we heard in evidence. We do not intend in this report to repeat what has been said so well in the HLP and CGD publications. Our intention is to cast the spotlight very narrowly on the UK Department for International Development (DFID) and its relationship with the AfDB. We will focus on how external shareholders such as DFID can best assist the AfDB to achieve its potential as a lender and explore to what extent AfDB development objectives match those of the UK.

10. Chapter 2 will look at how effectively the Bank is spending donor funds to support Africa's development and the achievement of the Millennium Development Goals (MDGs) across a range of key issues including infrastructure, governance, private sector development and climate change. Chapter 3 will look directly at the DFID-AfDB relationship and explore how the Bank's structure and administration facilitate sustainable development in line with DFID's own priorities.

Evidence and acknowledgements

11. We held two oral evidence sessions for this inquiry at Westminster: with Joseph Eichenberger, the AfDB's Vice President for Operations (Country & Regional Programmes and Policy) and with Gillian Merron MP, Parliamentary Under-Secretary of State for International Development and DFID officials. We received written evidence from: DFID; Transparency International; and the Institution of Civil Engineers and Engineers Against Poverty.

12. We visited the AfDB's headquarters in Tunis from 2–3 April 2008 for discussions with President Kaberuka and other Bank staff. We are grateful to the UK Executive Director at the AfDB, Richard Dewdney, other DFID staff and AfDB officials for making the visit a successful one. We would also like to thank all those who contributed to the inquiry.

13. The HLP Report set out a vision for the AfDB whereby it “can and must become the premier development institution in Africa.”⁹ The Bank's structure and administration promote a strong role for African Governments within the institution, especially when compared with the way the World Bank is run.¹⁰ DFID's recent doubling of support demonstrates confidence that the AfDB can fulfil the HLP's vision of leading pro-poor growth and sustainable human development across Africa. Our report will explore how well-placed this confidence is and how DFID can help ensure that UK funds are used as effectively as possible by this growing development actor.

9 Foreword to the High Level Panel Report (2007), p.V

10 Ev 34

2 Supporting Africa's development and the MDGs

Infrastructure and regional integration

14. Building infrastructure—both 'hard' infrastructure such as roads, water pipes and irrigation systems and 'soft' infrastructure such as effective border controls and customs procedures—opens up markets for poor people and boosts economic growth in multiple ways. In Asia, countries with high levels of infrastructure spending—especially those aspects which support agriculture such as irrigation—saw high growth rates during the 1990s. Vietnam targeted infrastructure investments in regions with high poverty levels and prioritised large infrastructure investments in an effort to maximize growth, which enabled it to halve its poverty rate between 1993 and 2002.¹¹

15. Improving infrastructure in African countries has been identified as a priority area for ADF 11. Over 60% of the latest replenishment's resources will be spent on building and upgrading infrastructure. The 2007 High Level Panel Report recommended increased specialisation on infrastructure by the AfDB which it believed would assist the economic integration of African countries. It stated:

“Operating as 53 fragmented economies, Africa will never be able to trade competitively—it needs to be more integrated, with larger economic spaces. Goods and services must move more easily; infrastructure must facilitate not frustrate trade; institutions must be supportive and effective.”¹²

The AfDB has been given a mandate by the New Partnership for Africa's Development (NEPAD) to lead the NEPAD agenda for regional integration.¹³

16. During our visit to Tunis, staff told us that being a 'Bank for Africa' with African staff who understood country contexts gave the AfDB a comparative advantage in infrastructure work. The AfDB hosts the secretariats of the Infrastructure Consortium for Africa and of the African Water Facility on behalf of the international community and is well-linked to regional organisations, making it an ideal 'hub' for African infrastructure activity. Reinforcing the Bank's contribution to African infrastructure is one of DFID's four objectives for the AfDB set out in its 2006 joint constituency strategy paper.¹⁴ DFID support to the Bank's work on infrastructure includes its five-year Technical Cooperation Agreement (£13 million from 2007), a staff secondment to the Infrastructure Consortium Secretariat and the provision of resources for the Africa Water Facility to recruit a financial management expert.¹⁵ **We welcome the priority given to infrastructure in ADF 11,**

11 World Bank, 'Pro-Poor Growth in the 1990s' (2005)

12 High Level Panel Report (2007), p.1

13 The New Partnership for Africa's Development (NEPAD) is an economic development programme of the African Union and was launched in 2001.

14 'Working in Partnership with the African Development Bank: Joint strategic Framework for Partnership with the AfDB', the Governments of Germany, the Netherlands, Portugal and the UK (2006), p.7

15 2007-2008 Constituency Report, AfDB Constituency representing Germany, the Netherlands, Portugal and the UK, p.20

especially the focus on regional integration, a crucial factor in boosting economic growth in Africa. The AfDB is in a good position to co-ordinate international efforts in infrastructure due to its hosting of the Infrastructure Consortium for Africa and the African Water Facility, and its mandate to lead the New Partnership for Africa's Development (NEPAD) agenda for regional integration. We recommend that DFID do all it can to support the AfDB in using the current replenishment to secure real progress in building both 'hard' and 'soft' infrastructure that opens up markets within and between African countries.

Securing pro-poor outcomes through consultation

17. Evidence submitted jointly by the Institution of Civil Engineers (ICE) and Engineers Against Poverty (EAP) identified a number of shortcomings in the AfDB's attempts to address Africa's infrastructure needs. One problem, they highlighted, is an over-emphasis on large-scale construction projects rather than smaller initiatives that benefit poor communities. The submission suggested that it would be possible for the AfDB to increase the developmental impact of both large and small scale projects through increased consultation (including formal user surveys) with communities so that projects are tailored to local circumstances.¹⁶ This objective was supported by Transparency International's (TI) evidence. TI said that including citizens in the process of designing and implementing infrastructure projects would help to reduce corruption. The organisation believed that lessons could be learned from the water sector, where an inclusive approach has helped to give ownership and improve sustainability because local people understand more about the operation and maintenance of facilities.¹⁷

18. We highlighted the importance of capacity-building in water infrastructure projects in our 2007 report on Sanitation and Water with reference to one particular AfDB investment, the US\$14 billion Rural Water Supply and Sanitation Initiative (RWSSI). DFID committed £6 million to a technical assistance project to support the RWSSI, which focuses on water provision in rural areas with a target of reaching 32 million rural dwellers by 2015 (an 80% access rate). We recommended that, in order to maximise its investment in the RWSSI, DFID should engage with the Bank to ensure that capacity-building of rural local government bodies is a major priority for the Initiative, so that communities are able to maintain water and sanitation facilities once they are built. We also recommended that DFID support the AfDB's own capacity to target and spend funds for the RWSSI effectively.¹⁸ The UK's joint constituency report for 2007-08 was cautiously optimistic about the RWSSI's implementation, saying that so far the Initiative has helped over one million people gain access to drinking water, and over half a million people gain access to sanitation, but that this remained "a relatively small contribution to the enormous need."¹⁹ **We reiterate our recommendation from our 2007 Sanitation and Water report that consultation and capacity-building of local communities should form a vital part of AfDB-supported infrastructure projects, especially within the water sector where local**

16 Ev 33

17 Ev 36

18 International Development Committee, Sixth Report of 2006-07, *Sanitation and Water*, HC 126, Paragraphs 78-79

19 Constituency Report 2007-2008, AfDB Constituency representing Germany, the Netherlands, Portugal and the UK p.13

operation and maintenance knowledge are crucial to sustainable usage of facilities. DFID should engage with the AfDB to ensure that current major investments of its funds—notably the Rural Water Supply and Sanitation Initiative—adhere to principles of consultation and inclusivity, so that their outcomes benefit poor communities.

Local procurement of goods and services

19. Another aspect of AfDB support to infrastructure highlighted in evidence was the need to encourage the development of local construction and operation industries in African countries. ICE and EAP highlighted that much of the funding invested in African infrastructure flows straight out of the continent via contracts awarded to foreign contractors and suppliers. Procuring goods and services locally to support infrastructure projects is far more sustainable: it generates income and employment and reduces the reliance on foreign enterprises to maintain existing assets.²⁰ ICE and EAP's evidence states that the use of foreign contractors is no guarantee of quality and that implementation of infrastructure projects in African countries is often poor: "There is still too much emphasis on the quantity of loans and grants disbursed and too little on the outcomes of a project."²¹

20. The AfDB has recently reviewed and updated its procurement policies to harmonise them under the Paris Declaration on Aid Effectiveness.²² There has been a specific effort to harmonise with World Bank procurement processes.²³ These newly standardised procedures generally use the World Bank-supported International Competitive Bidding (ICB) procurement system. Under this system the ICE and EAP say that, in practice, the lowest price usually wins, making the "focus on competition at the expense of development objectives".²⁴ This evidence also expressed the concern that "social policies are not carried forward into tender and contract documents and as a consequence are not implemented."²⁵ They suggested that AfDB change its approach to focus on 'best value' rather than 'lower price' by placing a higher emphasis on quality in the evaluation of bids.²⁶

21. We discussed the issue of local procurement with AfDB staff during our visit to Tunis, who said there was some scope to use contracts to make AfDB funding conditional on the use of local producers and suppliers. A preference for African businesses was built into the system so that, all else being equal, African businesses that fell within a 10–15% margin of competitor bids would be successful. However, staff emphasised that the Bank had to work on the basis of competitive tender (as described above) and the over-riding concern had to be the quality of the work undertaken. Further, ensuring that companies could prove they were entirely locally-based was not straightforward.²⁷ **We believe that procuring goods and services to support infrastructure locally creates more sustainable outcomes and**

20 Ev 32

21 Ev 32

22 The Paris Declaration was agreed in 2005 by over 100 ministers and aid agencies as a commitment to improve the effectiveness and harmonisation of aid.

23 2007-2008 Constituency Report, AfDB Constituency represented by Germany, the Netherlands, Portugal and the UK, p.16 and p.9

24 Ev 33

25 Ev 32

26 Ev 32

27 Meetings in Tunis during Committee visit, 2-3 April 2008

helps generate skills, income and employment. The use of foreign contractors is no guarantee of quality and militates against the development of local construction and operation industries. We recommend that the Bank should look again at its systems for procurement and ensure it is doing all it can to promote the use of local producers and suppliers for infrastructure projects in African countries, whilst continuing to harmonise its procurement processes with other donors in line with the Paris Declaration on Aid Effectiveness.

Agriculture

22. Whilst we did not receive significant evidence on infrastructure that supports agriculture, we wished to record our brief discussion with DFID's Parliamentary Under Secretary of State, Gillian Merron MP, about the AfDB's role in this area. In light of recent increases in food prices and growing international concern about food insecurity, and of the central role agriculture plays in Africa's GDP and employment, we asked whether DFID was asking the AfDB to increase its support to agriculture. Historically the AfDB's inputs in this area have focused on agricultural "hardware": infrastructure such as irrigation, crop storage and rural road-building. The Minister said that, even given the current food price crisis, the AfDB should play to its strengths and retain this focus, whilst working in close partnership with key partners such as the UN International Fund for Agricultural Development (IFAD).²⁸ **We agree that, in a climate of growing international concern over rising food prices, it is vital that multilateral agencies play to their individual strengths and co-ordinate carefully—especially in rural Africa where price rises are likely to hit the hardest. Accordingly we recommend that the AfDB should continue to centre its efforts on infrastructure to support agriculture such as irrigation, crop storage and rural road-building. At the same time it should liaise closely with other multilateral agencies working on agriculture in Africa to ensure issues such as crop yields are addressed through appropriate technical assistance and implementation of research findings.**

Governance and transparency

23. Joseph Eichenberger, AfDB Vice President for Operations told the Committee that "governance and the issue of functioning institutions is possibly the toughest issue [we are facing]".²⁹ Governance is one of the priority areas for ADF 11: the Bank will focus on strengthening transparency and accountability in the management of public resources, with particular attention to fragile states and natural resources management.³⁰ One of the reforms instituted under President Kaberuka has been the creation of a free-standing governance department and new governance initiatives, including the Fragile States Facility.

28 Q 92 [Gillian Merron]

29 Q 8

30 Ev 27. According to DFID, fragile states are those which have governments that cannot or will not deliver core functions to the majority of its people, including the poor (see DFID, 'Why we need to work more effectively in fragile states' (January 2005), online at <http://www.dfid.gov.uk/Pubs/files/fragilestates-paper.pdf>)

The Fragile States Facility

24. Mr Eichenberger told us that DFID had been at the forefront of driving the creation of a new governance initiative for ADF 11, the Fragile States Facility, with a budget of US\$665 million (£330 million for 2008–2010).³¹ The High Level Panel recommended increasing the Bank’s engagement in fragile and post-conflict states, seeing “flexible, fast [...] consistent, well-coordinated” assistance as “an imperative, not an option”.³² The Fragile States Facility aims to: provide fragile states with additional resources for rebuilding infrastructure and basic services; support capacity-building; and help countries clear their arrears and begin the route to debt relief. Mr Eichenberger explained that eligibility criteria had been used to identify nine fragile states which would receive assistance under the Facility. They are all post-conflict countries that have signed peace agreements, have experienced a significant decline in real GNP since 1990 and are in the lowest quintile of the UN Development Programme’s Human Development Index.³³ In addition, the Facility will provide support for capacity building across the full range of fragile countries in Africa. The Minister welcomed the Facility. She said that “the fragile states work of the Bank is absolutely crucial to us” and that the AfDB was in a position to move quickly in post-conflict and post-crisis situations in Africa.³⁴ **We believe that DFID deserves credit for its leading role in securing the creation of the Fragile States Facility. The initiative presents the opportunity for the AfDB to offer rapid, comprehensive assistance to the large number of fragile states in Africa. We look forward to following the progress of the initiative and recommend DFID monitor its implementation closely.**

Transparency

25. Improving transparency in Africa’s large natural resources sector is a particular area of focus for ADF 11. The High Level Panel (HLP) Report commented that the AfDB could help secure more open, accountable dealings between natural resource extraction companies and African governments by raising its own profile within the Extractive Industries Transparency Initiative (EITI). The EITI is a partnership of oil, gas and mining companies, NGOs and producer/consumer countries which was launched by Prime Minister Tony Blair in 2002. By increasing public knowledge of revenue levels, the Initiative aims to empower citizens and institutions to hold governments and companies to account. The AfDB endorsed the EITI in 2006. In April 2008 the World Bank proposed that the EITI be extended across the entire chain of managing natural resources—from awarding contracts to collecting taxes, improving resource extraction to spending resources effectively—through a new initiative called ‘EITI Plus Plus’.³⁵ President Kaberuka endorsed the launch in Washington and formally committed the AfDB to playing their appropriate role in the Initiative.³⁶

31 Q 5

32 High Level Panel Report (2007), p.3

33 Q 7. The countries are: Burundi, Central African Republic, Comoros, Cote d’Ivoire, the Democratic Republic of Congo, Guinea-Bissau, Liberia, Sierra Leone and Togo.

34 Q 54

35 Press release, 13 April 2008, ‘EITI welcomes the broadening of the EI Transparency agenda’, online at <http://eititransparency.org/node/342>

36 Q 59

26. Joseph Eichenberger of the AfDB told us that DFID has “played a strong advocacy and convening role on issues around [...] the EITI, pushing to get the bank, not just engaged in it, but enthusiastic about it going on.”³⁷ The HLP Report said that the Bank should assist the 13 African countries which have now endorsed the EITI principles with implementing it, and pursue the longer term objective of supporting all regional member countries to endorse the Initiative.³⁸ Further, the Report recommended that adhering to the EITI principles should be made a pre-requisite for any Bank private sector financing.³⁹ Evidence from Transparency International supported this need for the AfDB to encourage its RMCs to adhere to EITI benchmarks.⁴⁰

27. When we asked the Minister and officials whether EITI compliance should be a pre-requisite for AfDB financing for extractive projects they were hesitant about endorsing what they considered might amount to attaching “conditionality” to AfDB funding.⁴¹ When we pointed out that only 13 of the total 53 African countries had signed up to EITI, and that potentially a large range of companies and countries who had not endorsed EITI may be coming to the AfDB for support for extractive industry projects, DFID was vague about processes employed by the Bank in such circumstances.⁴² This vague and somewhat lackadaisical approach surprised us, given the UK leadership on the issue of transparency in resource-rich countries. **We believe that DFID deserves credit for helping build commitment within the AfDB to the Extractive Industries Transparency Initiative (EITI). However we were surprised that DFID was vague about the need for EITI compliance to be a pre-requisite for AfDB financing for extractive projects. It would be highly unsatisfactory for AfDB funds to which DFID has contributed so generously to undermine a transparency initiative spearheaded by the UK. We believe that DFID should push for the AfDB to implement the High Level Panel’s suggestion that adhering to EITI principles should be a pre-requisite for any Bank private sector financing. The Department should encourage the AfDB actively to support the 13 African countries which have endorsed the EITI principles to implement it, and to advocate for all regional member countries to endorse the Initiative.**

28. Another recommendation made to us by Transparency International (TI) was that the AfDB, in its role as a regional bank led mainly by regional member countries, could “directly support the capacity of parliaments to undertake effective budget oversight and report back to the public on the use of public resources.”⁴³ TI thought that this should go beyond natural resource revenues to include all national receipts and private sector investments. Part of improving transparency, TI said, was also about empowering citizens. Supporting citizens to engage with the work of development institutions and the AfDB itself could only improve the AfDB’s own operations, particularly as a decentralisation process was under way that offered the opportunity to reach out to local communities.⁴⁴

37 Q 5

38 High Level Panel Report (2007), p.20

39 High Level Panel Report (2007), p.20

40 Ev 36

41 Qq 57-59

42 Q 63

43 Ev 36

44 Ev 35

AfDB staff in Tunis agreed with us that parliaments had a key role to play in supporting good financial governance and public financial management.⁴⁵ **We recommend that the AfDB should help improve transparency by empowering parliaments and citizens to hold governments and development institutions, including the Bank itself, to account. Supporting good public financial management of natural resource and other revenue sources is directly linked to boosting growth rates in African countries and should remain a major priority for the Bank.**

Private sector development

29. Private sector development (PSD) is a growth area for the Bank: lending to private companies began in 1991 but has grown seven-fold since 2004. It is also a priority area for ADF 11 and activity is set to increase. The Bank's current contributions to PSD can be divided into three areas:

- 'Investment climate improvements'—making countries easier to invest in by addressing, for example, macro-economic policies, weak regulation and unwieldy bureaucracy;
- Improving private sector competitiveness in African countries through building and upgrading infrastructure and thereby facilitating trade and investment; and
- Lending to private sector companies and leveraging Public-Private Partnerships (PPPs).⁴⁶

Staff in Tunis told us that the AfDB's competitive edge regarding private sector work lay in its 60% ownership by African Governments. This ensured that the Bank was seen as "one of them", an honest broker that also had the financial muscle of an international institution.⁴⁷

30. The High Level Panel Report supported the AfDB's role as a private sector lender, although it qualified this by saying that lending should only be offered where the Bank can clearly "add value", for example in addressing market failures or mitigating risk and that it should not "crowd out or substitute for private financing, but should play a catalytic role by mobilizing finance for deserving private sector projects that build productive capacity and create economic growth."⁴⁸ The Minister agreed that the Bank needed to prioritise private sector lending "in a way that ensures they are adding value, not simply replicating what is likely to be done elsewhere." She gave the example of AfDB funding to the Eskom power supply project in South Africa, a US\$500 million initiative that supports the country's large-scale electrification programme. Gillian Merron said this was "an example of where the Bank is not just a regular bank, but actually adds something in terms of technical expertise, and also ensures that environmental considerations are not just an addition but are crucial to [the project]."⁴⁹ **The AfDB is an important lender to the private sector, but**

45 Meetings with AfDB staff in Tunis during Committee visit, 2-3 April 2008

46 Ev 27

47 Meetings with AfDB staff in Tunis during Committee visit, 2-3 April 2008.

48 High Level Panel Report (2007), p.22

49 Q 69

it must ensure that its lending always ‘adds value’—whether in the form of technical assistance, social and environmental safeguards or mitigating risks that the private sector itself may not be able to take on single-handedly—compared to the lending which standard private sector lenders can offer.

Gender issues

31. During our evidence session with Joseph Eichenberger of the AfDB, we heard that the Bank is increasing its focus on gender. Mr Eichenberger recognised that the Bank needed to scale up its work on addressing gender inequalities in African countries:

“The gender piece of the African development poverty challenge is huge, it has been under-emphasised for far too long and it is something that our institution needs to do much more [of]. [...] We have gender specialists whose purpose is in part to ensure, for example, that that water project or that road project explicitly builds in the inevitably important gender dimensions [...] [and] we have too few of these provisions, but the President is absolutely committed to deepening our work on this.”⁵⁰

The view that there are too few gender specialists employed by the Bank was emphasised to us during our visit to Tunis.⁵¹

32. Gender was identified as one of three cross-cutting objectives being given renewed emphasis under ADF 11.⁵² Specific measures set out in what is known as the ‘Deputies’ report prepared for the ADF 11 negotiations included: promoting and mainstreaming gender-related issues amongst staff; enhancing specialised staff capacity; building capacity to produce gender-disaggregated data collection, including within AfDB project completion reports; and ensuring more systematic inclusion of gender issues in project design.⁵³ The Bank produced a Gender Plan of Action under ADF 10 and this is due to be updated.⁵⁴

33. This list of activities is impressive but omits to highlight the importance of addressing the close links between women’s empowerment and private sector development. Empowering women to participate in markets and the private sector is mutually beneficial to countries, private sector enterprises and to women and their families: as DFID’s Gender Equality Action Plan states, “economically empowered women play a more active role in household decision-making, with greater bargaining power to increase spending on education and health.”⁵⁵ **We welcome the fact that gender will be one of three cross-cutting objectives for ADF 11. We were pleased to see that the objectives set out in the**

50 Q 31

51 Meetings with AfDB staff in Tunis during Committee visit, 2-3 April 2008.

52 Ev 28. The other cross-cutting objectives were environmental sustainability and climate change adaptation.

53 ‘Deputies’ Report refers to the report prepared by representatives of ministers from member countries to inform the negotiations of a new replenishment round. ADF 11 Deputies Report, pp.10-11, prepared for meetings in London on 11 December 2007.

54 AfDB, Gender Plan of Action – 2004-2007, online at http://www.afdb.org/pls/portal/docs/PAGE/ADB_ADMIN_PG/DOCUMENTS/ENVIRONMENTALANDSOCIALASSESSMENT/S/GPOA%20-%202004%20TO%202007_0.PDF

55 DFID, Gender Equality Action Plan 2007-2009 (February 2007), p.2, online at <http://www.dfid.gov.uk/Pubs/files/gender-equality-plan-2007.pdf>

ADF 11 ‘Deputies’ Report include provision to employ more gender specialists within the AfDB. We urge DFID to monitor the achievement of this objective to ensure that the Bank is properly equipped to mainstream gender issues across its projects and investments. We were concerned that the objectives in the Deputies Report omit any measures addressing the need to empower women to participate in private sector development. Women are the driving force of many aspects of local markets yet remain economically disempowered in many African countries. We recommend that DFID support the Bank to acknowledge and promote the close links between women’s empowerment and private sector development in the updated AfDB Gender Plan of Action.

Climate change

34. Climate change has been identified as one of three cross-cutting objectives for ADF 11. Joseph Eichenberger of the AfDB highlighted three areas of Bank activity on climate change: investment in clean energy; building in climate change adaptation as a cross-cutting objective for all Bank operations; and supporting natural resource, water resource and forestry management (for example, the Bank is supporting an initiative focused on the sustainable management of forest ecosystems in the Congo Basin).⁵⁶ Together with the World Bank and other RDBs, the AfDB was tasked at the Gleneagles G8 Summit in 2005 to develop a Clean Energy Investment Framework (CEIF) to accelerate investment in clean energy and energy efficiency and to develop new approaches for climate change adaptation.⁵⁷ The Minister told us that the CEIF had been agreed in March 2008 and that having the Framework was useful as it allowed the Bank “to have something to build on in terms of preparing an action plan.”⁵⁸

35. DFID is supporting the Bank’s climate change and clean energy work as part of a Technical Cooperation Arrangement providing assistance for six priority sectors with funding of up to £13 million over five years from 2007.⁵⁹ This is the first such agreement with any donor. DFID is also funding three staff members to support the Bank’s work on climate change.⁶⁰ DFID’s submission states:

“The AfDB has the potential to provide leadership and an African voice in international debates on climate change. In its programmes, it will focus on clean energy investments, adaptation and climate proofing Bank investments, and better management of Africa’s lake, forests and river basins.”⁶¹

56 Q 26. See AfDB News Release, ‘AfDB Hosts Conference on Funding for Sustainable Management of Congo Basin Forest Ecosystems on the Initiative’ for further details. Available online at: http://www.afdb.org/portal/page?_pageid=293,174339&_dad=portal&_schema=PORTAL&press_item=29230391&press_lang=us

57 ‘Adaptation’ to climate change refers to attempts to lessen the vulnerabilities of the earth and its population to the negative effects of climate change. In contrast, mitigation involves actions to reduce emissions or the causes of climate change.

58 Q 73

59 The other areas of support under the Agreement are: Infrastructure; Water and Sanitation; Governance; Knowledge and Statistics; and Institutional Strengthening.

60 Q 73

61 Ev 27

However, this projected role for the AfDB as a leader on climate change issues on the continent appeared to be at odds with the Bank's own vision of its work in this area. Joseph Eichenberger envisaged the Bank more as a partner than a leader in efforts on climate change in Africa:

“I do not believe that the institution is ever going to be an intellectual leader in the climate change debate and, in fact, I would argue that is probably not where we should be. There are a lot of players in the game; we have very good integration with the World Bank and with others on this issue; so we see our role going forward as increased emphasis on the design element of our basic business, increasingly looking for opportunities to bring a new approach to things like natural resource management, risk mitigation, and the like, and effective partnerships with others.”⁶²

36. During our visit to Tunis, this message was reinforced. Zeinab al Bakri, Vice-President for Sector Operations, told us that, due to resource constraints, the AfDB could not currently support “stand alone” climate change projects and that any such work would have to be integrated into other activities. The Bank's role would therefore be in terms of advocacy and capacity-building regarding climate change rather than providing additional resources.⁶³ When we asked the Minister about this apparent divergence between DFID's and the AfDB's conception of the appropriate AfDB role regarding climate change, she told us that it was less important for the Bank to be an intellectual leader than to implement practical change and build capacity on climate change in-country.⁶⁴

37. The Prime Minister has said that the World Bank should become “a bank for the environment.”⁶⁵ In our report on ‘DFID and the World Bank’, published in February 2008, we agreed that the World Bank (WB) should integrate climate change into its overall programme of work, but cautioned against compromising the WB's overriding poverty reduction objectives. We recommended that if the WB was to adopt an additional role as an environment bank it must raise additional funds for this purpose.⁶⁶

38. We welcome DFID's Technical Cooperation Arrangement with the AfDB under which support on climate change work will be provided over the next four years. However, we are concerned that DFID and the AfDB have divergent conceptions of the role the AfDB should play in international climate change efforts. DFID needs to be clear on whether it expects the Bank to play a leadership or partnership role, given the large amount of funds it is channelling through the institution. If DFID does envisage the AfDB becoming a leader for the African continent on climate change, additional funds need to be identified so that additional human and other resources can be deployed. We reiterate the recommendation we made in our report on DFID and the World Bank that the overriding objective of multilateral development banks must be

62 Q 26

63 Meetings held during the Committee's visit to Tunis, 2-3 April 2008

64 Q 73

65 Mansion House speech, 12 November 2007 and International Development Committee, Sixth Report of Session 2007-08, *DFID and the World Bank*, HC 67, Paragraph 103

66 International Development Committee, Sixth Report of Session 2007-08, *DFID and the World Bank*, HC 67, Paragraph 106

poverty reduction, and that climate change should be integrated into this objective, rather than risking compromising it by spreading existing resources too thinly.

Debt

39. The AfDB has participated in two major debt relief initiatives in recent years, the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). To date 26 African countries have qualified for relief under the HIPC Initiative, with 19 countries completing the process. The remaining seven countries could benefit from HIPC debt relief if they meet the qualifying standards.⁶⁷ Under the HIPC initiative, African countries have received in excess of US\$53 billion worth of debt relief since 2000.

40. The Multilateral Debt Relief Initiative (MDRI) was agreed by the G8 at Gleneagles in 2005. Since implementation of the MDRI began in 2006, countries that complete HIPC also receive 100% cancellation of their remaining AfDB debts, in addition to cancellation at the IMF and World Bank. Thirty countries have so far had their debt cancelled by the AfDB, worth over \$8.3 billion. The MDRI has provided an additional US\$33 billion of debt cancellation for African countries (from the AfDB, World Bank and IMF) since 2006.⁶⁸

41. In total, the AfDB has been reimbursed for 85 per cent of the debt it has written off under the two recent initiatives: 100% of the Multilateral Debt Relief Initiative and two-thirds of the HIPC initiative have been reimbursed.⁶⁹ DFID told us that the ADF share of the MDRI is currently estimated to cost the UK approximately £433 million over the next 46 years. To date £11.89 million has been provided towards this by DFID.⁷⁰ Richard Dewdney, the UK's Executive Director at the AfDB, told us that virtually all donors were currently on track to meet their MDRI commitments.⁷¹

42. As DFID highlighted, these two recent debt relief initiatives, as well as releasing valuable funds for African governments to spend on poverty reduction, have helped strengthen the AfDB and ADF's balance sheets, cancelling large volumes of debt held by poor countries that could not afford to service them.⁷² DFID also highlighted an important role for the AfDB in helping countries avoid future debt problems through the Debt Sustainability Framework (adopted by the AfDB as a way to offer guidance to countries and creditors on prudent levels of borrowing) and the possible creation of a legal support facility for HIPCs to help them deal with aggressive litigation (so-called 'vulture fund' activity) which could otherwise divert the benefits of debt relief away from poverty reduction.⁷³ **We commend the AfDB's participation in two recent debt relief initiatives, the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). These initiatives have released much-needed funds that African**

67 Ev 27

68 Information supplied by DFID during the Committee visit to Tunis, 2-3 April 2008

69 Q 79

70 Ev 27

71 Q 80 [Richard Dewdney]

72 Ev 28

73 Ev 28

governments can now direct towards the achievement of the Millennium Development Goals. We believe that DFID deserves credit for its contributions so far towards reimbursing the AfDB and other multilateral banks involved in these initiatives. We agree that the AfDB has an important role to play in helping countries avoid future debt problems and urge DFID to support the Bank in this role.

Lending to low-income countries

43. Boosting development in the world's poorest countries is at the centre of DFID's Public Service Agreement. DFID is committed to a 90:10 split in its funding for countries, with 90% targeted at low-income countries and only 10% available for middle-income countries.

44. The AfDB has a relationship with 53 African countries. Of these, 13 are middle-income countries mainly concentrated in northern Africa. These countries are eligible for AfDB 'hard' lending with the remaining 40 low-income countries eligible for concessional-only lending from the ADF. The AfDB bases its decision on eligibility for concessional or non-concessional lending on per capita income. The HLP Report said this was a narrow measure of needs and that human development indicators, for example, would offer a more comprehensive indicator of poverty and need. The Report said, "Measures other than income could be considered in setting eligibility for the Bank's two windows and could increase the number of countries with access to both."⁷⁴ Joseph Eichenberger, AfDB Vice President, told us that 75% of ADF 11 will be devoted to the 40 low-income countries.⁷⁵

45. **It is reassuring that three-quarters of ADF 11 will be targeted at the 40 African countries with the lowest income. However, given DFID's commitment to spending just 10% of its budget in middle-income countries, we believe the 25% allocated to the 13 middle-income African countries under ADF 11 is too high. Widening the eligibility criteria for concessional lending beyond the measure of per capita income to encompass human development indicators, as recommended by the High Level Panel, might help ensure that countries which are currently restricted to non-concessional lending—for instance, Equatorial Guinea and Botswana, which have relatively high incomes but also high levels of inequality and considerable development needs—could also access concessional lending.**

Partnerships with the World Bank, other donors and development partners in Africa

46. The Bank's recent reforms, particularly the decentralisation process, have led to renewed emphasis on building and strengthening partnerships with development partners. One particular element of "growing the Bank" under President Kaberuka has been the development of knowledge services, and as a result the Bank is in the process of increasing partnerships with academic institutions.⁷⁶ AfDB staff in Tunis told us that the Bank was committed to working with African institutions such as the African Union (AU), the New

74 High Level Panel Report (2007), p.29

75 Q 3

76 Meetings with AfDB staff in Tunis during Committee Visit, 2-3 April

Partnership for Africa's Development (NEPAD) and the Economic Commission for Africa (UNECA). This sub-section will focus on two development actors with increasing influence in Africa, the World Bank and China. The Bank's partnership with DFID will be explored separately in Chapter 3.

The World Bank

47. The World Bank with its global reach is a far bigger institution than the AfDB. At \$41.6 billion, IDA 15 is almost 5 times the size of ADF 11. About half of IDA 15 (about \$20 billion) is expected to be spent in Africa, thus making IDA twice the size of ADF 11 in Africa. However, this is not to imply that the AfDB is less effective than the World Bank as a result. AfDB staff to whom we spoke during our visit to Tunis believed the institution to have a competitive edge over the World Bank because it had no 'baggage' of historically strained relations and, being majority African-owned and with mainly African staff, had a better rapport with African countries.⁷⁷

48. AfDB staff said that relations with the World Bank (WB) were strengthening. A memorandum of understanding was signed with the WB in 2000. This was revised in 2002 and 2003 to include a set of action plans that set out the two institutions' planned cooperation across a range of sectors and countries.⁷⁸ It was updated again in 2007.⁷⁹ A number of programmes are jointly funded and some processes are shared (for instance, Poverty Impact Assessments and—increasingly—procurement). DFID highlighted in its evidence that, as the decentralisation of both institutions increases, more joint working is expected.⁸⁰ Under the Paris Declaration on Aid Effectiveness, the AfDB has committed to harmonise its procurement rules, standard bidding documents and practices with those of the World Bank, subject to restrictions related to the rules of origin.⁸¹ We have already commented above on the AfDB's harmonisation of its procurement procedures with the World Bank's and other donors.⁸²

49. The High Level Panel Report recommended that the Bank needs "a restructured partnership with the World Bank that provides a clearer division of labour," but did not expand on which areas needed improved co-ordination in this way.⁸³ It was beyond the scope of this inquiry to examine this issue in depth, or to consult the World Bank about its division of labour with the AfDB. However, it did not strike us that substantial reconfigurations were needed in the two institutions' operations. The Minister said that the UK Government is "constantly working with the organisations to improve the partnership, because it is certainly my view that we are going to benefit by the sum of the individual organisations working together."⁸⁴ **We welcome the strengthening relationship between**

77 Meetings with AfDB staff in Tunis during Committee Visit, 2-3 April

78 World Bank page on the AfDB, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:20267225~menuPK:538673~pagePK:146736~piPK:226340~theSitePK:258644,00.html>

79 Q 49

80 Ev 30

81 Ev 30

82 See Paragraph 20

83 High Level Panel Report (2007), p.34

84 Q 49

the AfDB and the World Bank and the growing harmonisation of procedures. We encourage the Banks, together with the UK Government and other donors, to continue to look for new opportunities for joint working in line with the Paris Declaration on Aid Effectiveness.

China

50. Working with China represents both challenges and opportunities for the AfDB. China is now Africa's third-largest investor and trade partner.⁸⁵ As Bank staff told us in Tunis, China is a strongly bilateral player and working closely with multilateral institutions is not yet common practice for this major new investor in Africa. Whilst China has a small shareholding at the AfDB—it comes 15th in the list of non-regional members with voting rights—it is not substantially engaged in Bank activities. For instance, China is yet to join the Infrastructure Consortium for Africa, although AfDB staff told us that specific efforts were being made to secure its involvement.⁸⁶ Informally, staff said that efforts to increase China's involvement in the Bank more generally had not been as productive as hoped.

51. The High Level Panel (HLP) foresaw a strategic role for the AfDB in influencing partnerships between African countries and emerging donors such as China and India to maximise benefits for the continent and ensure its interests are respected. Staff in Tunis reiterated another key message from the HLP Report, namely that increased transparency on the part of China in its investments and aid donations would automatically make engagement with African countries and other donors easier.⁸⁷ **We believe that the AfDB has a potentially crucial role to play in mediating partnerships between African countries and emerging donors such as China. The Bank, with DFID's support, should do all it can to increase Chinese engagement in AfDB activities. Securing Chinese membership of the Infrastructure Consortium for Africa would be a particularly good starting point given China's huge investments in African infrastructure. We urge the UK Government and DFID to continue to advocate for greater transparency on behalf of China in its engagement in Africa so that development partnerships are easier to form and manage.** We will be looking more broadly at China's role in development in our forthcoming inquiry into DFID and China over the next few months.

85 High Level Panel Report (2007), p.35

86 Meetings with AfDB staff during Committee visit to Tunis, 2-3 April 2008

87 Meetings with AfDB staff during Committee visit to Tunis, 2-3 April 2008

3 DFID's relationship with the AfDB

52. As we set out in the Introduction, DFID has announced a doubling of its contribution to the three-yearly replenishment of the African Development Fund (ADF), pledging £417 million up from £200 million in 2005–07. This makes the UK the largest single contributor to the AfDB. In its submission, DFID said:

“In recent years, we have stepped up our engagement with the AfDB, providing more support to the reform and policy agendas. We play an active role in Board discussions in Tunis, and took a leading role in the replenishment discussions. We expect our engagement to grow.”⁸⁸

53. DFID's objectives for the AfDB are set out in a strategy paper published jointly with its other constituency members in 2006. The objectives are:

- Improving Bank effectiveness at headquarters level;
- Improving Bank effectiveness in-country;
- Reinforcing AfDB's contribution to African infrastructure; and
- Sharpening AfDB's contribution to good governance in regional member (African) countries.⁸⁹

In this chapter, we explore the nature of DFID's engagement with the Bank and assess, firstly, how coherent the UK's development objectives are with those of the AfDB and, secondly, how DFID can best assist the AfDB to achieve its potential as a lender.

The AfDB's structure and administration

The Boards

The AfDB Board

54. There are separate Boards for the AfDB and the ADF. The AfDB Board has 18 seats, of which 12 represent African member countries, who hold 60% of the votes. In the past it has been suggested that the Boards have micro-managed Bank operations but, following discussions with Board members and other staff during our visit to Tunis, we are satisfied that it now uses a lighter touch. Richard Dewdney, the UK Executive Director at the AfDB, told us that there had been a “quiet revolution” over the last 18 months and the Board now operates very efficiently.⁹⁰

55. Each of the Bank's 18 constituency offices is represented on the AfDB Board by an Executive Director (ED). Each constituency (and therefore ED) represents several countries, with the exception of the USA, which has its own constituency. We believe that

88 Ev 28

89 'Working in Partnership with the African Development Bank: Joint strategic Framework for Partnership with the AfDB', the Governments of Germany, the Netherlands, Portugal and the UK (2006)

90 Q 66 [Richard Dewdney]

the ADF 11 negotiations and the changes in country contributions have two implications for the Board configuration. The first concerns the practice of Board seats being allocated in line with country shareholdings. Under this arrangement, the UK's constituency is providing one-third of the resources for ADF 11 but is the holder of just one of six non-regional seats on the Board. Other non-regional seats, including those held by the USA, Japan and Canada, have been retained by countries that have not increased their contributions to the same extent as the UK. As the UK's Constituency's joint report for 2007-08 states:

“Since donors have provided more than 25 times as much through the ADF as they have in paid-up Bank capital, the constitution of non-regional chairs is beginning to look increasingly anachronistic.”⁹¹

The fact that the UK's constituency provides one-third of ADF 11 resources but is one of six non-regional representatives at the Board table—all of them lower contributors—is unsatisfactory. We believe the AfDB needs to re-visit and reconfigure the process by which non-regional members are represented at the Board so that contributions to the AfDB are taken into account. We recommend that the UK formally raises the configuration of non-regional chairs at the Board as soon as possible, preferably at the 2008 Annual Meetings in Maputo from 14-16 May.

56. Our second concern is that, whilst the USA, Japan and Canada permanently provide the ED within their constituency, within the UK's constituency Germany and the UK rotate EDs on an unequal basis: following a 3-year stint by the UK, Germany will take the ED role for 6 years. This is in line with respective shareholdings at the Bank—Germany's voting powers are 4.090% compared to the UK's 1.680%—but does not factor in contributions.⁹² The UK's current ED representative, Richard Dewdney, will finish his term in July 2008 and will be replaced by a German ED. Thus despite being the largest bilateral donor, the UK will not be directly represented on the Board for the next six years. Instead, a UK official will take the role of Senior Adviser within the constituency office.

57. Even given the fact that its shareholding is smaller than Germany's, it surprised us that the UK, as the AfDB's largest bilateral donor, will not be directly represented on the Board for the next six years. The current UK Executive Director, Richard Dewdney, was commended to us by many interlocutors at the Bank as having been an outstanding member of the Board, in terms of influence and effectiveness, which only served to increase our concerns about the potential sudden reduction in UK leverage at the Bank.

58. When we questioned DFID about this, we were told that the arrangement works well: relations with Germany were very strong and the Constituency Office works collaboratively. The Minister said that “things are not set for ever” and that “should there be benefits to this African institution by changing [the current arrangements] then maybe we should look at that” but that “there is not, I sense, a great appetite for that”.⁹³

91 2007-2008 Constituency Report, AfDB Constituency representing Germany, the Netherlands, Portugal and the UK, p.4

92 Official Record of the 42nd Annual Meeting of the AfDB, 16-17 May 2007

93 Q 65

59. We were surprised and concerned to learn that the UK, as the AfDB's largest bilateral donor, will rotate its Executive Director (ED) to Germany in July 2008 and will not be directly represented on the Board for the next six years. We believe it is crucial that the UK's leverage regarding the Bank's strategic direction is commensurate with its increasing contributions to the institution. We therefore recommend that the UK discusses with Germany and with the Board a revised approach to rotating EDs within non-regional constituencies that takes into account contribution as well as shareholding. Whilst we appreciate Germany's larger shareholding and do not doubt its strong contribution to the Constituency, we hope a more equitable rotation of the ED role between the UK and Germany can be agreed.

The ADF Board

60. The ADF Board has 12 members: six non-regional representatives in the same way as the AfDB Board, plus six of the 12 African chairs on the AfDB Board who rotate. Voting rights are split 50:50 between the six regional and six non-regional members. The African ADF chairs 'represent the Bank' in the ADF Board and not themselves, despite the fact that the non-regional donors are also now members of the Bank. This is because the arrangement was negotiated between the donors prior to the 1980s when Bank membership was exclusively African.

61. There are moves under way to address this anachronism and to ensure that all African EDs are represented on the ADF Board and that they represent themselves rather than the Bank (this would mean the Bank and Fund Boards had similar compositions). The UK's Constituency said that it had been instrumental in securing attention on this issue.⁹⁴ The current 50:50 distribution of voting rights would be maintained. The UK's constituency's 2007–08 report indicates that the next steps towards this new structure being agreed will be the development of a specific proposal for the Board with a view to putting this to Governors at the next Annual Meetings (2009).⁹⁵ **We welcome the moves that are under way to re-configure the ADF Board to ensure that all African Executive Directors are represented on it and are able to exercise their individual voting rights rather than acting on behalf of the Bank. We encourage DFID to continue to press this issue and to ensure that a concrete proposal is put to the Board at the earliest opportunity.**

Decentralisation and staffing issues

62. A central part of the AfDB's reform process is decentralising its operations and restructuring staffing arrangements and capacity. The Bank has opened 23 field offices with 290 staff.⁹⁶ Officials in Tunis told us that the process was proceeding more slowly than hoped but there were now only two remaining field offices to open (in Algeria and Angola). They said that positive impacts of this process were already apparent: for example,

94 2007–2008 Constituency Report, AfDB Constituency representing Germany, the Netherlands, Portugal and the United Kingdom, p.6

95 2007–2008 Constituency Report, AfDB Constituency representing Germany, the Netherlands, Portugal and the United Kingdom, p.6

96 Ev 26. Of the 290 staff in field offices, 44 are international technical experts, 64 are locally recruited technical experts and 180 are support staff.

the presence of more staff in-country had reduced lead-times for projects by up to a half.⁹⁷ However, staff also highlighted a problem in that insufficient responsibility had as yet been delegated to many of the offices, leaving them little authority to make decisions or participate in the policy dialogue between the Bank and the client country.⁹⁸ Evidence from the Institution of Civil Engineers and Engineers Against Poverty also highlighted the need for increased delegation of responsibility to field offices, especially in the area of procurement.⁹⁹ **We welcome the AfDB's decentralisation process and believe it can only enhance the Bank's ability to work in close partnership with its regional member countries and with other donors. However, decentralised offices will operate most efficiently when a system of meaningful delegation from headquarters is in place. We believe that sufficient autonomy and the responsibility to exercise the appropriate decision-making powers in relation to policy, operations and finance should be conferred upon the AfDB field offices as soon as possible.**

63. The 2007 High Level Panel's Report considered the Bank to be understaffed:

"We do not think that the ADB currently has the human resources to deliver as it should—a critical deficit. Management should prepare a detailed analysis of the alignment of human resources with strategic orientations while also considering the skill mix required."¹⁰⁰

The Report highlighted that the ratio of staff to projects approved in 2005 was roughly 11 for the AfDB compared with 20 for the Inter-American Development Bank and 27 for the Asian Development Bank. However, the Bank seems to be turning this round very effectively as part of its reform process. A new Human Resources Strategy was approved by the Board in 2007 and is currently being implemented. Staff numbers are now over 1000 and it has reduced its staff vacancy rate from 20% to less than 5% (of current staffing levels) in the past 18 months.¹⁰¹ Joseph Eichenberger, AfDB Vice President for Operations, told us that these posts are receiving a high volume of strong applications.¹⁰² Eighty per cent of staff are African.¹⁰³ The gender balance of staff is improving: 18% of managers are women, up from 11%, and 25% of professionals (the short-term target is 33%).¹⁰⁴ **The implementation of the AfDB's new Human Resources Strategy appears to be going well and we welcome the boost to staff numbers. We encourage the Bank to continue to recruit high quality staff to fill all vacancies, and to do this with urgency so that ADF 11 has the optimal staffing complement from the outset.**

97 Meetings at the AfDB Headquarters in Tunis held during Committee visit, 2-3 April.

98 Meetings at the AfDB Headquarters in Tunis held during Committee visit, 2-3 April.

99 Ev 33

100 High Level Panel Report, 2007, p.35

101 Ev 26. The 1000 staff excludes locally recruited staff in field offices.

102 Q 1

103 Q 10

104 Discussions with AfDB staff during Committee visit to Tunis, 2-3 April 2008

Location

64. Until recently, the Bank was headquartered in Abidjan, Côte d'Ivoire but, due to security concerns, it temporarily re-located to Tunis in 2003. Both the Center for Global Development's (CGD) 2006 report on the Bank and the High Level Panel believed the temporary nature of the Bank's location to be a problem. The CGD said: "The temporary status of AfDB headquarters has become a major impediment to its effective recovery and recruiting efforts. As a pre-condition for any long-term rebuilding, the Board must resolve this issue soon."¹⁰⁵ Bank staff in Tunis told us that the current understanding was that the decision on when to return to Abidjan was being reviewed on an annual basis and was dependent on security conditions. As DFID highlighted in their evidence, "clearly the security situation needs to improve and provide the necessary stability as well as the appropriate facilities for the Bank to function effectively before a decision to return to Abidjan is possible."¹⁰⁶ Joseph Eichenberger, AfDB's Vice President for Operations, told us in evidence that, whilst he did not believe that the uncertainty was affecting the Bank's capacity to recruit staff, he hoped more clarity on the issue of location would emerge during the Bank's Annual Meetings in May 2008.¹⁰⁷ **Clearly the decision on when to return to the Bank's permanent headquarters in Abidjan will be dependent on the security situation there. But uncertainty is helpful to no-one and having a plan in place for what will happen when conditions have improved is important. We encourage DFID to push for a clear plan of action regarding location at the Bank's Annual Meetings in Maputo on 14-16 May so that all staff are aware of current thinking on the Bank's location.**

Monitoring and evaluation

65. During our visit to Tunis, we met with the Operations Evaluations (OPEV) Department. They told us that the Bank had learned from the previous replenishment round, ADF 10, that the quality of monitoring frameworks used by the AfDB needed to improve. The ADF introduced its results measurement framework in 2003. Since then, the framework has been adapted to conform with a harmonised multilateral development bank approach in line with Paris Declaration objectives. The framework for ADF 11 has a much stronger focus on results on the ground, with key aims including:

- Ensuring quality at entry for ADF strategies and operations;
- Developing a culture of continuous supervision;
- Enhancing learning and accountability through evaluation; and
- The introduction of more rigorous monitoring and evaluation.¹⁰⁸

¹⁰⁵ Center for Global Development, 'Building Africa's Development Bank: Six Recommendations for the AfDB and its Shareholders' (2006), p.11

¹⁰⁶ Ev 26

¹⁰⁷ Q 2

¹⁰⁸ ADF, 'Results Reporting for ADF-10 and Results Measurement Framework for ADF-11' (Background Paper for ADF 11 Replenishment, December 2007), Executive Summary

Bank staff admitted that the institution had historically tended to measure results in terms of inputs not outputs, but were committed to changing this during ADF 11. It was intended that the new Results Framework would be supported by the appointment of a 'focal point' within the President's office, probably a Chief Operating Officer.¹⁰⁹

66. We heard that the emphasis given to results in ADF 11 had been influenced by DFID. When we asked AfDB Vice-President Joseph Eichenberger about DFID's negotiating position for its doubling of support for ADF 11, he told us:

"I think that there was a great deal of congruence between the priorities that DFID was articulating and the priorities that (a) were shared by other member countries and (b) the priorities that were shared by the senior management of the institution. DFID articulated very clearly a set of priorities around the need for the institution to become more selective and more focused [...] the messages from DFID were strong and consistent about results, results, results."¹¹⁰

67. Effective monitoring and evaluation of AfDB projects and operations is clearly central to developing a more output-focused, results-driven Bank. In its evidence, DFID credited recent reforms within the Bank in this area, singling out the 2006 organisational restructuring, increased project supervision ratios, strengthened evaluation systems and the development of a set of Key Performance Indicators as positive developments.¹¹¹ However, DFID also noted that there was "still some way to go" to improve both the Bank's internal processes and its focus on results. Specifically, DFID wished to see: appropriate baselines for regular monitoring of progress attached to all strategies and projects; a more direct translation of project evaluations into enhanced learning; and improved results through greater decentralisation and harmonisation. DFID did note that specific measures had been agreed on these objectives that will be adopted over the course of ADF 11.¹¹² **We believe that DFID deserves credit for influencing the strong results focus of ADF 11. Rigorous monitoring and evaluation of AfDB projects and operations will be central to the implementation of a more output-focused approach. We welcome the measures the Bank has put in place to improve monitoring and evaluation but urge the institution to press ahead with their practical implementation during ADF 11. We strongly encourage DFID to maintain its engagement in the results agenda and to assess progress in implementing new monitoring and evaluation measures.**

68. Effective monitoring and evaluation of AfDB projects and operations are also crucial to ensuring DFID's own objectives for the Bank are achieved. DFID's objectives for the AfDB are set out in a strategy paper published jointly with its other constituency members in 2006 (see Paragraph 50).¹¹³ The constituency includes an assessment of progress against these objectives in its annual report. The 2007–08 report reveals "satisfactory" progress across the four strategy paper objectives with the greatest improvements being in country

109 Meetings with AfDB staff held during Committee visit to Tunis, 2-3 April 2008

110 Q 5

111 Ev 26

112 Ev 26

113 'Working in Partnership with the African Development Bank: Joint strategic Framework for Partnership with the AfDB', the Governments of Germany, the Netherlands, Portugal and the UK (2006)

effectiveness and infrastructure.¹¹⁴ Richard Dewdney highlighted that the development of Key Performance Indicators (KPIs) under the new results framework for ADF 11 was an important development as it provided a set of indicators for outcomes at the country level and measures of institutional effectiveness. The Constituency Report includes a table indicating progress against the KPIs for institutional effectiveness.¹¹⁵ **We recommend that DFID continue to monitor its own objectives for the AfDB rigorously. We were encouraged to see that this year’s constituency report reveals satisfactory progress against the four objectives set out in the UK’s joint constituency strategy paper. We welcome the development of Key Performance Indicators under the new results framework for ADF 11 and the fact that progress against these is included in the UK’s constituency’s joint annual report.**

Ensuring common objectives

Achieving the Millennium Development Goals

69. The overall aim of DFID’s Public Service Agreement is “the elimination of poverty in particular through achievement by 2015 of the Millennium Development Goals”.¹¹⁶ The Bank told us that, during the ADF 11 negotiations in 2007, contributing to achieving the MDGs was one of the set of priorities articulated very clearly by DFID.¹¹⁷ Any analysis of the coherence of DFID and AfDB objectives must therefore focus on the prominence and quality of MDG-focused activity within the organisation’s operations and outputs.

70. As DFID said in its submission, some shareholders take the view that the Bank has levels of capital “comfortably in excess of that required to maintain their AAA rating, and that it could use its capital to have a greater development impact without undermining its financial viability.”¹¹⁸ President Kaberuka agreed to carry out a review of the Bank’s capital in 2007 and two private investment banks, Goldman Sachs and Citibank, recently undertook independent reviews of how excess capital could best be used. The Minister told us that these reviews encouraged the Bank to be development-focused with its capital.¹¹⁹ **We recommend that the Bank look carefully at whether its capital reserves could be used for additional projects supporting the achievement of the MDGs. We encourage the Bank to draw on the advice issued in the recent reviews of the Bank’s capital undertaken by Goldman Sachs and Citibank.**

71. In evidence, the Bank highlighted its focus on building and improving infrastructure in Africa as a direct contribution to achieving the MDGs.¹²⁰ As we said in our report on Private Sector Development in 2006, whilst only one MDG—Goal 7, the achievement of environmental sustainability—includes an explicit commitment to improving infrastructure, the attainment of all eight goals relies on building and improving

114 2007-2008 Constituency Report, AfDB Constituency representing Germany, the Netherlands, Portugal and the UK, p.7

115 Q 42 [Richard Dewdney] and Constituency Report, p.8

116 DFID Public Service Agreement 2005-2008, online at <http://www.dfid.gov.uk/pubs/files/PSA/DFID-PSA-2005-08.pdf>

117 Q 5

118 Ev 29

119 Q 70

120 Q 28

infrastructure services throughout the developing world (for instance, achieving universal primary education—Goal 2—relies upon the building of new schools and improved transport links).¹²¹

72. Against the assessment that MDBs needed to spend \$50 billion a year in Africa if the MDGs are to be achieved, the ADF's annual \$3 billion is a modest contribution.¹²² But the Bank's contribution to the MDGs goes far beyond its direct expenditure of development resources to include a less tangible, but no less significant role as an African leader on development issues. Fulfilling this role effectively will partly depend on the Bank's ability to meet the High Level Panel's recommendation of becoming a repository of knowledge regarding African development.¹²³ **The AfDB's central focus on building and improving infrastructure in African countries makes it a significant contributor towards achieving all eight MDGs. Infrastructure provides the development 'hardware'—roads, schools, clinics, water and sanitation—that acts as the foundation for progress across health, education, conflict prevention and poverty reduction. But as we heard repeatedly during this inquiry, the AfDB's capacity to implement projects and deploy financial resources are just two of its assets: its status as a Bank for Africa is another, possibly more significant, force. The institution's majority African ownership, its leverage with African governments and its ability to be the African "voice" on development all contribute to the Bank's potentially central role in achieving the MDGs.**

Untied aid

73. During our visit to AfDB headquarters in Tunis, a large number of Bank staff commended DFID's policy of giving largely untied aid.¹²⁴ Joseph Eichenberger, AfDB Vice President for Operations, told us that "The UK has been in the forefront of offering only untied funds and is setting an example. That is very positive."¹²⁵ We heard informally that a number of others shareholders applied more conditions in how their contributions to the Bank should be spent, and that they wished to track their funds more closely.

74. We were pleased to hear that under the AfDB's reform process there is an increasing use of untied funds. Joseph Eichenberger highlighted, for example, that the Bank had completely reformed its trust fund programme and will now only accept untied trust funds.¹²⁶ However we were told in Tunis that Bank conditionality policy largely still followed that of the IMF and World Bank and that a review of Bank practices was overdue.¹²⁷ **We welcome the trend of moving away from the attachment of conditions to AfDB funding under the Bank's reform process. However we believe the avoidance of**

121 International Development Committee, Fourth Report of Session 2005-06, Private Sector Development, HC 921, Paragraph 31

122 Meetings with AfDB staff during Committee visit to Tunis, 2-3 April 2008

123 High Level Panel Report, p.33

124 "Untied aid" refers to avoiding making aid disbursement dependent on the fulfilment of certain conditions by the recipient country or institution. The UK's policy paper on using conditionalities in aid emphasises a partnership approach that uses agreed benchmarks for measuring progress on poverty reduction, rather than policy conditions set by donors. See 'Partnerships for poverty reduction: rethinking conditionality', Joint UK Policy Paper (DFID, the Foreign and Commonwealth Office and HM Treasury), p.iii

125 Q 6

126 Q 6

127 Meetings held during Committee visit to Tunis, 2-3 April 2008

using tied aid should be incorporated into general Bank practice. We recommend that a review of Bank conditionality policy is carried out sooner rather than later to explore the options for this.

4 Conclusion

75. DFID's doubling of support to the World Bank is an important signal of confidence in an institution that, once its reform process has been fully carried through, will be a leading force for the achievement of the MDGs in Africa. The success of the decentralisation process and the introduction of a more results-focused approach, in particular, could be the difference between the Bank remaining as simply a valuable aid partner or emerging as Africa's development leader.

76. We welcome the increasing DFID contributions to the AfDB and believe this trend should continue. We urge DFID to keep a watchful eye on the progress of the Bank's reform process. AfDB support to infrastructure, governance and transparency and climate change has the capability to make a real difference to poor people's lives. A potentially transformative set of reforms has been put together by President Kaberuka and Bank staff, together with the support of influential donors such as DFID. It is crucial that the momentum to implement them is maintained and that the Bank realises its full potential as the driver of African development.

Recommendations

Infrastructure

1. We welcome the priority given to infrastructure in ADF 11, especially the focus on regional integration, a crucial factor in boosting economic growth in Africa. The AfDB is in a good position to co-ordinate international efforts in infrastructure due to its hosting of the Infrastructure Consortium for Africa and the African Water Facility, and its mandate to lead the New Partnership for Africa's Development (NEPAD) agenda for regional integration. We recommend that DFID do all it can to support the AfDB in using the current replenishment to secure real progress in building both 'hard' and 'soft' infrastructure that opens up markets within and between African countries. (Paragraph 16)
2. We reiterate our recommendation from our 2007 Sanitation and Water report that consultation and capacity-building of local communities should form a vital part of AfDB-supported infrastructure projects, especially within the water sector where local operation and maintenance knowledge are crucial to sustainable usage of facilities. DFID should engage with the AfDB to ensure that current major investments of its funds—notably the Rural Water Supply and Sanitation Initiative—adhere to principles of consultation and inclusivity, so that their outcomes benefit poor communities. (Paragraph 18)
3. We believe that procuring goods and services to support infrastructure locally creates more sustainable outcomes and helps generate skills, income and employment. The use of foreign contractors is no guarantee of quality and militates against the development of local construction and operation industries. We recommend that the Bank should look again at its systems for procurement and ensure it is doing all it can to promote the use of local producers and suppliers for infrastructure projects in African countries, whilst continuing to harmonise its procurement processes with other donors in line with the Paris Declaration on Aid Effectiveness. (Paragraph 21)
4. We agree that, in a climate of growing international concern over rising food prices, it is vital that multilateral agencies play to their individual strengths and co-ordinate carefully—especially in rural Africa where price rises are likely to hit the hardest. Accordingly we recommend that the AfDB should continue to centre its efforts on infrastructure to support agriculture such as irrigation, crop storage and rural road-building. At the same time it should liaise closely with other multilateral agencies working on agriculture in Africa to ensure issues such as crop yields are addressed through appropriate technical assistance and implementation of research findings. (Paragraph 22)

Governance and transparency

5. We believe that DFID deserves credit for its leading role in securing the creation of the Fragile States Facility. The initiative presents the opportunity for the AfDB to offer rapid, comprehensive assistance to the large number of fragile states in Africa.

We look forward to following the progress of the initiative and recommend DFID monitor its implementation closely. (Paragraph 24)

6. We believe that DFID deserves credit for helping build commitment within the AfDB to the Extractive Industries Transparency Initiative (EITI). However we were surprised that DFID was vague about the need for EITI compliance to be a pre-requisite for AfDB financing for extractive projects. It would be highly unsatisfactory for AfDB funds to which DFID has contributed so generously to undermine a transparency initiative spearheaded by the UK. We believe that DFID should push for the AfDB to implement the High Level Panel's suggestion that adhering to EITI principles should be a pre-requisite for any Bank private sector financing. The Department should encourage the AfDB actively to support the 13 African countries which have endorsed the EITI principles to implement it, and to advocate for all regional member countries to endorse the Initiative. (Paragraph 27)
7. We recommend that the AfDB should help improve transparency by empowering parliaments and citizens to hold governments and development institutions, including the Bank itself, to account. Supporting good public financial management of natural resource and other revenue sources is directly linked to boosting growth rates in African countries and should remain a major priority for the Bank. (Paragraph 28)

Private sector development

8. The AfDB is an important lender to the private sector, but it must ensure that its lending always 'adds value'—whether in the form of technical assistance, social and environmental safeguards or mitigating risks that the private sector itself may not be able to take on single-handedly—compared to the lending which standard private sector lenders can offer. (Paragraph 30)
9. We welcome the fact that gender will be one of three cross-cutting objectives for ADF 11. We were pleased to see that the objectives set out in the ADF 11 'Deputies' Report include provision to employ more gender specialists within the AfDB. We urge DFID to monitor the achievement of this objective to ensure that the Bank is properly equipped to mainstream gender issues across its projects and investments. We were concerned that the objectives in the Deputies Report omit any measures addressing the need to empower women to participate in private sector development. Women are the driving force of many aspects of local markets yet remain economically disempowered in many African countries. We recommend that DFID support the Bank to acknowledge and promote the close links between women's empowerment and private sector development in the updated AfDB Gender Plan of Action. (Paragraph 33)

Climate change

10. We welcome DFID's Technical Cooperation Arrangement with the AfDB under which support on climate change work will be provided over the next four years. However, we are concerned that DFID and the AfDB have divergent conceptions of the role the AfDB should play in international climate change efforts. DFID needs to

be clear on whether it expects the Bank to play a leadership or partnership role, given the large amount of funds it is channelling through the institution. If DFID does envisage the AfDB becoming a leader for the African continent on climate change, additional funds need to be identified so that additional human and other resources can be deployed. We reiterate the recommendation we made in our report on DFID and the World Bank that the overriding objective of multilateral development banks must be poverty reduction, and that climate change should be integrated into this objective, rather than risking compromising it by spreading existing resources too thinly. (Paragraph 38)

Debt

11. We commend the AfDB's participation in two recent debt relief initiatives, the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). These initiatives have released much-needed funds that African governments can now direct towards the achievement of the Millennium Development Goals. We believe that DFID deserves credit for its contributions so far towards reimbursing the AfDB and other multilateral banks involved in these initiatives. We agree that the AfDB has an important role to play in helping countries avoid future debt problems and urge DFID to support the Bank in this role. (Paragraph 42)

Lending to low-income countries

12. It is reassuring that three-quarters of ADF 11 will be targeted at the 40 African countries with the lowest income. However, given DFID's commitment to spending just 10% of its budget in middle-income countries, we believe the 25% allocated to the 13 middle-income African countries under ADF 11 is too high. Widening the eligibility criteria for concessional lending beyond the measure of per capita income to encompass human development indicators, as recommended by the High Level Panel, might help ensure that countries which are currently restricted to non-concessional lending—for instance, Equatorial Guinea and Botswana, which have relatively high incomes but also high levels of inequality and considerable development needs—could also access concessional lending. (Paragraph 45)

Partnerships with the World Bank, other donors and development partners in Africa

13. We welcome the strengthening relationship between the AfDB and the World Bank and the growing harmonisation of procedures. We encourage the Banks, together with the UK Government and other donors, to continue to look for new opportunities for joint working in line with the Paris Declaration on Aid Effectiveness. (Paragraph 49)
14. We believe that the AfDB has a potentially crucial role to play in mediating partnerships between African countries and emerging donors such as China. The Bank, with DFID's support, should do all it can to increase Chinese engagement in AfDB activities. Securing Chinese membership of the Infrastructure Consortium for

Africa would be a particularly good starting point given China's huge investments in African infrastructure. We urge the UK Government and DFID to continue to advocate for greater transparency on behalf of China in its engagement in Africa so that development partnerships are easier to form and manage. (Paragraph 51)

The Boards

15. The fact that the UK's constituency provides one-third of ADF 11 resources but is one of six non-regional representatives at the Board table—all of them lower contributors—is unsatisfactory. We believe the AfDB needs to re-visit and reconfigure the process by which non-regional members are represented at the Board so that contributions to the AfDB are taken into account. We recommend that the UK formally raises the configuration of non-regional chairs at the Board as soon as possible, preferably at the 2008 Annual Meetings in Maputo from 14-16 May. (Paragraph 55)
16. We were surprised and concerned to learn that the UK, as the AfDB's largest bilateral donor, will rotate its Executive Director (ED) to Germany in July 2008 and will not be directly represented on the Board for the next six years. We believe it is crucial that the UK's leverage regarding the Bank's strategic direction is commensurate with its increasing contributions to the institution. We therefore recommend that the UK discusses with Germany and with the Board a revised approach to rotating EDs within non-regional constituencies that takes into account contribution as well as shareholding. Whilst we appreciate Germany's larger shareholding and do not doubt its strong contribution to the Constituency, we hope a more equitable rotation of the ED role between the UK and Germany can be agreed. (Paragraph 59)
17. We welcome the moves that are under way to re-configure the ADF Board to ensure that all African Executive Directors are represented on it and are able to exercise their individual voting rights rather than acting on behalf of the Bank. We encourage DFID to continue to press this issue and to ensure that a concrete proposal is put to the Board at the earliest opportunity. (Paragraph 61)

Decentralisation and staffing issues

18. We welcome the AfDB's decentralisation process and believe it can only enhance the Bank's ability to work in close partnership with its regional member countries and with other donors. However, decentralised offices will operate most efficiently when a system of meaningful delegation from headquarters is in place. We believe that sufficient autonomy and the responsibility to exercise the appropriate decision-making powers in relation to policy, operations and finance should be conferred upon the AfDB field offices as soon as possible. (Paragraph 62)
19. The implementation of the AfDB's new Human Resources Strategy appears to be going well and we welcome the boost to staff numbers. We encourage the Bank to continue to recruit high quality staff to fill all vacancies, and to do this with urgency so that ADF 11 has the optimal staffing complement from the outset. (Paragraph 63)

Location

20. Clearly the decision on when to return to the Bank's permanent headquarters in Abidjan will be dependent on the security situation there. But uncertainty is helpful to no-one and having a plan in place for what will happen when conditions have improved is important. We encourage DFID to push for a clear plan of action regarding location at the Bank's Annual Meetings in Maputo on 14-16 May so that all staff are aware of current thinking on the Bank's location. (Paragraph 64)

Monitoring and evaluation

21. We believe that DFID deserves credit for influencing the strong results focus of ADF 11. Rigorous monitoring and evaluation of AfDB projects and operations will be central to the implementation of a more output-focused approach. We welcome the measures the Bank has put in place to improve monitoring and evaluation but urge the institution to press ahead with their practical implementation during ADF 11. We strongly encourage DFID to maintain its engagement in the results agenda and to assess progress in implementing new monitoring and evaluation measures. (Paragraph 67)
22. We recommend that DFID continue to monitor its own objectives for the AfDB rigorously. We were encouraged to see that this year's constituency report reveals satisfactory progress against the four objectives set out in the UK's joint constituency strategy paper. We welcome the development of Key Performance Indicators under the new results framework for ADF 11 and the fact that progress against these is included in the UK's constituency joint annual report. (Paragraph 68)

Ensuring common objectives

23. We recommend that the Bank look carefully at whether its capital reserves could be used for additional projects supporting the achievement of the MDGs. We encourage the Bank to draw on the advice issued in the recent reviews of the Bank's capital undertaken by Goldman Sachs and Citibank. (Paragraph 70)
24. The AfDB's central focus on building and improving infrastructure in African countries makes it a significant contributor towards achieving all eight MDGs. Infrastructure provides the development 'hardware'—roads, schools, clinics, water and sanitation—that acts as the foundation for progress across health, education, conflict prevention and poverty reduction. But as we heard repeatedly during this inquiry, the AfDB's capacity to implement projects and deploy financial resources are just two of its assets: its status as a Bank for Africa is another, possibly more significant, force. The institution's majority African ownership, its leverage with African governments and its ability to be the African "voice" on development all contribute to the Bank's potentially central role in achieving the MDGs. (Paragraph 72)
25. We welcome the trend of moving away from the attachment of conditions to AfDB funding under the Bank's reform process. However we believe the avoidance of using tied aid should be incorporated into general Bank practice. We recommend that a

review of Bank conditionality policy is carried out sooner rather than later to explore the options for this. (Paragraph 74)

Conclusion

26. We welcome the increasing DFID contributions to the AfDB and believe this trend should continue. We urge DFID to keep a watchful eye on the progress of the Bank's reform process. AfDB support to infrastructure, governance and transparency and climate change has the capability to make a real difference to poor people's lives. A potentially transformatory set of reforms has been put together by President Kaberuka and Bank staff, together with the support of influential donors such as DFID. It is crucial that the momentum to implement them is maintained and that the Bank realises its full potential as the driver of African development. (Paragraph 76)

Annex: The Committee's visit programme, Tunis 2–3 April 2008

The group consisted of:

Malcolm Bruce (Chairman)
Hugh Bayley
Ann McKechin
Mr Marsha Singh

Accompanied by: Matthew Hedges (Second Clerk), Chlöe Challender (Committee Specialist)

Wednesday 2 April 2008

AfDB Offices, Tunis

Working lunch with non-regional Executive Directors hosted by Richard Dewdney, UK Executive Director to the AfDB

Meeting with President Donald Kaberuka

Meeting with Gilbert Mbeshherubusa (Director, Infrastructure) and Tim Turner (Director, Private Sector)

Meeting with Zeinab el Bakri, Vice President Sector Operations

Meeting with Arunma Oteh, Vice President Corporate Services

Dinner hosted by HM Ambassador Alan Goulty with guests including some regional Executive Directors

Thursday 3 April 2008

AfDB Offices, Tunis

Meeting with Kazumi Ikeda-Larhed, Partnerships and Co-operation Unit

Meeting with Thierry de Longuemar, Vice President Finance

Meeting with Mohamed Manai, Operations Evaluation and Ellen Goldstein, Director West Africa

Meeting with Louis Kasekende, Chief Economist

Working lunch hosted by President Donald Kaberuka

List of acronyms

ADF	African Development Fund
AfDB	African Development Bank
CEIF	Clean Energy Investment Framework
CGD	Center for Global Development
DFID	Department for International Development
EAP	Engineers Against Poverty
ED	Executive Director
EITI	Extractive Industries Transparency Initiative
G8	Group of Eight
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries Initiative
HLP	High Level Panel
ICE	Institution of Civil Engineers
IDA	International Development Association
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NEPAD	New Partnership for African Development
NGO	Non-Governmental Organisation
PSD	Private Sector Development
RDB	Regional Development Bank
RWSSI	Rural Water Supply and Sanitation Initiative
TI	Transparency International
WB	World Bank

Formal Minutes

Thursday 8 May 2008

Members present:

Malcolm Bruce, in the Chair

Hugh Bayley
Richard Burden
Ann McKechin

Mr Marsha Singh
Sir Robert Smith

Draft Report (*DFID and the African Development Bank*), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 76 read and agreed to.

Annex and Summary agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 19 March 2008.

Several papers were ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Tuesday 20 May at 2.00 pm]

Witnesses

Wednesday 19 March 2008

Page

Mr Joseph B Eichenberger, Vice-President, Operations—Country and Regional Programmes and Policy, African Development Bank

Ev 1

Thursday 24 April 2008

Gillian Merron MP, Parliamentary Under-Secretary of State for International Development, **Mr Richard Dewdney**, Executive Director to the African Development Bank, and **Ms Sally Taylor**, Deputy Director, Head of International Financial Institutions, Department for International Development

Ev 13

List of written evidence

1	Department for International Development	Ev 25
2	Department for International Development – Supplementary written evidence	Ev 30
3	Institution of Civil Engineers (ICE) and Engineers Against Poverty	Ev 31
4	Transparency International	Ev 34

List of unprinted evidence

The following written evidence has been reported to the House, but to save printing costs it has not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

African Development Bank Constituency Report, 2007-08 [Constituency representing Germany, the Netherlands, Portugal, and the United Kingdom]

ADF-11 Deputies Report, presented to the Board of Directors of the African Development Fund on 11 December 2007

'Working in partnership with the African Development Bank', Joint Strategic Framework for Partnership with the African Development Bank by the Governments of Germany, the Netherlands, Portugal and the United Kingdom, 2006

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2007-08

First Report	DFID Departmental Report 2007	HC 64 (HC 329)
Second Report	Development and Trade: Cross-departmental Working	HC 68 (HC 330)
Third Report	Work of the Committee 2007	HC 255
Fourth Report	Reconstructing Afghanistan	HC 65 (HC 509)
Fifth Report	Maternal Health	HC 66
Sixth Report	DFID and the World Bank	HC 67

Session 2006-07

First Report	DFID Departmental Report 2006	HC 71 (HC 328)
Second Report	HIV/AIDS: Marginalised groups and emerging epidemics	HC 46-I&II (HC 329)
Third Report	Work of the Committee in 2005-06	HC 228
Fourth Report	Development Assistance and the Occupied Palestinian Territories	HC 114-I&II (HC 430)
Fifth Report	EU Development and Trade Policies: An update	HC 271 (HC 622)
Sixth Report	Sanitation and Water	HC 126-I&II (HC 854)
Seventh report	Fair Trade and Development	HC 356-I&II (HC 1047)
Eighth report	DFID's Programme in Vietnam	HC 732 (HC 1062)
Ninth report	Prospects for sustainable peace in Uganda	HC 853 (HC 1063)
Tenth report	DFID Assistance to Burmese Internally Displaced People and Refugees on the Thai-Burma Border	HC 645-I&II (HC 1070)

Session 2005-06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals	HC 708-I&II (HC 922)
Second Report	Darfur: The killing continues	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda	HC 730-I&II (HC 1425)

Fourth Report	Private Sector Development	HC 921-I&II (HC 1629)
Fifth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (Cm 6954)
Sixth Report	Conflict and Development: Peacebuilding and post-conflict reconstruction	HC 923 (HC 172)
Seventh Report	Humanitarian response to natural disasters	HC 1188 (HC 229)