THE AfDB AGAINST THE SOCIAL SUMMIT

•TETTEH HORMEKU

While there has been some progress in adopting socially sensitive principles in programme and policy design, struggles generated by the Bank group's internal power relations have so far prevented it from mobilising any new resources. This, together with new lending rules that the group adopted in May 1995, have perpetuated the already existing inequitable distribution of Bank resources on the continent, both in terms of countries and economic sectors.

One such policy is the Bank's decision to re–orient its lending towards the private sector and away from the public sector. These targeted resources come with conditions like agricultural market liberalisation that includes withdrawal of subsidies for agricultural in–puts. This liberalisation has played havoc with the poor and undermined local food production with cheap grains from the North being dumped on African countries.

EQUITY AND THE AFRICAN DEVELOPMENT BANK

The Social Summit committed multilateral development banks to three broad actions. These are: (a) to complement adjustment lending with enhanced targeted development lending; (b) to enlist the support and co–operation of regional and international organisations and the United Nations system, in particular the Bretton Woods institutions, in the design, social management and assessment of structural adjustment policies, and in implementing social development goals and integrating them into their policies, programmes and operations; and (c) to seek to mobilise new and additional financial resources that are both adequate and predictable and are mobilised in a way that maximises the availability of such resources and uses all available funding sources and mechanisms, inter alia, multilateral, bilateral and private sources, including concessional and grant terms.

Given that structural adjustment policies and programmes are a main source of inequitable economic and social development in most of the Third World, implementation of the above commitments would indicate progress towards equity. Unfortunately, the political economy of the African Development Bank (AfDB) group threatens to turn the Social Summit commitments on their head. Moreover, when agreement is finally reached on new resources, the conditions most likely to be attached will make integrated action to redress the inequities of structural adjustment even less likely.

LIMITED PROGRESS IN POLICY FRAMEWORK OF OPERATIONS

In the period leading to the Social Summit and thereafter, the AfDB group undertook some measures to address long–standing problems with its operations. One of these was in the area of country portfolios, where the Bank adopted Country Portfolio Reviews (CPR) to reinforce remedial action for the implementation of its projects. This included some action, though limited, on debt. Action to assist borrowing countries to reduce their debt burden to the Bank is limited to cancellation of non–performing loans, and /or to returning the loan balances to the common pool for re–allocation to other operations.

Also, some new principles were adopted to improve upon its policy framework for operations. Among these are a revised health sector policy and a housing sector policy to complement its existing urban development policy. Another is making poverty reduction over– arching in its programme and policy operations.

Country poverty profiles and poverty action plans were developed in the preparation of Country Strategy Papers (CSPs). The concerns raised in these profiles were then to be made an integral part of the CSPs. In 1995, work on poverty profiles was completed for six countries: Burkina Faso, Burundi, Senegal, Malawi, Sierra Leone and Uganda. Poverty action plans, outlining potential areas for Bank activities, were completed for Malawi and Sierra Leone.

In terms of gender, the Bank refocused its strategy, in order to articulate gender issues in all lending operations. The main area of progress has been the adoption of a cross–sectoral approach, encompassing issues such as population and poverty reduction, along with organisational changes to make gender a Bank–wide responsibility rather than that of the WID department alone. With regard to the environment, country environmental profiles and action plans were introduced as part of lending operations.

So far, the main part of these developments is concerned with principles, and even these have been limited in their overall conceptions. Matching principles with resources, however, has been another matter. In this regard, in addition to a general failure to mobilise new resources (see below), the full outplay of these policy developments stands to be undermined by other policy innovations.

One such policy is the Bank's decision to re–orient its lending towards the private sector and away from the public sector. In 1995, the *«Bank financed five private sector projects. But more important in the times ahead is the increased attention and new direction that will be given to the private sector, as part of the ongoing reforms. Introducing changes that will assist in bringing about sound but effective support for the private sector…[t]he Institution could assist in augmenting the flow of financial resources by serving as a catalyst and mobilizer of private capital, both external and domestic.»*[1]

This development is doubtless in line with general developments in other multilateral financial institutions, especially the World Bank. It is also due to pressure from some of the Bank's leading financiers especially in the advanced industrial North. Most of the Bank's sources from bilateral operations have been geared accordingly. While there has been an overall drop in resources from these quarters, with 44% less in 1995 than in 1994, the funds have been targeted mainly to the private sector and the institutionalisation of market forces for the allocation of resources. For instance, the total of $5m from the United States Agency for International Development (USAID) went to this sector, with a residual to the environment.

There are several misgivings about this re–orientation. The first is that **these targeted resources come with conditions like agricultural market liberalisation that includes withdrawal of subsidies for agricultural in–puts. This liberalisation has played havoc with the poor and undermined local food production with cheap grains from the North being dumped on African countries.**

Secondly, the quality of private sector operations is mixed. Performance to date does not support the belief that these operations will consistently generate the kind of developmental and social effects envisaged in the Social Summit commitments. This belief was the justification for the squeeze on public sector operations.

In 1995, AfDB projects included: a salt refinery in Senegal, with the capacity to create 85 new jobs and to generate CFAfr 4,752m in ten years; a five–star hotel for tourism in Seychelles, to create 31 new jobs, with net foreign exchange capacity of $14.3m over ten years; a privately–owned cereal processing and storage complex in Sudan, providing 100 jobs; the manufacture of household refrigerators in Zimbabwe, with a projected 10–year revenue of $55m and job opportunities for 160 people; and the expansion of a yarn spinning mill in Zambia, with 433 new job opportunities and potential earnings $25m/year in foreign exchange.

Thirdly, this re–orientation aims at using funds from the Bank group's concessional window to support private sector operations in large–scale infrastructure projects, including hydro–electric dams. Largely due to US demands, the Bank group aims to increase support for such operations to 25% of the Bank's lending operations; this is reminiscent of a similar redefinition of the funds from the IDA, the World Bank's soft loan window. The first such operation at IDA was to support a large–scale hydro–power project in Lao with a supposed capacity for export earnings.

This is worrying considering the squeeze on AfDB resources and the fact that resources are not available to 39 poor African countries who can borrow from the soft–loan window only. The problem of availability of resources and the politics around it constitute the biggest obstacle to the Bank's ability to contribute to the fulfilment of the Social Summit commitments on equity.

INADEQUATE BANK RESOURCES AND AGGRAVATED INEQUITY

The resource problems of the AfDB arise from two sources. The first is related to the Bank's project portfolio and its debt structure, in short, to the financial health of the Bank. The second arises from the Bank's structure of share ownership. While there has been substantial movement over the past few years on the first problem, the second one, that is the share–structure, has proved more intractable.

The Bank group comprises three windows. The first is the hard–window African Development Bank (AfDB). The AfDB is funded by share subscriptions of its membership, consisting of 53 African countries (the regional member countries) with 66.3% of the total share ownership, and 24 non–African members (the non–regionals) with 33.69%. Together, the regional member countries (RMCs) hold 65.5% of the voting power, as against 34.5% for the non–regionals.

The second member of the group is the African Development Fund (ADF), the concessional window, with 26 members consisting of the AfDB and 25 non–regionals. The ADF is funded by regular replenishment mainly from its non–regional members.

The final member of the group is the Nigeria Trust Fund, funded mainly by Nigeria.

The problem is disagreement over the demand by non–regionals to increase their share ownership to equal that of the RMCs with corresponding voting power. Failing this, they want to establish a new management structure requiring a three–quarters majority on the Executive Board for major decisions. **Both options are designed to give the non–regionals a veto over the «big» decisions of the Bank.**

1 This and other direct quotations are taken from the AfDB 1995 Annual Report.

This disagreement is one of the problems that have generated years of acrimony and uncertainty among Bank shareholders and affected its standing in the capital markets. In 1995, while the Bank's triple–A rating was confirmed by three of its credit rating agencies, the fourth downgraded its senior debt and subordinated debt from triple–A and double–A to double–A plus and double–A minus respectively. These ratings flow from and in turn affect perceptions of the Bank's credit worthiness and ability to raise capital.

The disagreement over the non–regionals' demands for more power has created difficulties for mobilising resources for the Bank group. It has consistently held back further capitalisation of the AfDB, as well as any major new replenishment of the ADF, which the non–regionals control. The total resources of the Bank group as of December 1995 had not changed significantly: $24.10 billion. Of this, AfDB had 52.9%, ADF 45.2%, and the Trust Fund 1.8%. In addition to these, the group's retained earnings stood at $1.20 billion, with a limited $0.60 billion mobilised through the capital markets mainly to meet disbursement requirements.

During the Bank group's annual meeting in May 1997, President Omar Kabbaj indicated that the Bank requires a moderate capital increase of about 33%–50% over the existing capital base of $23 billion to help strengthen its position in the medium term and allow more «financial headroom» for its operations. But at the same meeting, the non–regionals backed their demands with a threat to block the second tranche of their $3 billion contributions to the Fund. This threat also stands to affect funds for the capital increase for the AfDB window, undermining the AfDB's ability to raise funds from financial markets, where it gets the bulk of its operating resources.

The difficulty over replenishing the ADF feeds into another problem. In May 1995, as part of a package of policies to address the non–payment of loans by most of the African member countries because of poor economic performance, a decision was taken to re–classify the eligibility of countries to borrow from Bank windows. As a result, only 10 countries may borrow from the AfDB. Three of these are blend countries, allowed to borrow from both windows. The poorest 39 African countries may borrow only from the ADF. **The failure to replenish the ADF means that no new resources are available to these countries to support their investment programmes and growth prospects. They have access to the AfDB window only for *«private sector operations and limited funding for enclave projects».***

The result of all this can be seen in the loan approvals for 1995, which generally still hold true. In the absence of new ADF resources, the lending programme for 1995 was constrained by the limited absorptive capacity for non–concessional resources on the part of the low–income RMCs. Bank group loan approvals amounted to UA449.74m; six publicly guaranteed loans totaling UA437.60m; and five private sector loans at UA12.14m. Due to the new Bank lending policy, ADF–only countries received UA9.38m, 2.1% of the total, for private sector loans; blend countries received UA1.75m, 0.4% of the total, and the AfDB countries received UA438.61, 97.5% of the total.

This is further expressed in a lopsided sub–regional distribution of Bank resources on the continent. These were distributed as follows: countries in the Northern African sub–region, where AfDB– only and blend countries predominate, obtained 85.9% of all loans and grants; 11.8% went to countries in the Central African region; 2% to countries in the Southern African region; 0.2% to East Africa, and 0.1% to West Africa.

Another effect is a bias against agriculture in the sectoral distribution of lending. When cumulative loan approvals, that is taking into account loans and grants approved in previous years, are tallied, agriculture ranks high, but for 1995 alone, agriculture ranks low. In 1995, for cumulative loan approvals, agriculture led with 24.4% distributed among 527 loans and grants; public utilities had 21.5% for 406 loans and grants; transport 16.9% for 375 loans and grants; industry 16.2% for 249 loans and grants; the multi–sector category, which includes policy based and poverty alleviation activities, had 11.3% for 104 loans and grants; and the social sector, education and health, had 9.6% for 270 loans and grants.

Taking 1995 alone into account, the industrial sector, with increased private sector lending, had a 38.3% share of resources and agriculture had 2.1%. In the Bank's own words, *«the modest share of agriculture represents country conditions which, in general, restrain the use of non–concessional financing for projects and programmes in agriculture».* This bias is carried into the co–operative interactions between the Bank and bilateral donor and regional institutions. In 1995, despite a series of discussions between the AfDB and the International Fund for Agricultural Development (IFAD), no co–financing project was approved because of the non–availability of non–concessional resources from the ADF. Similarly, the Food and Agricultural Organisation (FAO), where co–financing activities were scaled down, made only $2.5m available for project identification and preparation missions.

This is a symptom of a bigger trend: the Bank's failing ability to mobilise further resources from bilateral donors and other multilateral institutions, who thereby **fail to fulfill one of their Social Summit commitments.** As already indicated, support from the United States, Canada, Austria and the Nordic countries in the year 1995 fell by 44% from the preceding year. The Bank's co–financing operations from multilateral finance institutions have also been suffering. In 1995, the Bank was involved in 16 co–financing operations amounting to $533.13m, all of which were confined to non–concessional lending. By contrast, in 1993, co–financing operations totalled $3,701m falling to $1,740m in 1994.

Concerns about the resource problems that underlie the Bank's operational bias against the poor, both in terms of country and sector, are mounting, not least inside the Bank itself. The worry, however, is that the political problems that largely account for this will probably be resolved by a re–definition of the Bank's mission that will not make its operations more equitable.

THE FUTURE: RESOLVING RESOURCE PROBLEMS AGAINST EQUITY

The Bank's annual general meeting in May 1997 ended with indications of agreement for a substantial capital increase in

1998. However, this was because delegates adopted proposals to finance several major infrastructure projects and bring in more private investment. Behind this was a political alliance that tilted resolution of the vexing conflict on share–structure and ownership away from those who favour a specifically African mission for the Bank.

Most African shareholders accept that offering non–regional shareholders a bigger stake will boost AfDB ratings, allowing it to borrow more cheaply on capital markets. However, Nigeria and Uganda object to any dilution of the African two–thirds majority share, especially in light of the power over Bank policy decisions that this would give to non–regional shareholders. **Nigeria has even indicated its preparedness to buy and warehouse shares of any African countries not able to pay for their shares in the Bank's next capital increase.**

Most people, especially African civil society groups, believe that the struggles have far–reaching implications for the Bank's ability to function in Africa's specific interests. A decisive control by the non–regionals (especially the Western European, Canadian and US members) over Bank policy is likely to drive the Bank even further into a role which simply mirrors the World Bank policies for Africa. There are many who charge that the AfDB has already gone too far in this direction.

Indications of this tendency include the fact that, since the latter half of the 1980s, structural adjustment lending has crept into the AfDB portfolio, mainly in the form of co–financing with the World Bank and the IMF, accounting for as much as 20% of the portfolio in 1993. There is also the introduction of the private sector non–guaranteed lending window aimed at providing funds directly to privately–owned concerns either through collateralised loans or equity participation. Between 1991 and 1993, 13 projects worth $174 million were approved in the form of equity and non–government guaranteed lending. This further squeezed public sector lending in favour of the private sector, in the context of the general squeeze on Bank resources.

New credit lines and grants that were opened (eg, for emergency rehabilitation and women and development) mirrored development within the World Bank and may have been driven, along with policy lending, by co–financing opportunities rather than by the logic of independent programming. By contrast, investment in «human capital», especially in basic education, has generally been of low priority within the Bank. Even in the face of recent rhetoric about «endogenous growth theory» based on the productivity of human capital, the Bank's attention appears to be driven by *such «donor popular issues as the environment, gender, the private sector, small credit schemes, and participation, etc.».*

Above all, the Bank's role in policy advice and dialogue is minor. Its policy–based lending simply adds to World Bank lending and is defined by its parameters. The analysis and research findings of the Bank are generally treated with much less seriousness than those of the World Bank or even other MDBs.

At a meeting in Harare in August 1996, 20 networks of African NGOs who voiced similar fears argued for a different focus for the Bank to help the continent reduce negative pressures of globalisation and increase its opportunities in the global system. They called for a Bank that: provides financial leverage for the nurturing and development of analyses and ideas on economic policy management that are sensitive to Africa's peculiar economic problems, and not based on indiscriminate application of market principles; plays a key role in formulating Africa's development AGENDA and ensures that it is home–grown (two roles now usurped by the Bretton Woods institutions); and supports and builds national and sub–regional capacity for development finance.

Such concerns are not likely to find much support in a structure in which the non–regional shareholders have veto powers on the big issues. Already, the United States, which is leading the charge of the non–regionals, has outlined in its economic policy for African reforms to ensure that the AfDB intensifies its co–operation with the World Bank and the IMF on policy–based lending. The prospect is thus for intensified structural adjustment type intervention in African economies. The United States also aims to transform lending by the ADF, the soft–loan window, to focus more on African private sector operations, especially in infrastructure, to a target of 25% of total lending.

In the evolving battles over the Bank's share–structure, Nigeria and Uganda, who insist that the AfDB maintain the essence of its original mission, seem isolated. The Nigeria–led alliance of African shareholders that supported Kabbaj's presidential candidacy against the candidate favoured by the non–regionals in the 1995 elections is strained. This is not least because the thrust of Kabbaj's policy practice has fitted quite well with the perspective of the non–regionals, leading Nigerian officials to accuse him of reneging on his pre–election promises to back Nigeria's line on «the African character of the Bank», among other things.

Furthermore, efforts by the United States and other non–regionals are facilitated by the willingness of the general African shareholder to accept non–regional power in exchange for capital increases. The non–regionals seem also to have gained the support of South Africa, which appears to share some basic financing policy preferences with the United States.

Early evidence of this alliance and its orientation can be found in the tone of support for the Democratic Republic of Congo. South Africa, the United States and Britain have, in leading the call for AfDB reconstruction aid for Kabila, sought to condition this on Kabila's commitment to «deep» political and economic reform. Omar Kabbaj has said that Kabila's government must endorse an internationally monitored reform programme to get financial help. A US mission led by Ambassador Bill Richardson had since been to Kinshasa to assess Kabila's readiness for, among other things, the type of private investment–driven economic reforms that the United States wants.

Thus, in line with reforms demanded by the United States, African Development Fund money may soon be available for private sector exploitation of the huge hydro–electric potential of Congo–K. This, and the country's famous mineral wealth and rich farmland, are being eyed by both US and South African companies.

It is hoped that the future of the African Development Bank will not be settled in the lure of Congolese minerals, hydro–power and farmland. Such a settlement would bring an end to the dreams for an African bank with a specifically African mission. In that event the Bank's current objective operational bias against poor countries on the continent, as well as against the sectors where action is needed most to ensure equitable social development, is not likely to change significantly.

Instead, what is now the result, by default, of internal power struggles and the cumulative effects of past poor financial and management performance would be the outcome of conscious policy decisions to support the private sector and free–market allocation of resources. This would occur at the expense of development action to build the economic capacity of poor African countries and of the poor within these countries.

- Third World Network, Africa Secretariat

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The heading total resources includes: (a) paid in capital (AfDB); (b) debt capital, raised from the market (AfDB); (c) subscribed capital, subscriptions, not actual money; (d) replenishments and subscriptions (ADF); and earnings, which may be simply book valued.