Resources for all

Responding to the mounting appeals for funding, the African Development Bank has had to motivate a Growth Capital Increase and, as Kerry Dimmer discovers, the support it is receiving showcases the Bank as Africa's preferred financier

As a result of AfDB funding in Egypt, 12 000 rural men and women can now access credit for agricultural development

Reports that the World Bank and The International Monetary Fund have cut back their lending activities in Africa might have had devastating consequences for infrastructural development, were it not for the African Development Bank (AfDB).

Africa is ripe with opportunities as is evidenced by the large number of foreign investors who are quick to concentrate on, particularly, the natural resource and mineral wealth of the continent. As valuable as this focus is, it is not a guarantee that such investment will automatically lead to the reduction or eradication of poverty, hunger, or many of the other uniquely African problems that prevent it morphing into a global player.

For economic transformation to be sustainable and place Africa in that wider global environment, it still needs abundant financial resources to accelerate its growth. In an ideal world, African countries would prefer to use domestic savings to fund their own development, but the fact is that many of the continent's 53 countries face a shortage of resources to finance public and private investments. This is particularly true for post-conflict countries that have tremendous financial needs associated with reconstruction.

Traditionally, African countries have depended on external loans to fund development but when economic growth is slow or recessionary, the beneficiary country struggles to repay the debt, which of course compounds further borrowing to meet its obligations. Along with a vulnerability to volatile markets beyond their control, as with the latest worldwide financial crisis, plus the unequal rules of international trade and finance, many of the low-income African countries face dire straits.

It is impossible for analysts to predict what financial markets will be doing in five years, and Africa is no exception. Thirty years ago foreign investors did not find Africa all that desirable and there was a desperate need for the region to pool its resources for capital market development. This is one of the reasons for the creation of the AfDB: to seek solutions to Africa's financing problems within the continent, but its vision was broader. African countries unified, and along with 24 other international stakeholders, the AfDB is now steering financial consolidation in Africa.

'This consolidation is vital to maximise and address the needs of the continent,' says the AfDB's Vice Finance President, Thierry de Longuemar. 'There is a fundamental reason for Africa to have a strong African institution, like the AfDB, that supports development. The time is now for Africa to prove that it has real ambition, that it has a reliable and safe institution that can balance profit motive with the interests of the borrowers.'

In this vein the AfDB is making finance in Africa more robust and in tune with global developments. Economic transformation in the region is making real headway, with GDP anticipated to grow between 3.5–6% in 2011 and economists have been somewhat surprised by Africa's weathering of the global recession. Such resilience can be attributed in great measure to the AfDB whose latest request for a General Capital Increase (GCI) – the sixth since its inception – is a target of 200%, needed by end 2011.

At a meeting in February of AfDB's Committee of Ten (C10) – comprising African ministers and heads of central banks – the concept of a 200% GCI was approved in principle. This was subsequent to an earlier meeting of non-African shareholders, whose vote also favourably endorsed the proposal. However this recommendation still needs to be approved by a board of 77 governments, who will meet in Abidjan in May.

De Longuemar says that the 200% is based on an assumption of demand. 'We have to presume a certain level of demand for the next 10 years,' he says. 'The latest economic crisis has jeopardised and constrained development projects, some of which are vital in meeting the 2015 Millennium Development Goals deadline. We therefore have no reason to believe the board will vote against the GCI and have already marketed it directly or indirectly to all its 77 shareholder countries.'

Canada and Korea made their commitment vocal at end 2009 by tripling their callable capital. Such an endorsement leaves the AfDB optimistic of growing its financing capability to the US$100-billion target that is anticipated will sustain the bank for the next three years. 'That Canada and Korea were way ahead of any other country, has really helped convince other non-regional shareholders of the value of the GCI,' says De Longuemar.

'It must be pointed out however,' he continues, 'that there are essentially two arms of funding provided by the AfDB. The African Development Fund provides "soft" lending to African low-income and fragile states, and is funded by donor countries every three years. The 200% GCI increase is for the "hard" lending window of the bank, which it will use to raise funds on capital markets for eligible regional member countries to use in combating, in particular, the challenges of global warming, climate change, energy and transport.'

These are issues that are common to the broader base of African countries and have a direct impact on whether other projects are viable. Assuming there is agreement on the latest GCI, De Longuemar says that the AfDB will be able to lend US$5 billion per annum to fund infrastructural developments.

AfDB has built hundreds of schools in Africa

The AfDB is the largest financier in Africa and its strength lies in motivating higher leverage from wealthy countries and lower leverage from low-income countries. Its debt repayment has a grace period of up to 20 years in extreme cases, with interest determined by the capacity of the client that manages the funds. 'What private financier can offer such terms?' asks De Longuemar, which proves why the bank has such a solid reputation.

Having said that, not all projects presented to the AfDB for funding are bankable. In fact, confirms de Longuemar, two to three out of every four private sector requests are rejected, largely because they don't satisfy environmental and development criteria.

'Once a project is approved for funding, the AfDB appoints a task manager to ensure the funds are apportioned to the cost centres outlined in the original business plan. Task managers also make supervision field trips to check that implementation and construction is at the quality levels that were planned from the start. We also do not disburse the full amount upfront.'

The AfDB does not need to prove its capacity to deliver, but it's been largely responsible for the 20% increase of the African rural population's access to clean water and the AfDB wants to see this doubled by 2015. It has built hundreds of schools and developed key performance indicators for the growth of primary education.

It has responded to Mauritius by helping to reduce water-born diseases by 50% and in Egypt, 12 000 rural men and women can now access credit for agricultural development. As a result of AfDB funding, the poorest Congolese now have access to more than 50 000 microentrepreneurs that mobilise some US$24 million in deposits.

Without the GCI, the AfDB would not be able to maintain its current financial prudential ratios within acceptable limits. 'African countries would be forced to seek funding externally where borrowing would be infinitely more expensive and less tailored to their needs,' says de Longuemar. 'African solidarity is what is needed going forward. A GCI means more resources for all and will give the one billion African population more scope and inspiration to grow as a valuable and competitive continent.'