



House of Commons
International Development
Committee

**DFID and the African
Development Bank**

Seventh Report of Session 2007–08

Volume II

Oral and written evidence

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International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Development and its associated public bodies.

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Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is indcom@parliament.uk

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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, DFID strategy paper 2006

Oral evidence

Taken before the International Development Committee

on Wednesday 19 March 2008

Members present

Malcolm Bruce, in the Chair

John Battle
John Bercow
Richard Burden
Mr Stephen Crabb

Ann McKechin
Jim Sheridan
Mr Marsha Singh
Sir Robert Smith

Witness: Mr Joseph B Eichenberger, Vice-President, Operations—Country and Regional Programmes and Policy, African Development Bank, gave evidence.

Q1 Chairman: Good morning, Mr Eichenberger, and thank you very much for coming to give formal evidence to us. We will be seeing you on your home patch in a couple of weeks' time, but we much appreciate the fact that you have come in today to help us to get this inquiry underway. You may be aware that we have recently produced a report on the Department for International Development's relationship with the World Bank, which we are told has been met with some interest within the Bank.¹ We also felt, particularly as DFID² has taken a prominent role in supporting the African Development Bank and is clearly making a significant increase in its contribution, that it was appropriate for us to look at that relationship, both in terms of how the Bank is performing, given it has had its problems in the past, and how the relationship between DFID and the Bank is likely to develop. Clearly, from our point of view (and I do not want to put it in any kind of mercenary sense), we are looking for effectiveness, value for money, but, more to the point, that the money that is going in is actually going to deliver real benefits and help the Bank achieve its objectives. Perhaps, just to kick the session off, it might be helpful if you can give us an indication of how you think the Bank's reforms have progressed up until now. What are the key areas that are being examined, what changes are you making and to what extent have you had an impact and do you hope to have an impact, if that is a reasonable context to start with?

Mr Eichenberger: Thank you very much. Let me express, at the outset, my appreciation and my gratitude to you for the invitation. It is a privilege and an opportunity to be here and we greatly appreciate the degree of interest that the UK taxpayers have shown in our institution and the degree of support that they have provided. At the largest level maybe I can talk a little bit about some of these internal reforms that have been underway. There is, of course, a historical context. The bank went through some very difficult times in the early and mid-1990s. I assume that you are basically

aware of that. We have had new management in place now for a couple of years in the context of which we have moved ahead with a number of, I think, very significant reforms. There has been a comprehensive restructuring of the Bank: we have created new regional departments that have been designed primarily to give us more focus on country operations rather than on simply delivering projects. We have created new offices, for example an office that is focusing on governance issues, an office that is focusing on regional integration and trade issues in Africa. We have significantly beefed up our private sector department, because we see that as an emerging area of critical priority for our engagement in Africa. We have completely revamped our internal business processes around the imperative of reducing internal transactions costs, ensuring greater quality at entry in what we are doing, greater and more systematic monitoring of the performance of our portfolio and, in particular, its performance in respect of actually delivering demonstrable results on the ground in the form of development impact. Our reform has also been focusing on reducing cross-departmental mis-communication. We have had a silo problem in the institution, with people focusing more on doing their own business rather than doing business in a strategic context, and delivering something of enduring value on the ground in Africa. We have completely restructured our procurement and financial management unit and added significant staffing to beef up our capacity to deliver services promptly and with a high level of fiduciary control and transparency. We have done a comprehensive revision of our human resources policies from top to bottom. Probably 35% to 40% of our managers are new in the organisation, recruited through an open and transparent merit-based recruitment process. We have a new whistle-blower policy that is regarded as state of the art among the multi-lateral development institutions. We have completely reformed our trust fund programme and are no longer accepting any tied trust funds. All trust funds will be untied. We have redesigned our key performance indicators in order to integrate systematic results into everything that we do. That is, I think, just a sense of the reforms. In terms of

¹ International Development Committee, Sixth Report of Session 2007–08, *DFID and the World Bank*, HC 67

² Department for International Development

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what they are delivering, I think it is still early days, but I will identify a couple of pieces of emerging evidence from which we take encouragement. I think the first is shareholder confidence in the institution has clearly increased. That is evidenced by, among other things, a very significant replenishment of our concessional fund, a deal on which we closed in December of last year right here in London. We had a 52% increase, unprecedented in the history of the institution, better than IDA,³ certainly better than the Asian Bank is going to do, and that is a powerful vote of confidence. We are also seeing increasingly that others are actively seeking partnerships with us. The World Bank is reaching out to us in a way that it never did in the past, the European Investment Bank, the EC⁴ organisations that for a long time, I think, frankly, had not paid much attention to the Bank are paying attention and we see that as confirmation that we are moving in the right direction. We are seeing an increasing leadership role for the Bank at the field level, in part because we have opened 23 new field offices, we have a presence on the ground now giving us voice, impact, and an intelligence gathering capacity that we did not have in the past. The balance sheet is stronger than it has ever been, Triple A is absolutely secure and, in my judgment, we have considerable room on the balance sheet to ramp up our activities in respect of our market-based operations rather than our concessional operations. Quality improvements are being recognised in the board in terms of the content and quality of the operations that we are doing and the work that we are producing and, finally, I would say, and I think it is important, the applications that we are receiving for vacancies in the institutions have just gone through the ceiling. We advertise four positions, we get 3,000 applications from advertisements in *The Economist* and *The Financial Times*, for example. That would not have happened three years ago. So, we see within the development community a sense that this institution is moving and we see reinforcement of that everywhere. I hope that addresses your question.

Q2 Chairman: I have a couple of supplementaries which I do not think are pre-empting my colleagues before I bring them in. You mentioned opening the branches, but it has been suggested to us that the initiatives that the branches can take are somewhat limited and, conversely to that, that the board does an awful lot of micro-management which other people have said is inappropriate. I just wonder whether you can comment on whether that is an issue that the Bank is addressing. On the last point you made about recruitment, it has been suggested to us that the location of the Bank and the uncertainty of that location was actually damaging recruitment. What you have just said might imply otherwise, but presumably you have some view on that?

³ International Development Association of the World Bank—the arm of the World Bank which provides loans and grants to low-income countries

⁴ European Commission

Mr Eichenberger: On the first issue, on field offices, we got funding to open 25 field offices and to substantially increase our presence in the field. As of this moment we have opened 23; we are close to opening the remaining two. That gives us a presence that we did not have five years ago. We are not fully staffed at the field level yet. We have the offices, we have core people in the field, we have at this point about 113 of our 800 professional staff who are now in the field—that is about 14%. By the end of the year that figure will increase to about 21% or 22%. We are ramping up significantly in the field, but it is true that we are going from essentially zero presence to a very active presence and our footprint and our impact is not yet what we would like it to be, but we are increasingly getting there. On the issue of board micro-management, I have a mixed view about that. In my career I have had the privilege of working as senior management inside these multi-lateral institutions and senior management at the African Bank and at the Asian Development Bank, I have also served as an executive board member myself at the World Bank and in IFAD,⁵ in Rome, and I have served as a representative of the single shareholder government, so I have seen three different perspectives. My own personal view is that these institutions need an active and engaged board presence. These institutions need to hear the views of shareholders, in part because we need to maintain the support of shareholders but in part because shareholders have different views and for us to reconcile and balance these different views I think we need to know what those views are on a regular basis. I personally believe that the active participation by shareholders on a regular on-going basis is a positive thing for the institution and for institutional governance. There is some micro-management. Frankly, in the case of the African Development Bank I think some of it reflects some of the difficulties of the past. I think our board is backing off increasingly and, with the confidence in the management team, has given us more scope, so I do not see that as a huge problem. The final issue on location—I am not really very well positioned to comment on what is likely to happen there. There was the movement from Abidjan to Tunis four and a half years ago, I guess, or five years ago; there was a discussion by the governors of the Bank at our annual meeting last year, at which time they resolved to resolve the issue at the coming annual meeting in May of this year. Clearly the default scenario is to return to Abidjan, but judgments need to be made by the governors collectively about whether the circumstances are appropriate to do that. With respect to your final question about whether the uncertainty is affecting our capacity to recruit staff, my own sense at this moment is that it is not. The uncertainty is a factor but, as I say, we are getting a tremendous amount of interest from some very high quality people who see an opportunity to come to the Bank and achieve something of value. Resolving the uncertainty would be better than not resolving it. Our hope is to have some clarity as we exit our annual meeting in May of this year.

⁵ The UN International Fund for Agricultural Development

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Q3 Sir Robert Smith: You mentioned the 52% unprecedented increase in the replenishment. What are the Bank's main priorities for actually spending the replenishment?

Mr Eichenberger: I should say that these funds will be devoted to a subset of our countries; they will be devoted to the poorest countries. We have 53 African member countries who have a relationship with the Bank. Of that, 40 are concessional only borrowers. The remaining 13 are what we call middle-income countries, and they borrow out of our market finance division. I will go through a few things. First, out of the entire amount of the replenishment, which is about US \$9 billion—it is a three-year replenishment, so we have roughly US \$3 billion a year for the next three years—75% will be explicitly devoted to these 40 low-income countries and will be allocated to them on the basis of what we call our Performance-Based Allocation System where we reassess their performance in terms of governance, the quality of macro and fiscal policies, structural policies, the degree of commitment to pro-poor growth, et cetera. We feed in population, per capita GNP,⁶ performance on governance and we get a result, and that will be the basis on which these resources are allocated. Seventy-five per cent of these resources are allocated to individual countries. Twenty-five per cent of the resources, as a result of this agreement we reached here in London, are specifically earmarked for two special purposes. The first is resources specifically earmarked to finance what we have called regional operations or regional integration. There is a powerful need in Africa for deeper regional integration. I think it can fairly be said that Africa is probably the least economically integrated continent on earth, and there is a compelling need for things like cross-border roads, for improving tariffs and customs systems, cross-border power, et cetera, and so part of this earmark will go for regional operations and the remainder of it funds a new facility that we created which we are referring to as our Fragile States Facility. The view within the Bank among the African countries and among all of our shareholders is that it is vitally important for this African institution to be more present and more effectively engaged in post-conflict countries that need assistance more than ever and that are on the road to reform, and so we have created this Fragile States Facility to support nine specific countries that are post-conflict, peace agreements have been signed and they are moving forward. That is roughly the allocation of these resources.

Q4 Sir Robert Smith: Can you just clarify the 75%. You have the formula. Is it basically then that that money is available to that country for it to set its own priorities with the money once you have applied the formula to allocate between the countries?

Mr Eichenberger: Similar to the World Bank and others, for each country, whether it is an upper income or lower income, we produce a country strategy valid for three years or five years. That is

produced in close consultation with the country and is essentially a strategic programme, a business plan if you would like, about the areas in which we are going to be engaged. The priorities are developed as a result of this dialogue, and we are seeing increasingly that the priorities on the demand side are with respect to basic infrastructure, institution building and capacity building, regional operations in particular. The country strategies incorporate those priorities. A country may say, "We want you to focus on roads, water and sanitation and some institution building in our financial sector", and then the allocation process, this formula-driven process, which is entirely separate, produces a result which says, "Okay, in this country we will have a lending envelope of \$100 million", let us say, over three years, and then, on that basis, we will allocate together with them the resources to particular projects.

Q5 Sir Robert Smith: The replenishment round went up by about 52% but DFID actually doubled its contribution. In its negotiations with you how is it sought to work to ensure that common objectives are implemented? What sort of negotiating position did DFID take when it came to doubling its contribution?

Mr Eichenberger: I think that there was a great deal of congruence between the priorities that DFID was articulating and (a) the priorities that 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. We have 800 professionals at the African Development Bank. There is no way that we can be a full service development institution across the whole of Africa, involved in every sector and every issue, and that is different from the past. So, recognition that we need to focus on areas where we genuinely can produce superior results, so infrastructure, roads, with a clear poverty reduction dimension, power issues, where, for example, access of the poor is explicitly built into the project design, water and sanitation, which brings a specific health dimension, helps us to achieve the Millennium Development Goals, et cetera, and so there was a great deal of congruence around that. Secondly, the messages from DFID were strong and consistent about results, results, results. All of the shareholders are facing increasing pressure to demonstrate to their parliaments and to their taxpayers that this money is producing results, and I think, frankly, the institutions and, I would say, the development community in general has not done a sufficiently good job of doing that. We agreed on things like building much more systematic monitorable indicators into project design, et cetera, so that, two years from now, three years from now, when we go into another replenishment cycle, we and DFID can demonstrate quite clearly to the UK taxpayer that this money went for this purpose and produced these results that we believe you support. On emphasis on governance, governance seen as absolutely crucial for sustainable development in

⁶ Gross National Product

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Africa. DFID has played a strong advocacy and convening role on issues around, for example, the Extractive Industries Transparency Initiative (EITI), pushing to get the Bank, not just engaged in it, but enthusiastic about it going on. DFID was at the front-line in pushing for creation of this special Fragile States Facility, arguing that, for example, in a country like Liberia, where we have had no presence for 20 years, nobody has, if we go through our regular Performance-Based Allocation process, it might result in US\$20 million for Liberia over a three-year period, not the kind of money that will enable us to be transformational. So, DFID gave strong support for creating a facility that would supplement these resources for committed, well-performing countries like Liberia. Those are a couple of examples.

Q6 John Battle: To press you on DFID, I want to ask whether there is any conflict between DFID's approach and the other shareholders, because DFID has got very clear parameters about poverty alleviation and untied aid, and that means that sometimes in negotiations with, for example, the World Bank and other bodies there is a conflict between DFID's view of who gets the money and on what terms and other bodies. Is that happening in the African Development Bank or is everybody following DFID's lead?

Mr Eichenberger: I would say a couple of things. There are differences amongst shareholders about what the priorities should be, but I think those differences have narrowed and nobody contests the set of priorities that I just articulated: infrastructure, governance, fragile states and regional integration. Where the differences arise, I would say, is, in part, around what instruments do you use to achieve these core objectives? DFID has advocated fairly strongly for increased use of what we call budget support. A government puts together a credible programme with a credible budget, says, "I am committed to this and I will deliver it in the following way, and what I would like would be support straight into my budget in order for me to make that set of choices that I am best positioned to make." Again, all the shareholders believe that there is a place for budget support; well performing governments are best placed to make those choices. There are differences of view about how aggressively we at the African Development Bank should push that agenda. We have an overall limit of 25% for this budget support, and, in fact, we have not even approached that limit, so there are some differences there. The point was raised about tied versus untied: there has been a positive movement within the institution moving towards untied. I would mention a couple of things. First, we have pushed through a trust fund reform that basically said: henceforth we will accept no trust funds, we will be the trustee for no funds that are tied, all tied funds will be grandfathered out. The UK has been in the forefront of offering only untied funds and is setting an example. That is very positive. Secondly, one of the things that we achieved in this recent replenishment negotiation, we put on the table a proposal to change our own

Articles of Agreement to allow universal procurement. Built into the Bank's Articles of Agreement, that date back to the post colonial period in the mid-sixties, were specific limitations that procurement could only be accessed by member countries. Our view is that the world has moved on and that, at the end of the day, what we need to do is get the best quality goods at the best price for the borrowing countries, and if those goods happen to come from a non-member country, that is okay. DFID has strongly supported that. I think they have been playing a leadership role on issues around a move away from tied practices and a move toward practices that put more capacity to make decisions in the hands of governments that have a good programme, and that is an important point. There are governments that do not have good programmes, and that is a different set of issues.

Q7 Richard Burden: You mentioned the Fragile States Facility with a budget of \$665 million and you said it was targeting nine countries. I wonder if you could tell us a little bit more about how that process of targeting works and how you work through the nine, what you should be doing in those nine, and actually how you also exclude countries from targeting at the moment? I suppose the other thing is how you would harmonise what you are able to give through that facility, through that fund, with other donor efforts in those fragile states?

Mr Eichenberger: I am glad you asked that question, because we struggled with this. I and the President and senior management were concerned and we were convinced that we needed to exit this replenishment negotiation with a Fragile States Facility of some kind. We felt it vitally important for our bank, an African bank, to be more present in these countries, but we also understood that there was little likelihood that the donor countries would support a vague sort of open-ended arrangement, in part because the donor countries have emphasised consistently the need for resources to be allocated on the basis of demonstrated performances, so we had a disconnect. Supplemental resources are needed in special cases, but we cannot undermine or do violence to a reasonably rigorous transparent performance basis. It was on that basis that we re-established four very simple, very clear and non-judgemental criteria for eligibility for fragile states. It had to be a post-conflict country that had signed a peace agreement; it had to be a country that had had a significant decline in real GNP since 1990, which is the benchmark date for the Millennium Development Goals; it had to be a country that was in the lowest quintile of the UN's Fragile States Facility and, on that basis, nine countries emerged. This allowed us (a) to have clear criteria so that no-one could say we were playing political favourites, and (b) it allowed us to assemble a group of countries so that we could then go to the donors and say, "These are the countries, this is the programme and here is how much it will cost", and it was on that basis that we were able to get that agreement. Those nine countries are now, in principle, eligible for this Fragile States Facility. In order to actually access

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this facility we and they need to come to an agreement that there is a credible programme of economic policy in place. This is the kind of thing, for example, we have seen in Liberia, where there is a very credible programme in place, the World Bank is comfortable with it, we are comfortable with it and, on that basis, we will engage, but this gets us out of the business of making potentially political judgments about who is in and who is out. The final point, let me just mention that entry into this Fragile States Facility gives the country access to a multiple of performance-based resources, an amount that is two times as high. So if your normal allocation for a three-year period is 50 million, let us say, this will give you a supplemental 100 million, the view being that in these post-conflict cases where frankly, destruction is everywhere, it is vitally important that we get something started: get the water system working in Monrovia, for example, get a port that is capable of moving some goods.

Q8 Richard Burden: This was obviously something that was stressed quite a lot in the 2007 High Level Panel Report, and as well as saying that work in fragile and post-conflict states should be a priority for the Bank, it was also saying that there were certain constraints to that in terms of your operations.⁷ The first was that your governance portfolio was weak and lacked clear direction and the other thing that it mentioned was, if you were going to work in fragile and post-conflict states effectively, dealing with the extractive industries was going to be a really big challenge for you, described as the resource curse of the 21st century, and recommended that the Bank should raise its profile on the Extractive Industries Transparency Initiative. There are two questions really. Perhaps you could say what you are doing to improve your work in relation to governance and the team involved in that, and, secondly, how are you raising your profile in relation to the Extractive Industries Transparency Initiative?

Mr Eichenberger: I mentioned in passing, in response to the first question, that one element of our reorganisation was to create a free-standing governance department—it was one of the important initiatives from that reorganisation—explicitly recognising that we needed to improve our capacity to engage on these issues. We are, again along with the World Bank, DFID and others, doing what we call governance profiles in individual countries where we try more systematically to assess the governance situation: how fully functioning are the institutions in these countries? Where are the institutions where it would make sense for us to work more closely? What are the institutional changes that we believe are necessary in order to support a more aggressive approach in terms of our own lending? This is a work in progress. It is probably fair to say that governance and the issue of functioning institutions is possibly the toughest issue. It is one about which we need to know more, all of us need to know more, and it is something that

we need systematically to include in our country strategies, et cetera, so this is a work in progress. The governance profiles are feeding into our country strategies, the governance department is working closely with our regional departments and our project departments to build governance components into our individual operations, even small things. For example, for a routine infrastructure project, create a web page in the website of the local field office that indicates simply what monies were disbursed, on what date, to which person, for what purpose. In some work I did in the Philippines with the Asian Development Bank, we found that simply publishing the disbursements from the institution got local people into the game and created accountability that was not there before. It is not rocket science, some of this stuff, but it will require extensive efforts over time. On EITI, we have formally become a supporter or a member of the initiative; the issues around the imperative of greater public transparency about resource flows are increasingly a part of our on-going dialogue with individual governments. I think that too is a work in progress; it is going to take considerable time. I would mention one point which I think is important, and that is, as part of our fragile states initiative and recognising that in many cases there is a dimension between fragility or conflict and resource extraction and non-transparency around resource extraction in Sierra Leone, Liberia, the Democratic Republic of Congo, you need not look far, one piece that we built into our Fragile States Facility was that at the close of this initial three-year period our expectation is that we will probably want to go back to our shareholders and ask them to refund this Facility. Our expectation is we are not going to achieve something magical in three years; we are looking for six. Therefore, we are going to do an evaluation at the end of the three years, and one of the criteria for determining future eligibility for supplementing fragile states resources is exactly the issue around: is there adequate transparency with respect to debt flows? Is there adequate transparency with respect to the flow of public resources? The non-transparency, for example, around some of the major investments that are being made in Africa now by new players is a matter of concern, and part of our evaluation of whether we move forward with the Fragile States Facility will be are we getting the kind of transparency we think we need, whether it is cocoa in Cote D'Ivoire or timber or diamonds or whatever? This is new territory for us, but we think it is important that we do it.

Q9 Mr Singh: Mention has already been made that the UK has doubled its donation to the African Development Bank. In fact this year it will be the single largest donor.

Mr Eichenberger: Yes.

Q10 Mr Singh: But actually throwing a heap of money at somebody is not necessarily a sign of the quality of the relationship. I think Sir Paul McCartney will attest to that! Our interest as a committee is whether this extra money is just a sign

⁷ High Level Panel for the African Development Bank, *Investing in Africa's Future*, January 2007

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of UK government policy or it is a sign of a growing and deepening relationship between the Bank and DFID and how effective it is on the ground. How effective is DFID's support to the Bank, not just in headquarters terms in Tunis but also on the ground in terms of other countries?

Mr Eichenberger: Let me say a couple of things. I would like to pursue that Paul McCartney issue! First, this did not happen three years ago. It did not happen during the last replenishment cycle at a time when DFID was also as an entity significantly ramping up its profile, and so I think there is information content in that. Secondly, it is clear that the profile of the African development challenge is substantially higher today than it was even a couple of years ago. We have Gleneagles, we have the Commission for Africa's report and we have all the attention that is going into, for example, the African dimensions of the climate change challenge, et cetera, and there is recognition within the development community that Africa is the decisive test for development systems, and that is the business DFID is in and I think they feel the need to be more systematically engaged with our institution. In terms of the choices, you are closer to the DFID colleagues than I am, but DFID could have chosen to direct significantly higher resources to IDA. Fifty per cent of IDA goes into Africa, and there is no question that the World Bank and IDA have a depth of resources that we do not have as an institution, but I think we also bring dimensions that IDA does not bring. It is a fundamentally African institution; it does have that profile and that credibility on the continent, frankly. Eighty per cent of our staff are African and, in our view, DFID is making a choice to invest in that set of assets, to grow those assets as a tool to achieve the development objective. Finally, and this is a point that we touched on earlier, it feels to me like there is a lot of congruence between the priorities that the institution is increasingly articulating as strategic priorities and the strategic priorities that DFID and other shareholders, frankly, are articulating. That is not an accident; there is an on-going dialogue. I think the comfort level is higher that we have a programme that we can implement and we have made a set of commitments that have increased the level of confidence that we will be there when we need to be there.

Q11 Mr Singh: It is always hard for an agency that receives the money to be critical in any way about the way it is rolled out, but to make it easier for you to be more positive, could you suggest ways in which DFID can be more effective in helping the Bank implement more successfully its reform agenda? For example, can the technical co-operation arrangement be beefed up, or are there other areas of technical expertise that you require?

Mr Eichenberger: On that, as you know, we agreed with DFID, or DFID agreed with us, to a very generous technical co-operation agreement that has been in place now for only about six months, £13 million, and there are elements of that agreement that are, from our perspective, extremely welcome. First, it is 100% untied; second, the processes by

which our people can access those funds have been substantially simplified. The UK Executive Director on the ground in Tunis has sign off authority for a reasonable amount of funds. From our perspective, that is a kind of a model of a trust fund arrangement with our institution that we feel is very responsive to the challenges we have had. There are unambiguous focal areas. There is not any question about where DFID expects this money to go—infrastructure, governance, climate change dimensions, the internal reform process—and those are the right areas, frankly, but within that there is considerable fungibility. I think it is now incumbent on us to make the best possible use of that so that ideally we could come back and say, "This was a great thing, we have used it wisely and we think that we make a case to do more." Of that £13 million agreed six months ago, £13 million for three years, I believe something like £4 million has already been committed. I myself have access to the funding in order to bring in some specialised expertise around effective budgeting in a decentralised context. DFID was out front on the decentralisation channel which it moved aggressively with field offices. There are challenges around that, but DFID knows things about how to run a decentralised operation that we do not know and that we can learn from, and this fund reinforces our ability to do that. Is that responsive?

Q12 Mr Singh: Yes. Just one further point as an aside really, but it could be an important aside. Given the growing—and we do not know to what extent this will grow—financial banking and economic crisis that the financial world is facing, do you foresee any problems for your bank and any setbacks that may occur as this crisis develops?

Mr Eichenberger: No, I do not. It seems to me the challenges are likely to be at a more general level. Africa has had a pretty good run recently in terms of the macro situation—5%, 5.5%, even 6% growth a year; on a per capita basis, that is three, three and a half. That is as good as it has done in 30 years. That is enormously positive, but it is also true that it has been driven, very importantly, by commodity prices. There is a plus and a minus, but unlike, for example, the two previous oil shocks in the global economy, the current high level of oil prices has not been an unambiguous burden for Africa because the countries hurt by the high oil prices have, more often than not, benefited from high prices of other commodities; so on a net basis it is actually okay. But that does nothing about the deeper underlying development challenge, it seems to me, around competitiveness, diversification, integration into global markets. That is the issue. In terms of the availability of finance—and I am not an expert on this—we are not seeing much right now that is worrisome. In fact, I just read an analysis recently by the Institute of International Finance that suggested that with investors reassessing the risk profile of some of their more traditional investments in the developed countries, what they are actually seeing is more flow of resources into emerging markets. It seems to me one of the things we need to do at the African Development Bank is increasingly to attract

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that risk capital that is willing to invest in new markets. This gets to a point which we have not talked about yet but which is important, which is the profile and the activities of the Bank in the private sector. We are seeing substantially increased interest on the part of serious private sector investors in investing in Africa, risks notwithstanding, and considerable interest from their side in partnering with our institution, in part for the halo effect, to reduce the risk. So at this moment we are actually facing a level of interest in transactions that is going up, not down.

Q13 Sir Robert Smith: That positive development must be exposed to the current liquidity crisis in the private sector, the current liquidity crisis going round the world, in terms of the potential for that private sector side?

Mr Eichenberger: The crisis is exposed in . . . ?

Q14 Sir Robert Smith: You are saying that there is an interesting, exciting development of the private sector now becoming interested in Africa, on the back of Marsha Singh's question. Surely that must be a risk now in the current liquidity crisis.

Mr Eichenberger: I think it is. If you ask me, there is no doubt that with the hits that some of the financial market players are taking and with the shrinkage of the availability of credit, we can expect to see that. Unfortunately, Africa has always been almost a footnote around issues of global capital flows, but perhaps because of that, in fact, because it is starting from a relatively low base, the degree of the hit may not be that high, I am not sure, but what we are seeing, as I say, is on-going interest in a wider range of sectors in Africa.

Q15 John Bercow: Mr Eichenberger, can you give us some examples of how the Enhanced Collaboration Initiative that you agreed with DFID in 2004 has helped to harmonise your work with DFID in partner countries?

Mr Eichenberger: Yes, I can. Let me say just by way of introduction, I think that, as you say, it was agreed in 2004. Since that time our institution has gone through a substantial reorganisation. At the time of the agreement we had this very limited field presence, which we are now ramping up, so a fair assessment of that would be results have been mixed but, I think, unambiguously positive. I think a specific example would be Mozambique, which has been a good performer, it has been a priority for DFID and it has been a priority for this institution. We have a significant field presence in Mozambique and, through this Enhanced Collaboration Initiative, we and DFID and other donors, frankly, have probably one of the most cohesive donor co-ordination mechanisms that now exist in Africa. We are dividing up responsibilities across individual sectors; that allows us to be much more focused on core priorities. We are doing much more joint work—joint work with the World Bank, joint work with DFID at a critical level—so I think that is an example where focused partnerships on a pilot basis is yielding some real results. Elsewhere, Sierra Leone

was another country that was part of this initial pilot. I think it is fair to say that a lot less has happened there, although it has been the basis for a good degree of collaboration moving forward, particularly with respect to how do we use this Fragile States Facility that we have all agreed is going on. I think more remains in that case.

Q16 John Bercow: Focused partnerships on a pilot basis exhibiting exemplary joint working will, of course, be music to the ears of the good burghers of my Buckingham constituency, Mr Eichenberger, and I do not in any sense cavil at what you have told me, but if I were to walk into Market Hill in Buckingham at the weekend and I were, per chance, to be nabbed by a constituent who said to me, "What did you extract from Mr Eichenberger about the specifics in terms of water, roads or sanitation in Mozambique, which his organisation's work, under the Enhanced Collaboration Initiative, is yielding?" (and it is not an improbable question from one of the highly articulate and well-informed constituents that you find in Market Hill Buckingham), what should be my answer, Mr Eichenberger?

Mr Eichenberger: No, I get that question all the time at the supermarket! I think that is the test, the town hall test, where you stand up in front of the average taxpayer and explain why it is a good thing to do. I think in the case of this rather well-informed constituent, we could point, for example, to a very clearly articulated set of specific results that are expected to come from these collaborative investments in roads, results that are articulated in the form not just of how many yards of concrete are we going to pour, which is development 1980, but results in terms of how many people in rural communities are going to be connected to markets where they can sell their goods, how many people in rural communities will have more regular access to basic healthcare as a result of this investment? It feels to me, frankly, there is nothing revolutionary about that, but it is an area where I believe the development community has paid far too little attention for far too long. If we start building these things into our agreements and measuring and monitoring them, then I think we will get those results. So the results would be, "Well, Mr Smith, I believe at the end of the day that you should expect that an additional 15,000 Mozambicans will have access to clean water, and we will be able to show you that and there will be fewer cases of water-borne diseases, and that is a good thing, do you not agree?"

Q17 John Bercow: That is extremely helpful. Thank you very much indeed. I will make sure I am armed with the information, preferably with the transcript, in readiness for my visit on Saturday to the constituency! What is the status of the reviews ordered by President Kaberuka into whether the use of the Bank's capital to fund projects relating to the MDGs⁸ could be expanded? Forgive me, but my understanding is that there is a total of three reviews. There appeared to be one review that came on the

⁸ Millennium Development Goals

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back of the High Level Panel report—I maybe mistaken about this—and there are two private investment banks that have been asked to undertake independent reviews. Anyway, perhaps you could clarify how many reviews there are, what their status is and how they are getting on?

Mr Eichenberger: I am not deeply familiar with that, but I can tell you the following. I think the distinction between two versus three reviews is that one is an on-going effort that is internal to the organisation. This is the kind of thing the Treasury department needs to do. The other two, as you say, are basically reviews of the balance sheet being done by two investment banks, Citigroup and Goldman Sachs, on a *pro bono* basis, by the way.

Q18 John Bercow: That is a relief.

Mr Eichenberger: They are doing it *pro bono*, and the purpose of these reviews is to basically examine: is there latent power in the balance sheet consistent with a Triple-A rating that could be accessed in order to leverage more finance into Africa? Are there ways that the institution should or could think more creatively about insurance, guarantees, et cetera? I had a conversation with the President just on Friday, and he indicated that actually, just an hour before, he had had a conversation with the Citigroup guys. They are very close to coming to closure. He has promised the board to get the results of both analyses to them in time for a full discussion before our annual meeting; so this is imminent.

Q19 John Bercow: When is that?

Mr Eichenberger: Our annual meeting is the middle of May, so we are expecting these discussions in April. I think people in the Bank should be well placed to give you some preliminary views.

Q20 John Bercow: In time for the publication of our report or, indeed, for the visit⁹

Mr Eichenberger: Yes, I hope so. It is a sensitive area in some respects, and this gets to one point that the High Level Panel identified, which is: is there a way to create a more seamless organisation? We have had this distinction inside the organisation between the middle-income countries, who borrow on the basis of the balance sheet and on the basis of our own capital market borrowing at market rates (13 of them now) and the poor countries, who borrow concessional funding only. The question is: is there a way for us better to use the balance sheet of the institution in order to provide an array of instruments, particularly in those countries that may be moving from concessional only into middle income? Ghana is an example. Ghana has been a concessional only country for a long time but it has floated over the last two years, I think, US \$1 billion in Euro markets, or it has access to capital markets. What should that mean for us in terms of how we use our balance sheet prudently to support a country that is making a transition? Frankly, in Africa it is nice to see someone going in that direction. So part

of what this balance sheet assessment is intended to help us think through is: can we do that in a way that the shareholders would support?

Chairman: Coincidentally, the Committee is actually going to Ghana next week, so it might be of some interest to follow that through.

Q21 Mr Crabb: You have already provided some information to suggest some positive progress in terms of tackling the under-staffing problem at the Bank. Would you still concede that there is a problem with lack of human resources across the Bank as a whole? Have you thought about how that might be affecting the performance of the Bank and, in particular, the ability of the Bank to respond in a timely way to requests for funding?

Mr Eichenberger: I think there is. I think it has multiple dimensions. At this time last year the institution had close to a 25% vacancy rate. I had units under me that had 50% vacancies at managerial levels. As at the end of last year, that overall institutional vacancy rate had been reduced to about 5% following, as I say, among these international institutions the most transparent recruitment process I had ever seen. We have succeeded in plugging the holes and I think we were all very gratified to see the quality of the kind of applicants that we were getting; these are some serious people. So, we have stopped the bleeding; now the question is how well positioned are we to do what we have said we are going to do and to do it well? I think, if you randomly picked anybody inside the institution, they would say that we need more people, but I also believe that there is more that we can do within the envelope that we have. One of the things that we have done over the last two years is move a significant number of positions from back office support into front-line operations, and by various measures we have now 60% of staff in front-line operations and we are moving that forward. I mentioned earlier the ratios for our field office people. That is all a positive thing. We have staffed up these new units, like the new governance unit, in terms of bringing in those staff and bringing in those skills. I think that there is more that we need to do and we are intending to do to improve the skills mix within the envelope, to further move people from support functions to front-line functions, including in the field. We have had some work done on possible options for outsourcing, which I think will help us, basically, get some of these tasks outside of the institution, but in the end my own personal view is that we can and we should try to make a credible case to our board that we need a modestly expanded administrative budget in order to do what the board want us to do, but our view is the onus is on us. We do not believe we can just waltz in there and say we would like to get a 10% increase in our budget, because this is going to be very closely scrutinised, but I think there is more that we can do.

Q22 Mr Crabb: In terms of the decentralisation process, you mentioned earlier that you are up to about 14% of staff in your field offices?

⁹ The Committee visited the African Development Bank headquarters in Tunis from 2–3 April 2008

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Mr Eichenberger: Yes.

Q23 Mr Crabb: Is that on track for where you planned to be at this stage?

Mr Eichenberger: No, I think we are moving too slowly. This is a point that your colleague in Tunis, the UK Executive Director, has emphasised. There is a view that we need more people out in the field and we need them out in the field now. I agree with that, the President agrees with that. I think it has been slower than we expected for a couple of reasons, in part because the recruitment process that we are using is really quite rigorous. We have the advertisements, we have interviews and we have not moved quickly enough on that. Secondly, we have focused a great deal of effort on hiring local professionals, and there is a tremendous amount of talent out there, and those recruitments are now beginning to be seen in figures. So, there is a lag between what our numbers look like today relative to the offers that we have made. People are on their way, but we are not where we wanted to be.

Q24 Mr Crabb: Aside from recruitment issues, what would be some of the other challenges associated with getting these field offices up and running and performing to a high standard?

Mr Eichenberger: One, which I think we have dealt with, is meaningful delegation of authority. This has been a highly centralised institution for the last decade. A generation of managers has grown up in this institution with a highly centralised frame of mind. We need to move authority out to the field. We are doing that. We have a new delegation of authority matrix. Secondly, we need significantly to improve and to invest in basic communication between the field and headquarters. Africa is a tough place to do some things that we just take for granted, like having a video conference, for example, and we need to increase that. Communication alone will not fix everything, but it will fix a lot of things. So, those are a couple of near-term priorities.

Q25 Chairman: Do you have a vigorous in-house training programme, and you if do, do you have to bring people to Tunis to do it?

Mr Eichenberger: We have an internal house training programme. I do not think it is vigorous enough. It is an area of priority going forward. It is an area we are budgeting more money to. We regularly bring our field office colleagues to Tunis for training—that is on an on-going basis—but I think it needs more work in terms of procurement, procedures, et cetera. The bank is a complex place; we have a lot of new staff; we need to invest in them.

Q26 Ann McKechin: Mr Eichenberger, you have mentioned several times how infrastructure is now a priority for the Bank. I wonder you if could give us some specific information about what you are planning to do over the next three years and also if you could perhaps indicate what assessment the Bank has made of the impact of climate change in terms of how you are going to invest in infrastructure and what the priorities need to be?

Mr Eichenberger: On the specific numbers for infrastructure, I think that is something I need to get back to you on. As a proportion of our work, it has increased substantially. There are definitional issues. A water project in a rural village: is that infrastructure or is that agriculture? Perhaps that is something we can pursue in Tunis and get you more detail. On the climate change issue, we have recently brought to the board a framework for investment in clean energy. Our approach to climate change has a couple of dimensions. The first is greater investment in clean energy and, perhaps most importantly, ensuring that the power sector energy investments that we are doing explicitly integrate a climate and carbon and environmental dimension. We think we have the tools in place to do that. That is one piece. Secondly, to ensure that all of what we are doing builds in adaptation to the climate change challenge, whether it is water operations or power operations or whatever. The third basic piece is, there is a considerable emerging demand in Africa for the Bank to be engaged in issues around what you might call natural resource management but, in particular, water resources management and forestry management. We have a significant initiative now underway in the Congo Basin—the UK, I believe, is giving serious consideration to support for this—around managing those forest and water resources. 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 in 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 who have expertise in the resources that we can leverage on.

Q27 Ann McKechin: You mentioned forestry in the DRC¹⁰ which has had some degree of controversy attached to it, particularly around areas of corruption, and certainly the Bank has been commended for trying to set good standards in this regard. I wondered whether you think this is an area where the Extractive Industries Initiative would be helpful, to extend it to something like forestry, or in what way you think the Bank helps to establish good practice in places like the DRC in terms of how it actually manages this very crucial asset?

Mr Eichenberger: From my perspective, it seems to me that, aside from its specific details, the EITI has had a very prominent role in affecting the way people think about the issue and in changing the way the institutions themselves perceive their own obligations. From my perspective it is almost less important whether it is just about oil or diamonds because the whole approach is that there is a compelling need for greater transparency and accountability around these resources. That is the

¹⁰ Democratic Republic of Congo

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large picture and we are leveraging off that. For us EITI is a principle, and it allows us to have a conversation that we probably would not have had 10 years ago. Whether there is value in formally extending it, there may be, but from our perspective, we have a basis on which to move even as it exists now.

Q28 Jim Sheridan: Still on the question of infrastructure, I wonder if you could perhaps explain to the committee the decision-making process for what limited resources you have in terms of major project build versus smaller project build in order to get to the people who need it most, who are the poor communities in Africa? For instance, what factors are taken into account in terms of medical care? Do we build a big hospital in a city that is not accessible for people in the rural areas, or do we build 10 smaller medical centres in rural communities and how are they staffed and resourced? Basically, what we need to know is how that decision is reached.

Mr Eichenberger: That is a core question. I think, in general, it is reached through a combination of the best professional assessments from people in the Bank and in other institutions like the World Bank as well as the government's own priorities. Sometimes there is tension between the two in the judgment about should we build a gold-plated facility here versus reaching the real needs out there. It is tough. Frankly, it seems to me that is one of the issues that has played a role in what we see as a disappointing lack of impact in some of our health sector operations to date. There is a lot of evaluation work going on in health operations and education operations. Has the focus on primary care or education at the rural level really yielded what it anticipated? I think it is fair to say there has been some disappointment with that. There are issues around if you build it, they will come. Well, may be, but will they find books there? Will they find a teacher that shows up for work? There is a whole set of questions around that. As a general proposition, this is part of our strategic selectivity, we do not see that kind of investment as core work for us in the future. We will continue to be engaged in improving, for example, the delivery of health systems, but we are less likely to be in the business of building rural health clinics, in part because there are others doing it and others are doing it better. Where we see an interface is, for example, getting clean water into a school, getting clean water to a health clinic that has been built and may have no access to clean water. That is a basic. It is not a very sexy infrastructure investment, but from our perspective it is something we can do well and it directly enables a contribution to Millennium Development Goals through this channel; so this is kind of the approach we are taking.

Q29 Jim Sheridan: Are there any tangible examples? I mean the Infrastructure Consortium for Africa, as it is called. Are there any tangible examples in the

short period of time that you have been there, any major achievements that you would like to identify or, indeed, anything we can do to improve it?

Mr Eichenberger: Overall on infrastructure?

Q30 Jim Sheridan: Yes.

Mr Eichenberger: I think there are. Just related to your first question, we also have, also with the UK Government support, a Rural Water Supply and Sanitation Initiative that is getting at some of the issues that you mention. I think we could put together a more systematic list of Infrastructure Consortium for Africa work. It has produced a lot of collaboration around some high priority infrastructure projects that have wider regional benefits along the lines of the regional operations work that I was talking about earlier. I do not have specifics offhand, but I am more than happy to get them to you if that would be helpful.

Q31 Chairman: You have already answered a number of our questions on private sector development. This Committee did a report a couple of years ago, which was a valuable but disappointing report in the sense that we all agreed and everybody told us that private sector development was the key to the future but nobody had much of a clue as to how you were going to unlock it.¹¹ You have given us some encouraging indicators that there is more scope for it and maybe the climate is moving in the right direction. The Centre for Global Development produced a series of targets for you in terms of where you should go and where you should not go. Can I pick up one point? Within the context of that report what we were told on more than one occasion was that one of the keys to the success of private sector development in Africa would be the empowerment of women, and specifically the Centre for Global Development suggested that gender strategies were something that the Bank should be doing. I happen to notice that of your 18 directors one was a woman but she finished her term at the end of last year. I know you do not control who the directors are and who is appointed, but is it not the case that successful private sector development in Africa does require more empowerment of women, and, if that is the case, should not the Bank have a gender strategy, and, indeed, does it have an internal gender strategy?

Mr Eichenberger: Absolutely. 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. I think we recognise that. We do have a gender strategy in place now. We have provided an implementation report and update on it to the so-called ADF¹² Deputies in the context of this replenishment negotiation. I think it was quite a candid report in the sense that it identified some areas where we were moving ahead reasonably well and some other areas where, frankly, we were not doing enough. I think in part this gets to the issue which Mr Crabb raised, which is around our internal

¹¹ International Development Committee, Fourth Report of Session 2005–06, *Private Sector Development*, HC 921

¹² Africa Development Fund

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skills mix. 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 so we know where the benefits are flowing, and we have too few of these provisions, but the President is absolutely committed to deepening our work on this. We have indicated to our Deputies that we will provide another more systematic report on where we are going on this issue, and my expectation is that it will show improvement but it will also say that there is much more to do.

Chairman: Because of the constraint of the time, we will not pursue the question now, but I think we will be interested when we are in Tunis to get some idea partly on that but also on how you are pursuing or using the Bank's resources to unlock private sector development in what is an improved climate. As I say, we produced a report two years ago and, frankly, I think we were frustrated at the end that there was not enough being directed to unlock it, so perhaps we can leave that as something we will explore in more detail in Tunis. I will bring in John Battle.

Q32 John Battle: Just two questions on, I think the word was, congruence or convergence, really the agendas of the Bank. You have two arms, as I understand it: the Development Bank and the Fund, and the High Level Panel report proposed merging them so that if you did not have access to one, or it was over-subscribed, the other was accessible. How is that going?

Mr Eichenberger: That is perhaps one of the bolder recommendations of the High Level Panel.

Q33 John Battle: Bolder means unachievable, does it not?

Mr Eichenberger: No, just challenging, and there will be different views on that. There are issues around the One Bank agenda that are both technical but also operational. What we have now is, in a way, two balance sheets, as you know. It is vitally important for our institution, we believe, to keep the Triple-A rating for its so-called hard window lending. A little more than 10 years ago, the African Development Bank lost the Triple-A rating and it has taken 10 years to claw it back, so that is vitally important. This explains a little bit why the Bank was slow to get into private sector actually, to protect that. It seems to me the issue is more around the points we talked about earlier, which is can we pull some of the strength out of the hard balance sheet and apply it to the soft window? Are there, for example, public/private partnerships that we can be doing more of in the poorest countries, and we are seeing that using hard window instruments in supporting investment in poorer countries? This issue of how do we merge the two balance sheets, we will get a lively discussion—I know it is an issue that we will talk about in our annual meeting—our shareholders have widely different views on this and we will just have to see how we move.

Q34 John Battle: Another, you might say, bold agenda this morning, the mechanics of the organisation really, and that is the constituencies that make up the board. I was intrigued, looking at the structure of the board, that China is in with Spain, Kuwait, Korea; the UK is in with Germany, the Netherlands, Portugal; India is in with Finland and Denmark; Burkina Faso, Gabon, Senegal, Mali, Niger, Benin, Cape Verde and Chad, the poorer countries, are in a group of nine, and America is on its own in a group. Is there any strategic reason? Is it on population, is it on contribution and are they fixed forever, those groupings? They are all given percentages which are often weighted. How is it arrived at? Why are some countries in a group of nine and America on its own?

Mr Eichenberger: I think there is a long historical legacy to that going back, as far as I know, to the initial creation of the Bretton Woods institutions in the post-war era where at the World Bank, for example, an executive board was created where a subset of countries were single country constituencies—the US, the UK, France, the usual suspects—so to some extent the structure of boards in the regional organisations is in part a legacy of what has happened in the Bretton Woods institutions earlier on. You asked if this is immutable. It is not immutable. New countries come in, they find a constituency, sometimes countries move from one constituency to another. The US issue is—I am probably not well positioned to comment on that. It is an historical issue. It is probably an issue that needs to be addressed in the Bretton Woods institutions before it is addressed in regional institutions.

Q35 John Battle: I am not so much worried about fingering America—put it that way—it is the African groupings. If I could put the question in a slightly more positive way, in a sense a speculative way. Why could not the groupings reflect some of the tentative attempts at regional development in Africa? The East Africa trade organisations—there have been some regional attempts in the past—I would have thought they may have made useful blocks for you. What would be the relationship with the NEPAD¹³ initiative? Could that help reformulate the structure to make it, I am not saying more democratic for the sake of it, but so that people can get access to the funds on a more equitable basis? I think, rightly, both the Commission for Africa and, indeed, the High Level Panel report said that the African Development Bank should be the top vehicle for development in Africa, for investment in Africa. That is the bold challenge, is it not, really? How do you get people to group around that is what I am really looking at? Do you need to alter the structure to do that to tie in with the approach?

Mr Eichenberger: There may be structural dimensions to it. There are a couple of aspects of the Bank that are, I think, directly responsive to some of the concerns you raised. First, the basic structure is African countries have 60% of the voting power in

¹³ New Partnership for Africa's Development

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the institution and the non-regionals have 40%, so it is very much an African owned institution, and I think that is clear. Secondly, in terms of the board of directors of the organisation, it is an 18 member board, of which 12 are African board members and only six are non-regional board members. I sit on the board all the time. There is a very powerful, effective African voice in the board on any issue at any given time. There are clearly improvements that could be made. I think, ultimately, this is not an issue necessarily for management, it is for the governors of the Bank. I think there is a view now that the board is functioning relatively well. We are putting on the table, for your interest, a paper next week around the basic governance structure of the Fund, the concessional window, that will be an opportunity to have precisely this discussion around voice and vote.

John Battle: That is helpful. Thank you very much.

Q36 Chairman: That is useful. As you can see, members are peeling away, as the House is due to sit in a few minutes. You have answered one question to a substantial degree, so I have only got a small additional one. We did a Sanitation and Water report last year and on the back of that DFID is increasing its commitment on sanitation and water in Africa, but I wondered if you were able to give us any indication of how DFID's engagement with the Bank on sanitation and water has had a positive impact.¹⁴ In other words, is DFID's engagement with the Bank a valuable component of improving the delivery of sanitation and water?

Mr Eichenberger: I think the answer to that is, yes, and I would say a couple of things. First, the Bank was given a lead role, a secretariat role, in something called the African Water Facility. I think there was a general view that the institution had moved too slowly to actually begin implementing more work on the ground; similarly with this Rural Water Supply

Initiative. DFID was very outspoken on dissatisfaction with the pace of that, as were other member countries, but DFID also went ahead and provided some very well targeted technical assistance in order to help the Bank to deliver more of that stuff. I think we have substantially increased our activities in those areas.

Q37 Chairman: Was that brought-in technical assistance or technical assistance from DFID personnel?

Mr Eichenberger: It is a technical assistance fund.

Q38 Chairman: To enable you to buy in technical assistance?

Mr Eichenberger: Yes.

Q39 Chairman: Thank you very much. We are obviously looking forward to our visit, when we will have an opportunity to explore this in more depth. I hope from your point of view that in fact this engagement has helped you to get some idea of the sort of questions that are of concern to us. I would just repeat what I said at the beginning. What we are interested in is ensuring that the partnership between DFID and the Bank is properly evaluated, properly assessed and, ultimately, delivers practical and concrete results on the ground. It is as simple as that in principle, but obviously getting from A to B is another matter. Could I thank you and say that those of us on the Committee who will be visiting the Bank's headquarters look forward to seeing you again and your colleagues and exploring this in some more depth and, ultimately, producing a report which we hope will be of help both to DFID and to the Bank on their future way to go.

Mr Eichenberger: Thank you very much. I appreciate the opportunity.

¹⁴ International Development Committee, Sixth Report of Session 2006-7, *Sanitation and Water*, HC 126

Thursday 24 April 2008

Members present

Malcolm Bruce, in the Chair

Jim Sheridan
Mr Marsha Singh

Sir Robert Smith

Witnesses: **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, gave evidence.

Chairman: Good morning, and thank you for coming in. Perhaps I could just explain that two of the members of the Committee who were engaged in the visit to the Bank in Tunis would have been here but for the fact that they are both engaged in different NATO committees which preclude them from being available in the House, which slightly explains our depleted numbers. In other words, it is not a lack of interest; it is a clash of timetables. Robert Smith also has an interest to declare.

Sir Robert Smith: I should declare my entry in the Register of Members' Interests as a shareholder of Shell and RTZ.

Q40 Chairman: As I say, thank you. As you will appreciate, the Committee decided we should have a look at the relationship between DFID and the African Development Bank for the pretty logical reason that the Department has made a significant commitment to increase the funding to the Bank, which is clearly a declaration of confidence by DFID in the Bank and its role. From our point of view, we felt it was important to explore that and determine the basis for that decision and obviously the expectations that DFID has in doing it. Perhaps if I could start, can I formally ask you to introduce your team for the record. We obviously welcome you. It is your first time in front of the Committee.

Gillian Merron: Thank you. I have been looking forward to it. I am absolutely delighted you are conducting the inquiry because I think it will help us immensely. I am very pleased to introduce Richard Dewdney, who I know you have met in Tunis, our UK Executive Director, and Sally Taylor, who is DFID's Head of International Financial Institutions Department. We are all here to assist in the inquiry.

Q41 Chairman: Thank you for that. I wonder if we could perhaps start by determining to some extent how DFID went about making the decisions to increase the funding. I suppose the point is, what did you do to evaluate the effectiveness of the Bank to justify such a big increase by doubling the support? It is a question we have asked in other contexts as well, but we think it is one that needs to be pressed, which is, what assurance can you give to taxpayers as well as to Parliament that the increase in funding to a multilateral institution like the Bank is for the very best of reasons in terms of fulfilling DFID's objectives and the Government's objectives and not

because you have a rise in budget and you have to find ways of distributing it effectively; in other words, it is not anything to do with capacity constraints. What assessment did you make to take the decision to double the funding, and how can you reassure us it is based on a proper assessment that this is a good way of delivering UK aid and development funding?

Gillian Merron: The first thing to say is perhaps why we doubled the UK contribution, and I think the Committee is right to ask the question, because we do have a responsibility to explain it. Perhaps I could start with what I regard as a simple explanation and then move on to the important points that you raise. For me, this was about meeting our commitment that was made at Gleneagles, which was to double aid to Africa if it was to build African institutions. Clearly, the African Development Bank is the leading institution in terms of finance. That was our reason for doing it. How did we make the decision? It is a judgement. The judgement is based on three particular areas: the results, and I know the Committee has seen the results paper; in addition, reform, and perhaps we will talk more about that later. I think that is important, not just judging what has been done but what will be done. Also, what the contribution is to our priority, as the UK Government, in terms of building and developing Africa. The other part of the judgement, of course, is about what it does in terms of leverage, and indeed, I think the leadership that we showed, even just looking at our own constituency, meant that our colleagues in our own constituency did increase their contribution by 50%. So it was not just what the UK contribution would be but also what it would actually bring in. This is from my own visit to Tunis following on from the Committee's: what was very important to me that I would want to reassure the Committee about, and that is why I welcome this inquiry, is the fact that we are looking for reform. We are looking for moving forward, and the areas on which I think we need to move forward, because we are looking at meeting the Millennium Development Goals, and the other point perhaps about our doubling of the contribution, is that it is at the right time; it is halfway on the way to 2015. It does give opportunities. We want to see institutional reforms that are going to do more in terms of growth, which is the way out of aid; infrastructure; regional integration; and also the private sector and, as I say, I am sure we will talk in the Committee

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about the kind of reform agenda that the Bank is undergoing so it can deliver better. I think this would probably be a good time to bring in Richard and Sally about a bit more detail on how we made the assessments.

Ms Taylor: We took a range of evidence and we looked at a number of different things to try and build up a picture of where the Bank was at the moment. I think the Committee have seen the Multilateral Effectiveness Summaries—we did one on the World Bank, we did one on the African Bank, and a number of other multilateral agencies—which looked at a range of things. As the Minister was saying, it is about building for the future, it is about the results that they will achieve, it is about partnerships and about how they manage resources. We had a look at that and we also had a look at what donors had to say about the Bank—we did something called the Multilateral Perceptions Survey—and also what countries had to say. We did a pilot with the Overseas Development Institute. Those things build a picture together to give a view of where the Bank is now and where it might go.

Mr Dewdney: If I could add very briefly to the point made by the Minister about the announcement of the UK contribution, I think it was very helpful that the Secretary of State made that announcement in November to help build momentum for the replenishment as a whole. We can be confident that it helped increase the overall envelope that the Bank now has to deliver.

Q42 Chairman: If I were being frank with you, I would say that the Committee's visit and what we got out of it made us feel fairly comfortable just in terms of feel, but, clearly, you have to be more than just gut-instinct right about it. You have set out on behalf of the constituency a strategy paper, and you have alluded to some of the points—with the objectives of improving the Bank's effectiveness at headquarter level, improving the Bank's effectiveness in-country, reinforcing the Bank's contribution to infrastructure, and sharpening the contribution to good governance in African countries, but you do not really give an indication of how you can evaluate that. They are all worthy objectives but how do you determine that the Bank is effective at headquarters or that its in-country operations are working, and that it is delivering on infrastructure and good governance? Do you have your own targets?

Gillian Merron: Richard is just bringing the report to me about our assessment of where we are up to, but I think what I would want to get across is that all that matters to me, as I am sure all that matters to the Committee, is results. I would share your view about feelings being quite insufficient. We have to have hard facts, and that is why, as Sally describes, a whole range of measures—no one of them on their own, I think, gives us the absolute answer but by employing a whole range of means of assessment, I think we do come up with some very clear measures, including showing what can be done. Richard is about to present to me the report, so he might be able to give a little flavour of it to the Committee.

Mr Dewdney: Thank you, Minister. Just a few words, if I may. We have a joint institutional strategy that covers the common objectives that we share as a constituency of four countries—Germany, UK, Netherlands and Portugal—and we agreed that in 2006 in the four areas that you outlined. Every year, as part of the constituency report that we do in Tunis for our capitals, we include an assessment of progress we think has been made in each of those four areas. As the Minister just said, the latest report is out in time for the annual meeting in May and it reveals satisfactory progress across those four objectives, with a particular strength, I think, in performance and progress at the country level and on infrastructure at the country level, although much more needs to be done and I am sure we will get to that later in the inquiry. There has been a very big increase in staffing, from a mere 100 in 2005 to 300 now, with a further increase next year to 400. We are increasing the capacity of those offices in terms of the professional expertise that they have now: 13% of our professional staff are in country offices and we are much more engaged in country dialogue processes. On the infrastructure side, 75% of lending in 2007 was on infrastructure. That is part of our agenda to make the Bank more focused and concentrate on its areas of strength. It is increasing its collaboration with key partners, in particular the World Bank and the EC, as I think you heard when you were in Tunis. I do not want to go on at too much length. Another important development is that, of course, with the results framework that we now have agreed at the replenishment for ADF 11, we have a key set of indicators for outcomes both at the country level and measures of institutional effectiveness. The report that has just gone to DFID includes an analysis of progress against each of those indicators.

Q43 Chairman: Is it possible for the Committee to have sight of that report?

Gillian Merron: For myself, I have no problem with that but I would just ask that perhaps you would allow me the opportunity to ask our colleagues in the constituency if they are happy with that. Certainly I am happy with that.

Q44 Chairman: The point at the end of the day is that we are producing a report and it would be helpful, I think, for both the Department and the Committee to have some idea of what was in it.

Gillian Merron: Indeed. If you can give us a few days, to be courteous to our colleagues, I am sure we will be able to come back to you and hopefully it will be a positive response. As far as I'm concerned, you would be very welcome.

Chairman: It would compromise our report not to have it, if that is actually going on and it is specific. I think it is in everybody's interests that we know about it.

Q45 Mr Singh: The Commission for Africa had a vision for the African Development Bank that it should become the pre-eminent financial institution

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in Africa by 2015. Are we getting close to that vision or are we miles away from it? What is your feeling about that?

Gillian Merron: I think they talked about the premier institution but, for me, that probably is not so much the point as whether they are the best at what they can do. I regard the African Development Bank as a unique institution which is uniquely placed with unique access within Africa and a unique amount of understanding. That is why I am keen that we not only support it but also see change. Looking at the High Level Panel report, and in my discussions with President Kaberuka, I regard it as a very good reference point for how it is going to move on in that way. I would add that when we talk about being a premier development institution, it is on a whole range of levels. It is not just about finance. I think you have to move beyond that and this is where the opportunity lies. It is also in terms of the provision of knowledge and also technical assistance and support. That is why I talk about the Bank being in a very unique place. There are four main areas of course, which I am sure the Committee is well aware of but I think always bear repeating, that the Bank sees it as essential to move on and upwards, and that is investing in infrastructure, building capable states, including tackling corruption—and, Mr Bruce, I completely agree in terms of the UK public; they have to be completely assured of the work that is going on in that regard—promoting the private sector, which we are very keen to see more of, particularly in the low income countries, and of course developing skills. Again, if we are just to be pushing money into countries without the capacity, we are not getting the full benefit. How are we doing in terms of being a premier development institution? I think it is unique. It should be one which can call on others; it should work well with its partners, including the World Bank, and it should occupy a very special place—and indeed, I think it does. The challenge—and President Kaberuka is quite clear on this—I think is to raise their game and improve their performance. He has set in train, as you will have heard, a whole range of reform moves which will bring us to that point. The other thing that I am keen to keep a track on—and again, I am sure you have heard about this—is that the President wants to appoint a Chief Operating Officer. I do feel—not that it will cure everything; I would not want to put it all on their shoulders, but in terms of moving the Bank forward in what it can do and how responsive it is, that is important. The other absolute key to us is decentralisation.

Q46 Mr Singh: One aspect of the uniqueness of the Bank is that it is African.

Gillian Merron: Yes.

Q47 Mr Singh: It gives it an advantage over other institutions, in that it is trusted and it can talk to African governments at the same level. It should have a strong voice, maybe a pre-eminent voice, on development issues in Africa. Do you think it is achieving that voice or has it still got a long way to go?

Gillian Merron: It still has a long way to go. Again, I would call on Richard and Sally because they are more experienced in how it has been in the past. My sense of the Bank—not just a sense, not just a feeling; the evidence shows me that actually the Bank is at a real turning point. I will be at the governing body meeting in a few weeks and, for me, 2008 is the opportunity to really turn the corner, because there has been much assessment of good results, there has been a huge boost, and we have been a big part of that, and there is a plan to move forward to deliver more results, and it is to make the whole—not just the culture but the practice of the African Development Bank—all about results, which is where it should be. It might be useful if I could bring in my colleagues to start looking back to where the Bank has been.

Mr Dewdney: Thank you, Minister. Let me just start by complementing what you just said with a few remarks about how the Bank has operated in the past. I think there has been a common recognition that it has been spread rather thin, that the shareholders have put multiple and inconsistent demands on it. Going forward, if we can deliver excellence in a narrower field, to answer your first question, then that builds the case for the Bank to play a broader and deeper role in the future. On the specific issue of being a voice for Africa, we have seen a lot of evidence of that since President Kaberuka arrived. He is much more visible internationally than his predecessor. He was in London earlier this week at the food prices summit, for example, and is making a major contribution now across a range of different issues, be it looking at the impact of oil price rises on the continent, trade negotiations, and so on. I think one of the principal challenges for the Bank, however, is building a credible, analytical base on which to be a credible advocate for the continent going forward. That is going to be a challenge. We have a new knowledge management strategy that is rightly focused, and needs to be focused to build the synergies with the operational priorities of the Bank. I am confident that the institution will make progress.

Q48 Jim Sheridan: I just have one question on partnerships, Minister. I am interested to see how the Bank co-ordinates its efforts on the ground with organisation such as DFID and other bilateral and multilateral institutions and donors. I would ask you for some tangible examples of how the Bank's partnerships with other donors and political and financial bodies is working out.

Gillian Merron: The first point I would like to stress is that the Bank realises what is obvious: it cannot do everything on its own, and, whilst it is unique and well-placed, it is going to benefit by strong working partnerships with other organisations. Perhaps if I start with DFID, we are a key partner for the Bank and we have not just doubled our UK contribution. I would want to draw the Committee's attention to going further than that, because I think these are good examples: to increase capacity in the way that Richard was just talking about, we have got a technical co-operation agreement over five years.

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That is £13 million, and that is about improving the Bank's ability to offer technical support and advice on areas like water and sanitation, infrastructure, governance and so on. We are also strengthening the staff. I think that is very important actually in terms of the Bank continuing to improve its delivery through secondments so we are supported by people. We have also given £6 million to the Infrastructure Project Preparation Fund, again, to develop high-quality regional projects. One of the areas the Bank is extremely well placed on is how it works across countries, because many development challenges, as you well know, do not stop at the borders of countries, and I am very keen on that area. That is some of what we are doing. In terms of the others that you mention, obviously, the World Bank and the EC are the biggest partners, and the Bank is increasingly demonstrating a strong partnership there. I am told that Bob Zoellick and Donald Kaberuka are rarely off the phone to each other. That is how it was put and I said, "That's a hell of a phone bill!"

Q49 Jim Sheridan: It is cheaper than travel.

Gillian Merron: It probably is, but the personal relationship is important across those institutions. However, if you want to know really where we have to go next with the Bank, it is decentralisation, without any doubt. That is where we will see the strongest co-working across institutions, delivering results that are responsive to what is needed locally. That is why we are pushing, as the UK, on decentralisation. On the relationship between the World Bank and the African Development Bank, there is, as you will know, the memorandum of understanding which was signed in 2000. That was re-invigorated last year and has very much looked at the key things that are important to us in development on infrastructure and regional integration and so on. We, as the UK Government, are constantly working with the organisations to improve the partnerships, because it is certainly my view that we are going to benefit by the sum of the individual organisations working together.

Q50 Jim Sheridan: Obviously, the relationship between the African Development Bank and the World Bank is improving. From a DFID perspective, how do you see this partnership developing and indeed delivering results on the ground?

Gillian Merron: Again, what I would emphasise is that we are missing opportunities in not being decentralised. That, I believe, is where the ability to respond will be. Both Banks have comparative advantages and should not be stepping on each other's toes. They should be working together. I definitely do think there is room for improvement but that real improvement that you and I would be looking for will only happen through decentralisation. That is why we are supporting the African Development Bank to do that, and to have the right staff in the right place with the right skills. I can perhaps give you some positive examples of co-operation: in the transport sector, something I have

a personal interest in, the two institutions do meet bilaterally to actually look at priorities and discuss opportunities for funding. They have also undertaken the African Infrastructure Country Diagnostics Study, again, stepping back to look at what they can do and who is best placed to do it. Of course, as I say, our job is to engage at the project level to improve co-operation but also at the institutional level as well.

Q51 Jim Sheridan: Is there any concern about duplication between both organisations?

Gillian Merron: There is concern, but I think there are positive examples, as I say on transport, of stepping back and saying "What is it we need to develop for the right way forward?" I probably have greater concerns about not maximising possibilities than duplication. That is my own view on it. I do not feel the institutions are established yet in order to maximise being responsive locally, because that will be the only way to do it.

Q52 Chairman: You have not actually mentioned the African Union. We were advised that there are the flutterings of a suggestion that the African Union might want to spawn its own bank. We were told that was probably not a substantive suggestion but what is the relationship with the African Union? How do you think it should operate?

Mr Dewdney: I think the relations are good between all of the key pan-African institutions, the AU and NEPAD, the New Economic Partnership for African Development, which was under the AU banner, and the UN Economic Commission for Africa. I think it could be strengthened. I think perhaps historically there have been tensions about respective roles but I think increasingly the African Bank is seen as the operational arm, if you like, particularly in the areas where it has been given mandates by the AU and NEPAD in infrastructure and so on.

Gillian Merron: Can I just mention agriculture?

Q53 Chairman: You can, but we have a question we will come to anyway.

Gillian Merron: I will wait.

Q54 Sir Robert Smith: In the evidence we got from Joseph Eichenberger, he told the Committee that "governance and the issues of functioning institutions is possibly the toughest issue we are facing." I just wondered how satisfied DFID is with the Bank's Fragile States Facility agreed in December 2007?

Gillian Merron: I also met Joe Eichenberger when I was in Tunis and I was interested in some of his—by the way, he enjoyed coming to the Committee and I am sure it was very helpful. In terms of fragile states, we are very strongly in support of the new facility which was agreed during the ADF 11, because we want the African Development Bank to play a far bigger role in post-conflict and post-crisis countries. The reason for that is that I do feel that the Bank has the opportunity, which others may not in the same way, to move quickly when there is a chance to

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actually move in. The challenge—and of course, we know that 7.5% of the Bank’s budget is put aside for this—is that fragile states, as we know, do not just have large needs but also the effects of being a fragile state, particularly in times of conflict, have a very large impact on the surrounding countries. For me it is therefore a very crucial area of work, quite a delicate area of work, but one that I think the African Development Bank is well placed to do. I would expect the African Development Bank to be supporting rebuilding of infrastructure where the possibility arises, because it is about supporting economic recovery and actually delivering on services. So the fragile states work of the Bank is absolutely crucial to us, including arrears clearance. On the issue of governance, could you just clarify again the area that you were asking about?

Q55 Sir Robert Smith: Just what other levers or role the Bank can have in tackling the governance issues in Africa when it comes to development. It was put to us that that was still a big challenge. I wondered how you felt, what levers the Bank has and what other efforts it could make to address governance and transparency.

Gillian Merron: I think, for example, the formal support to the extractive industries—the Extractive Industries Transparency Initiative (EITI) is important. I think it is a very clear example. I think for me, going back to our previous discussion on anti-corruption, the fact that the Bank is working with African countries to tackle corruption and also strengthen the management of public expenditure nationally is very important. I know the Bank has very strong internal systems and policies, and in fact, there is very high-level support by the President for the Auditor General, and his absolute insistence that recommendations on anti-corruption are followed up. All of those, are extremely important. I think the other point is, as we talked about, the uniqueness of the Bank. The President does, of course, have very special access to the heads of African governments and we would be keen that he would continue to use that in a very positive fashion, as I know he does.

Q56 Sir Robert Smith: On the extractive industries side, do you agree with the High Level Panel that the Bank itself should try and avoid directly investing in extractive industries projects because the commercial side and other sources should be an adequate source of funding for those sorts of projects?

Ms Taylor: I think the Bank is there to respond to the needs of the countries, and that is the starting point, that it is a country-led approach. I think the Bank has something special to bring in terms of working with the private sector, being able to bring in its safeguards, both social and environmental, and I think there is evidence that the Bank is able to leverage in the private sector and to work with others for better overall support.

Q57 Sir Robert Smith: You want the conditionality that they should adhere to the EITI principles if the Bank is involved in the project?

Ms Taylor: Yes. As you know, the UK view is very much that conditionality should not be imposed, that it needs to come from the country, but fiduciary responsibilities, transparency and accountability are all important to us.

Q58 Sir Robert Smith: So you do not agree with the High Level Panel then in its recommendation?

Ms Taylor: My personal view is not really.

Q59 Sir Robert Smith: What is the Government’s view?

Gillian Merron: The EITI to me, and its strength, is about the coalition, that it brings together governments and companies and civil society groups, and it is about supporting improved governance, because otherwise we are not going to be able to maximise the use of resources and President Kaberuka did recently this month endorse the launch in Washington and they have given their formal commitment of support to play their appropriate and special part in that agreement.

Q60 Sir Robert Smith: It is just that the High Level Panel in their recommendations were quite strong and went on to say “willingness to adhere to the EITI principles sends an important signal to investors and it should be a prerequisite for any Bank private sector financing.”

Gillian Merron: Yes, I do think it is a basic principle which does add to the support of good governance and transparency, and all those are important not just because they are the right thing to do but because they also support development. I do believe that the High Level Panel report is right to make those kinds of comments. How it translates in reality—I am just going to ask Richard if he has a comment to make.

Mr Dewdney: Thank you, Minister. I am trying to reflect on my own experience sitting on the Board and looking at private sector extractive projects over the last year or two, and I am struggling to think of examples where there was a tension, where what we were doing was in conflict with the EITI. In reality, I do not think that has been the case.

Q61 Chairman: Reinforcing what Robert Smith is saying, as a Committee, we have been somewhat exercised about this whole area. We did a conflict report which produced a certain amount of disquiet about DRC.¹ We subsequently pressed what was then the DTI hard, and, I have to say, were very unsatisfied with the DTI’s response to promoting these kinds of approaches. That is history. It is on record. We were very sharply critical. I think it would be unthinkable that the Bank would be involved in extractive industry projects with companies that were not fully signed up to the Initiative. I am not sure, taking Sally Taylor’s reservations about imposing conditions; it seems to me it is almost a given. Why on earth would the Bank be engaged with any company that was not comfortable with the EITI?

¹ Democratic Republic of Congo

Gillian Merron: We are very positive about the progress that has been made to date on transparency, and that needs to continue. As we all know, that is part of the work on good governance and supporting positive development into the future.

Q62 Jim Sheridan: Minister, can I just ask you to expand on what you were saying about the Bank tackling corruption in African countries? There is none more corrupt than Nigeria. I just wonder what progress, if any, has been made in tackling corruption, and can you give us examples of what measures have been taken to try and encourage these people to play within the rules?

Gillian Merron: I will answer in general, and turn to my colleagues for a specific on Nigeria. The reality is there have been a few cases in terms of the Bank. They have all been investigated or they are ongoing and, looking at the latest annual report—this is just in respect of the Bank—it shows seven cases under investigation and nine completed with action taken over the last two years. What is important to me is, first, that the Bank has a process in place, and also that it acts clearly and seriously. As I said earlier in our discussions, the President has given very high-level and high-profile support for the Auditor General and has absolutely insisted that where internal audit reports show up difficulties, that those are followed up.

Mr Dewdney: On the specifics of Nigeria I am afraid I am not in a position to comment but I am very happy to get back to the Committee.

Gillian Merron: We would be pleased to write back on that.²

Q63 Sir Robert Smith: Just following up the Chair, obviously the companies involved have to sign up to the Initiative but also the countries have to sign up to it. There are only 13 African countries signed up at the moment so are there projects that come forward from countries that are not signed up where the Bank has to think carefully?

Gillian Merron: The Bank obviously assesses all of the projects before it and has a whole set of processes to put in place.

Mr Dewdney: Again, I am trying to think of cases where that might have arisen. Thinking of extractive projects, they are in countries that are EITI countries at the moment.

Gillian Merron: Again, if there are specific examples that the Committee wants to draw to my attention, I am very happy to give a more detailed response by writing back to the Committee.

Q64 Chairman: I think we can feel a recommendation coming on.

Gillian Merron: I hope that is a good feeling.

Q65 Chairman: We are intrigued, I have to say, about the structure of the Board of the Bank and, sparing his blushes, can I say we heard some very spontaneous, complimentary remarks about

Richard Dewdney's engagement with the Bank and contribution, not just in terms of representing the UK and the constituency but in terms of the input to the Bank as a whole. Naturally, we have some concerns that his tenure finishes in July and that for six years thereafter the constituency will be led by a German director. I have no inbuilt prejudice against Germany or the role of the German director, and I know nothing about the likely personality, but it does seem to me extraordinary that the United Kingdom, as the biggest bilateral donor to the Bank, should be in a position where all we have is an adviser to a director rather than a more active participation—not perhaps at all because there is a rotating process, which I guess is not going to change, but for six years as opposed to three. I understand, looking at the voting rights, that the UK has 1.68% and Germany 4.09% but when you press people, it is all to do with the historical structure and so on. Surely, there must be some mechanism for reviewing this. I say this not in the British national sense, that of course we are big donors therefore we must have a voice. It is the quality of the contribution that we make. Not surprisingly, if you are the biggest bilateral donor, you are going to be engaged. Are you comfortable with this situation, and is there anything you feel could be done about it?

Gillian Merron: First of all, can I endorse your comments about Richard—and make him blush—but say we are going to be happy to have him back in the UK as well. Again, it is a fair question and I think, again, it is right that the Committee seeks to consider it. The African Development Bank is, first of all, as we know, an African institution, and we share a constituency with Germany, Netherlands and Portugal and, as has been outlined, we do alternate the Executive Director slot with Germany. My understanding is that our work within that constituency is very positive. We are like-minded, we are collaborative, and I think probably our leadership in terms of financing has brought great results because of that. There is a historical point, which I know the Committee is aware of but probably bears repeating, but it is actually that constituencies and voices are determined in the way described by the size of the shareholding in the Bank rather than the financial contribution. We as a country have a relatively low shareholding but, as Mr Bruce has rightly said, we are now the largest contributor to the fund. The other point to emphasise is that our constituency will be contributing one-third of the African Development Fund's latest replenishment of resources, so it is not even just a UK issue to me but also a constituency one. Things are never set for ever, is my first point. But I actually again would step back and say how are we best supporting this African institution? What I do feel comfortable about is the way in which the constituency operates, the way in which the UK plays its role and how we work with our colleagues, both the donor constituencies but also the African constituencies, to make the kind of difference in terms of results. The area that I take the point on that you make, Mr Bruce, is about the rotation of

² Supplementary memorandum submitted by DFID

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the position, with the UK holding the position for three years and then Germany for six. As I say, the Bank is undergoing a whole range of changes at present in terms of practical reforms. We should support that. I can in all honesty say to the Committee that I am not concerned that the UK is not exerting a positive influence. I believe it is. I believe it is playing the right kind of role and I believe it is doing it under the current arrangements. That said, should there be benefits to this African institution by changing that, then maybe we should look at that but there is not, I sense, a great appetite for that.

Q66 Chairman: Obviously, in practical terms the current arrangements end in July but perhaps I can take that point on, because the other issue is actually the nature of the Board and how it operates. Obviously, if that changes, the argument about how the directors operate and constituencies function may also change. When we had a session here with Mark Lancaster, a Member of Parliament, who had spent a week at the Bank and shared his thoughts with us, he had the benefit in a week that we did not have in a day and a half of actually sitting in on Board meetings and so on. He is not the only one who has made this comment, obviously, but there was a feeling that the Board, far from being a strategic board, is a day-to-day management board, sitting almost every day and having an input in detail. Is there a case for changing that so that the managers manage and the Board sets the overall strategy and reporting environment and would not even necessarily need to be resident? Is that something that the UK Government feels is something that could be explored? Clearly, if something like that happened, the issue we have just discussed about the role of the director would not be quite so sharp.

Gillian Merron: I know that there have been problems in the past with micro-management and I am going to ask Richard to comment on that because he will know far better than me about that. On the issue of resident versus non-resident Board, currently the resident Board is helpful. I believe that it remains helpful while it provides that strategic direction that you spoke of, the agreement of policy and the overseeing of implementation rather than being micro-managing. I think what I would say looking to the future is, as the Bank improves and moves on through its reform agenda, it may be that is something we do need to look at. I think for the time being I am content that we have got it in the right place in the right way, but I would see it as part of the ongoing reform agenda that, as the Bank changes and improves, we look at how we best support that. I will ask Richard to comment on the micro-management because I am aware that has been a criticism in the past.

Mr Dewdney: Indeed, it has been an issue. I think the first thing to note is indeed the quiet revolution in the performance of the Board over the last year, reflecting the constituency report we spoke of earlier. It is a highlight for me personally that the Board is much more cohesive internally and is much

more in line with management, so those frictions are much reduced. Historically this was not the case. My first couple of years on the Board were at times quite difficult and the Board did indeed micro-manage. It took an unnecessarily adversarial position with management. Because we have a change in personnel, because countries are sending, frankly, better people, that situation has changed. It reached a particular nadir, in my view, about 18 months ago, when the General Counsel had to instruct the Chair of the Human Resources Committee to stop drafting the human resources strategy, which was clearly a prerogative of management to draft, and for the Board to say yae or nay. That has changed, as I said, dramatically over the past year and there has been a particular push as well within the Board to try and increase its efficiency. As the Minister said, this is something we need to keep under review. Once there is a shared sense around the Board that management is delivering at the kind of level that we expect of it, then there will be the possibility of building a consensus to consider this issue. I have to say I know that the views of my colleagues around the table on the Board are pretty hostile to the idea of moving to a non-resident Board, in particular amongst many of the African members, who do not have the same kind of networks and capitals to draw on, in a sense precisely because they are empowered and capable of making those kinds of decisions.

Q67 Chairman: That is a clear answer about the actual reality, I suppose. Just to finish, you will leave in July. DFID will not exactly replace you but will appoint an adviser rather than a director. Are you in a position to give me an indication of how you think that might work? For example, the adviser can presumably sit in on Board meetings but not speak or participate. Would that be right? Just in practical terms.

Mr Dewdney: Absolutely. Just to repeat what the Minister said earlier, we are a very collective and collaborative constituency, and certainly in the time I have been there, we have run it in that way, in a very non-hierarchical way. The Bank at times is much more hierarchical and you have to go against the grain in that respect. A senior adviser from the UK would indeed sit in at Board meetings occasionally, if the Executive Director were not there; would sit in committee meetings; would be empowered to pursue collective interests. I am very confident that that arrangement will continue.

Q68 Chairman: Perhaps it is something we need to keep an eye on. It may be that our concerns are not well-founded that there clearly could be problems. You are reasonably encouraged that the mechanism within the constituency should maintain adequate influence?

Mr Dewdney: It works very smoothly, both within Tunis and between the four capitals, and on the very rare occasions, because we are a like-minded group, that we have disagreed about things, we are very open and transparent about that and I, as an Executive Director, would have flagged that in the

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Board thoroughly and would expect, should it arise again, the German Executive Director to do the same.

Q69 Mr Singh: One of the roles the High Level Panel outlined for the Bank was promoting the private sector, and indeed, private sector lending has been increasingly sharply. If African growth continues in the way it has been, one would expect that to increase again, but what the High Level Panel did say was that the lending should add value and not crowd out other private sources of financing. In what ways does DFID think that lending is adding value or in what way should it add value?

Gillian Merron: First of all, I would agree with that. The Bank should indeed be different in that respect. The first point for me is that growth is very much dependent on the private sector. It is the way out of dependency, which is why we are keen to encourage that, including, particularly, in the low income countries. The Bank's private sector work is growing rapidly, with a big focus on infrastructure, including in the energy field. If we are looking at the wider considerations, for example, climate change, I think that does give the Bank a unique role in terms of being able to influence developments. It does bring confidence, and I think it brings standards as well, environmentally and socially, in terms of the work of the private sector, again, something we are very keen on in the UK. The other thing to say to the Committee is that I note with the Bank that it realises it has to prioritise investments, and that it has to prioritise them in a way that ensures they are adding value, not simply replicating what is likely to be done elsewhere. I think perhaps an example of the kind of work I mentioned about the environment is in South Africa, where there has been a power project financed in terms of the Eskom power supply project, which is US \$500 million to support the country's large-scale electrification programme. That is an example of where the Bank is not just a regular bank, but actually adds in terms of technical expertise, and also ensures that environmental considerations are not just an addition but are crucial to it. I am quite excited about the greater possibilities for the Bank in terms of the private sector, also because that kind of confidence brings a greater opportunity for public-private partnerships and also levers in other monies because of the reputation and standing of the Bank. So yes, there is a whole range of areas in which the Bank in particular is adding value. Their job, I believe, is to make sure that that is what they are doing when they are looking at opportunities for project work. As I say, we are very keen to see that developed, particularly in the low income countries.

Q70 Mr Singh: In terms of risk, should the Bank be prepared to go that extra mile, or is it the case that, because of its poor history, it is quite risk-averse?

Gillian Merron: The most recent assessments of the Bank have suggested, whilst being financially sound—more than financially sound—it has a triple A rating in terms of its financial work. Where it needs to get to, taking us back to the previous

discussion, is a triple A rating in terms of its development work. In terms of risk, it should be financial risk of a reasonable nature, and they have actually received advice to that effect. Goldman Sachs and Citibank have actually made reports to that end to encourage the Bank, particularly with its capital, to be development focused as well as understanding risk levels. As with all of these things, we are talking about balance, of course.

Q71 Mr Singh: In terms of private investment into Africa, it is quite low compared with other areas of development in the world. One of the things that the Bank needs to do, the High Level Panel would say, is to create a better investment climate, address the issues of obstacles to business development in Africa in terms of regulations and the business environment. What is the Bank doing practically to achieve those objectives, to create a better investment climate?

Gillian Merron: First of all, I would certainly agree about the improvement in the investment climate, and that is one of the five focal points that the Bank through its private sector development strategy has, the other areas being supporting private enterprises, strengthening financial systems, building a competitive infrastructure and promoting regional integration and trade. In terms of improving the investment climate, one of the ways in which it is doing that is, as I referred to earlier, about encouraging what can be quite complex and innovative public-private partnerships, particularly in the low income countries, and there is also consideration going on of how the current credit crisis is affecting Africa. Perhaps I can turn to Richard or Sally for more detail on this.

Mr Dewdney: Just to add a few remarks, it is an area historically where the Bank has been relatively less engaged, partly of course due to the constraints on its staffing. We have put money into the investment climate facility that is based in Tanzania and arose partly out of the UK initiative in 2005. So we are promoting that work indirectly because of those broader constraints. This is however one of the pillars in the draft governance strategy that we have before us as a Board, the main plank of that work being, as the Minister said before, to promote transparency around the use of public resources, but it is also going to be something that the Bank will drive forward through that strategy.

Q72 Sir Robert Smith: I am not sure how reliable some of the private banks are as a source of risk advice at the moment!

Gillian Merron: Noted. Thank you for that.

Q73 Sir Robert Smith: You talked a bit earlier about climate change. In the written submission DFID has said that the Bank has the potential to provide leadership and an African voice, yet when Joseph Eichenberger gave his evidence to us he told us he did not believe the Bank is ever going to be an intellectual leader in the climate change debate. How do you reconcile those two different views?

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Gillian Merron: Maybe being an intellectual leader is not what it is going to do, but what it can do is rather more practical, which I think is in terms of building capacity. One of the things DFID is doing is actually funding three technical climate change posts to support the Bank to lead practically. Whether you regard that as intellectual I do not know. That would be a matter for you. The important thing to me is about delivering the results. I think the approval of the Clean Energy Investment Framework for Africa in March is helpful. It allows the Bank to have something to build on in terms of preparing an action plan. The important thing in all this is that access to energy and factoring climate change impact into investment decisions in Africa is absolutely crucial in terms of the Bank. I do not know how the Committee felt but I certainly felt satisfied that that was factored in in terms of the Bank and how it is working, and is also part of its reform agenda. It knows that it has to meet this and that, in terms of sensible development decisions, there is not any other way of doing it; it has to be right there in the centre. That is how we are going to be helping the Bank and helping countries to actually consider limiting negative impact in terms of the environment.

Q74 Sir Robert Smith: His point was it is probably not where they should be because he felt there were a lot of players in the game. We have very good integration with the World Bank and others on this issue. Maybe he felt there was not any point in making the Bank the leader in that when there are other sources by working in partnership.

Gillian Merron: I think, again, it is back to our previous discussion. My view on the Bank is that it has to be fundamental to the work, without a doubt. The question about whether it is the expert is another matter. If the Bank can gain by good partnership with other regional institutions like the African Union, like the multilateral development banks, particularly the World Bank, fine, but it still has a job to do as an African Development Bank. How it does that I think is about maximising what is possible. That is one of the reasons, as I say, that DFID is very specifically putting in this technical support to allow the Bank to have the capacity.

Q75 Sir Robert Smith: Is the technical support at the centre? How do you feel about the amount of effort being developed in in-country capacity to analyse climate change and its implications? Is the technical support coming from DFID for a central role?

Gillian Merron: Yes, it is.

Q76 Sir Robert Smith: Do you think the Bank is doing enough in country?

Ms Taylor: As the Minister was saying, I think it is something that they need to do in partnership with others. The World Bank has a lot of expertise. There is something around helping African countries perhaps have more of a voice in the whole climate change debate. Perhaps that is something which reflects their more political AU role in terms of being able to help Africa articulate its views a bit better.

Q77 Jim Sheridan: I would ask maybe a double-barrelled question in terms of how significant a role the Bank played in the HIPC³ initiative and indeed the MDRI⁴ and have DFID and the other donors reimbursed the Bank for the funds that they lost through both these initiatives?

Gillian Merron: The answer is that the Bank has played a very important role, a very significant role, in resolving the debt problems of the poorest African countries, and certainly it has participated fully in the HIPC and also the Multilateral Debt Relief Initiative as well, providing over \$14 billion through both. In total, over \$88 billion of debt relief has been provided to African countries through these two means since 2000 and that has allowed countries to invest more in poverty-reduction, so they certainly have had a very significant role. I am just going to bring Sally in; this is very much her area of work.

Ms Taylor: In terms of how they meet their costs, under the HIPC initiative, it is agreed, and I guess it is part of the sort of make-up of the Initiative, that all creditors make some contribution towards their costs, as much as they can, and the Bank has contributed about a third of it and donors have contributed the other two-thirds. Of course, as you may know, the Multilateral Debt Relief Initiative is entirely funded by donors and that is actually the bigger of the two costs.

Q78 Jim Sheridan: But, as I understand it, they have lost money. Through both of these initiatives, the banks have lost money. Is that the case?

Ms Taylor: Well, they have written off their debts, yes.

Q79 Jim Sheridan: So they have been repaid then, or reimbursed?

Ms Taylor: They have been reimbursed for 85% of it, 100% of the Multilateral Debt Relief Initiative and two-thirds of the HIPC initiative, and they have their own resources, including net income, the money that they would make on loans to middle-income countries.

Q80 Jim Sheridan: But you say that the donors pledged to reimburse the Bank, dollar for dollar.

Ms Taylor: On the Multilateral Debt Relief Initiative, yes, but that does not apply under the HIPC initiative; they are two slightly separate things.

Mr Dewdney: Can I just say on the MDRI that the latest information that we have shows that our donors are indeed meeting those commitments for 2006 and 2007, with the exception of one donor and that donor will meet those commitments through—sorry, it is a technical term—accelerated encashment of its contributions to the next replenishment, which is encouraging.

Q81 Mr Singh: Just to follow up a little bit at a tangent on what Jim was asking about, the Bank only lends to about 15 countries which qualify for loans from the Bank at the moment. Is that correct?

³ Heavily Indebted Poor Countries

⁴ Multilateral Debt Relief Initiative

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Ms Taylor: Not exactly. As you know, there are the two parts of the Bank—

Q82 Mr Singh: That is what I am talking about.

Ms Taylor: Just on the Bank?

Q83 Mr Singh: Yes, on the Bank.

Ms Taylor: I think it is 13 actually.

Q84 Mr Singh: If a country qualifies for debt relief and goes through all the hoops and various things that they have to do and the debt is cleared, would they then become a qualifying country for loans from the Bank?

Ms Taylor: No.

Q85 Mr Singh: So what are the criteria to get money from the Bank?

Ms Taylor: It is to do with how wealthy you are, so if you a middle-income country, and credit-worthiness, so the countries that have had debt-cancellation have all been low-income countries, they have all been the poorest countries, so they get either a grant from the ADF or the very concessional loans which are over 50 years and at very low interest, so it is to try and avoid debt problems recurring because countries tend to be—

Q86 Mr Singh: But, in terms of playing a major role in private-sector development in Africa, as a continent, it is going to be quite a limited role, is it not?

Ms Taylor: The countries can benefit from private-sector lending because that is not a government debt, it is not a government liability; it is into the private sector. Sorry, we were not perhaps very clear on that.

Gillian Merron: It is probably worth at this point saying, because the point that Mr Singh raises is something that is an area of interest to me, that we have of course got countries that do not fit neatly into one area or another and we are going to be looking to the Bank to try and respond. Countries like Ghana which are moving towards being middle-income, it is difficult to pigeonhole them and be responsive, and the Bank is aware of that, so we are working quite hard on that to try and get the governance arrangements and the practical arrangements to reflect the fact that people do not sit neatly anymore into one area or another. I think actually there is also an improvement on the governance side for me which is in terms of the Bank Board and the Fund Board, that, although constitutionally they are separate, the recommendation is that they will be the same people on each one, so again I think that will enable us to have a bit more consistency and ability to work across countries depending on where the countries are rather than making the countries fit the Bank.

Q87 Chairman: It is the Bank that decides whether a country is eligible, nobody else? It is the Bank?

Gillian Merron: That is right, yes.

Q88 Chairman: So they could at any given point say, “We’ve decided that Ghana can move into that category”? It would be for the Bank to decide?

Gillian Merron: Or I would put it another way, which is probably not that helpful, which is they would move them into that, but, as I say, it is more of the middle ground, the shades of grey that are of interest to us.

Q89 Mr Singh: Right at the beginning, Minister, you did allude to the fact that one of the areas that the Bank should develop is in terms of its knowledge and expertise, and in fact the High-Level Panel have recommended that the Bank become a repository of knowledge and expertise. How is DFID supporting the Bank in becoming that repository?

Gillian Merron: It is an area that has been not as strong as it should have been in the past, that is very true, and we do need to see more work in that regard. There has been an encouraging increase in knowledge products which we are glad to see and certainly there is a strategy which has been developed. To specifically answer the point in terms of DFID, we are considering providing financial assistance through our Technical Co-operation Agreement to support the Knowledge Management Trust Fund, so that is where we are in wanting to support it.

Q90 Mr Singh: Sorry, what is the Knowledge Management Trust Fund? That is a new one to me.

Mr Dewdney: It has not yet been agreed by the Board because it is pending prior agreement of what is the draft Knowledge Management Strategy, but there has been some discussion, including between their chief economists.

Gillian Merron: I do not know if I was allowed to tell you that, but there you go! I am sure you will not tell anyone!

Q91 Mr Singh: In a sense, that is going to be a ring-fenced fund for financing it. In terms of what DFID is doing now to support the Bank, in what areas are we supporting the Bank? Are we supporting it in terms of economic analysis or market surveys or other forms of knowledge and information, other forms of technical expertise?

Gillian Merron: I think that the Technical Co-operation Agreement is the one to focus on and, in the same way as we have talked about the Bank offering more than just finance, again I think it is important that we emphasise to the Committee that DFID offers more than just money, way beyond, and actually the technical expertise that we offer—and I am just looking for the details on the £13 million, I talked about it earlier—in addition to our doubling to the Fund, we have actually committed, through this Technical Co-operation Agreement, monies to enable a building of capacity within the Bank, such that they can also build capacity in terms of the technical aspects, water and sanitation, institutional reform, climate change, all those other aspects that are extremely important. I think I would

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also re-emphasise that our secondment of staff, our offering of people, it is a huge contribution to the Bank and we are very glad to make that.

Q92 Chairman: I did say that we would talk about agriculture as well as infrastructure and it is kind of appropriate this week that things are perhaps being reassessed. The implication, if we take agriculture first, is that it is a very important part of the economy of Africa, but that is, in a sense, a negative thing in that it is because the industrial base is so weak rather than that the agricultural base is so strong. It constitutes, I understand, 30% of Africa's GDP, and of course that ranges in countries between 15 and 70%, and the majority of employment is in agriculture or is agriculture-related. Before we get into perhaps an update in terms of the current situation, and we have discussed DFID's perhaps lessening of engagement in agriculture, do you see the increased contribution through DFID as a way of increasing DFID's support for agriculture? Perhaps related to that of course is: will you be doing something other than through the Bank? Let us concentrate, first of all, on whether you see that support will increase their contribution towards agriculture.

Gillian Merron: The point I wanted to make on agriculture and the African Development Bank is that agriculture is one of its less strong areas of operation. However, what it has done, and we would very much support, is work in partnership with the International Fund for Agricultural Development who are better placed to deliver more, so we are encouraging that kind of partnership. The whole Committee will of course know about the meeting at Number 10 on food prices.⁵ President Kaberuka was indeed there and the multilateral development banks agreed, under leadership obviously through Gordon,⁶ in terms of working together to respond to the situation that we find ourselves in, so we are again glad that the African Development Bank is involved in that and we would obviously support them. Your reflections, Mr Bruce, are true in terms of Africa, but also in terms of the African Development Bank; they have probably been more effective on, what I would call, the 'hardware' side of things, building roads, building technical responses. Now, I do not think that is a bad thing at all and it is certainly not intended as a criticism of the Bank. I think the important thing for us is to assist the Bank in playing the part it can with working with others who have a greater expertise because one of the things that came out of the High-Level Panel report is that the Bank had to take on board that it could not do everything to the best degree and, important though this is, with which I quite agree, it is whether it is the best placed to do it, so that would be my view on it. Perhaps Richard could add from his point of view.

Mr Dewdney: Just to complement a little bit of what the Minister has said, that the Bank is undertaking a joint evaluation with IFAD, the International Fund for Agricultural Development, looking at

their respective portfolios in agriculture over the past decades with a view to coming up with recommendations that might then say something about what an appropriate division of labour would be between the institutions. Indeed, there is a sense that the Bank, partly because it has been centralised for so much of its history, is not well-placed to do some of the softer aspects of community-building and institutional strengthening around agriculture and rural development, that they should partner with other institutions to do that. We are having an interesting discussion in the Board at the moment in terms of the draft medium-term strategic framework that we are setting out which builds very much on the work of the High-Level Panel, and indeed agriculture, within that, is not a focal sector. However, it is quite clearly understood by management and the Board that we will continue to be engaged in agriculture, at the very minimum, through our work in the other operational focuses that we have, in particular, on infrastructure, but it is a live debate currently on the Board and this evaluation which is ongoing should play a useful role, as indeed will the international discussion on how to respond to the food price problems that we are seeing.

Q93 Chairman: Well, as you may know, the Committee is also currently doing an inquiry into the World Food Programme and we had Josette Sheeran⁷ giving evidence to us earlier in the week. I was also at the meeting in Downing Street, as was she, and there were a number of interesting issues which might require the Bank and others to reassess the priorities. IFAD were represented at that meeting and pointed out that they were putting a fund together for very basic things, and the sort of thing that hits you is that farmers in Africa who are just above the level of subsistence farmers, or maybe part subsistence/part cash, are really in a bind at the moment because the cost of seed and the cost of fertiliser are up and they cannot afford to buy them, so, as Josette Sheeran told us and told the meeting, they are not planting. IFAD are saying, "Well, we need to provide them with some kind of credit to encourage them to plant so that they actually get a harvest", but what if the consequence of increasing the planting leads to a dip in prices which means they do not have the capacity to pay? The question is: should it be in the form of grants towards seed and fertiliser so that they do not have to repay it or should they be given some kind of insurance or guarantee on the price at the end, and you can approach it either way or as a combination of the two. IFAD had some input on that. Is that something that the Bank needs to think about? In that context, I think Professor Paul Collier was also at this meeting and, in his inimitable style, waded in and said, "Well, Africa needs to rethink agriculture. What we want in Africa is Brazilian-style agriculture that will really start to deliver the goods". To cut a swathe through land rights, traditions, law, everything else, that is not a problem for a professor,

⁵ On 22 April 2008

⁶ Brown, the UK Prime Minister

⁷ The Executive Director of WFP

but it might be a problem for politicians! The serious point is that Africa's capacity to produce food is far higher than it is achieving. What is the role for DFID and what is the role for the Bank? I am sorry, this is a statement from me, but, having been there, the other thing that came through was that the British agricultural science and research people, whether they were academic or commercial, were saying, "Actually, we fed the world through our science and technology. We should not be marginalised. You need to bring it back in because, if we are going to feed the world, both the developed world and the developing world need to raise their game across the piece". The point of all of that is: does that really mean that both DFID, in partnership with the Bank in-country in Africa, and the Bank itself need to do something somewhat more ambitious in agriculture?

Gillian Merron: I think the points you make raise the point about the need to work in partnership with other institutions. The other thing for me that it raises is the importance of the African Development Bank being an African institution and, therefore, being able to be responsive to the particular challenges there. In truth, I think it is unlikely that the Bank itself will be the best people to lend or grant directly to farmers; I do not think it is set up in that respect and nor should it be actually. However, the fact that the President was at that meeting and is committed to being on the working group, I think, actually does signal that the banks, the multilateral banks, are looking afresh at what their role is. However, I do not think we should expect the African Development Bank to be taking on all of it, nor do I think that that is actually being suggested, but I welcome the fresh look, the fact that the partners are working together. It may produce a different role for the Bank, but I do not think it is likely to be the leader, in truth, because of the way that it is set up because, for me, the Bank is about the infrastructure and that actually is probably the best place to keep it; that is where its expertise is.

Q94 Chairman: Well, that of course relates to agriculture as well—

Gillian Merron: Yes.

Q95 Chairman:—because a big problem is the lack of communications, the costs of transport, so would you argue that perhaps the Bank's best contribution to agriculture is actually helping to improve the physical infrastructure to give products a better chance of getting to market commercially?

Gillian Merron: In all honesty, yes, I would. Infrastructure obviously is about water supply as well as transport links. The other thing for me is that of course infrastructure is absolutely critical for reaching the Millennium Development Goals, and I want to see the Bank, who I do think are leaders in this area, continuing to lead, so I think that is their strength and would be a great support to agriculture.

Q96 Chairman: It is probably outside the scope of this inquiry and may be a question to ask the Secretary of State, but is there a recognition that maybe DFID needs to rethink its contribution to agriculture. This Committee, not under my chairmanship, but in the previous Parliament, did a report on agriculture and strongly recommended that the agricultural research capacity in the UK should be better diverted to helping development.⁸ I think our honest view would be that we do not feel that DFID responded to that. Do you think that, given the attention that is now being focused, that might change or is there any indication that there are discussions within the Department about that?

Gillian Merron: I am very happy to delegate upwards to the Secretary of State, Chairman, but I will indeed be glad to write back to the Committee on that issue.

Q97 Chairman: On the subject of writing back to the Committee, can I say also that we have a very tight timetable for the report because we are anxious to try and publish it in time for the annual meeting of the Bank. We felt that was a useful thing to do and therefore there are a number of things on which you have indicated you will provide notes, and if we could have notes that are brief and quick, it will be very helpful to our staff to be able to turn the report round. Thank you for coming in and giving the evidence. It has been a relatively short inquiry. Our trip to Tunisia was rather shorter than we had intended due to the vagaries of the Whips, namely that we were retained here for a vote that did not take place.

Gillian Merron: Why do I still feel guilty!

Q98 Chairman: I have to say thanks particularly to Richard's efforts and others that although we had a very short programme, I think we met a lot of people and had a lot of intensive discussions. We can report that we were favourably impressed with the quality of the people that we met and their engagement but, as you will appreciate, it is a lot of money going through an institution, and it is right and proper that we should ensure not only that it is giving good value to the British taxpayer but, much more importantly, it is meeting the needs of the poor people in Africa. I hope our report will be a useful contribution not only to DFID in terms of its engagement, looking at Richard here, but perhaps the Bank also, and I certainly think the Bank gave the impression that they were genuinely interested and appreciative of what we were likely to say. Indeed, Donald Kaberuka was extremely generous with his time, both in terms of meeting us and then hosting a lunch within the space of a few hours really. We will obviously be formally thanking them but, Richard, if you can also convey from the Committee our appreciation that people took the time and trouble to engage with us, and all of you for giving evidence and you, Minister, and we look forward to seeing you again.

Gillian Merron: Yes, I hope so!

⁸ *DFID's Agricultural Policy*, HC 602, Seventh Report from the International Development Committee in Session 2003–04

Written evidence

Memorandum submitted by the Department for International Development

EXECUTIVE SUMMARY

The African Development Bank (ADB) shares DFID's goal of reducing poverty and achieving the Millennium Development Goals in Africa. The ADB is becoming an increasingly important player in the continent. In 2007 it committed about £2 billion for development projects in Africa: £1.2 billion out of its non-concessional window for middle income countries and £800 million from its concessional window for low income countries.

The ADB is making concerted efforts to build capacity and regain its role as a key development organisation. President Kaberuka's appointment in 2005 saw the launching of a large reform programme for the Bank which is still being implemented. In the past 18 months it has reorganised to strengthen its country focus and to be more selective in its priority areas. The Bank's focus is on promoting growth through infrastructure development and regional integration.

Negotiations for the eleventh replenishment of the African Development Fund (ADF) concluded in December 2007. Donors agreed a record level of support and over the next three years (2008–10), the total resources available to the ADF will reach \$8.9 billion (£4.5 billion). This reflects both increased donor confidence in the Bank due to the implemented reforms, and also the increased role that its shareholders want to see it playing in Africa.

Recognising the good progress made and the Bank's potential, the UK doubled its contribution to ADF 11, pledging £417 million. In recent years, DFID has stepped up our engagement with the ADB, providing more support to the reform and policy agendas. In addition to core funding of the ADF, DFID provides assistance to the Bank through a Technical Cooperation Arrangement. This will provide up to £13 million over five years.

President Kaberuka commissioned a High Level Panel to set out a vision for the Bank and a roadmap for getting there. The Report states that the ADB "can and must become the premier development institution in Africa". It sets out a roadmap which includes: the Bank being selective in its approach, focussing on regional integration and fragile states, optimising the use of its capital, and building its capacity.

The World Bank is a larger player than the ADB and has more resources. The Banks are working together on key policy areas, and as decentralisation of both institutions increases, more joint working is expected.

THE AFRICAN DEVELOPMENT BANK

1. The African Development Bank (ADB) was set up in 1964, modelled in many respects on the World Bank, but with exclusively African membership. Its soft loan fund, the African Development Fund (ADF), was set up in 1972 and its creation led to non-regional countries becoming members. A third lending window, the Nigeria Trust Fund, was set up in 1976 and makes limited financial resources available at below market rates.

2. The UK has been a member of the ADB since 1983, and has 1.676% of the capital, placing it in the 6th position among non-regional shareholders. It joined the ADF in 1973.

3. African countries retain a dominant position in the governance of the African Development Bank Group and on its Executive Board. There are separate Boards for the ADB and ADF. At the ADB, there are 18 seats, of which 12 represent African member countries, who hold 60% of the votes. In the ADF, the 12 seats—and the votes—are split equally between the ADB and donor countries. In both the Bank and the Fund, the UK shares a constituency with Germany, Netherlands and Portugal.

4. The role of the Board of Directors is to provide policy direction to the institution and to monitor and supervise management's actions. In the past, the Board has not worked as effectively as it could have. It can best add value by making timely decisions and providing strategic direction. The recent performance of the new Board, mostly appointed in 2007, has been encouraging.

5. The ADB lends to 13 middle income countries (MICs). In 2007, it committed £1.2 billion in loans. The ADF provides concessional loans and grants to low income countries, and committed about £800 million last year. Lending to the private sector provides finance to non-sovereign entities and in 2007 it was about £700 million, up from £100 million in 2004.

6. In late 1980s and early 1990s, through mismanagement, the Bank's relationships with its members and donors came under substantial strain. The Bank lost its AAA rating and members—both borrowers and donors—lost confidence in the institution.

7. Since then, the ADB has been on a path of reform. This initially focussed on improving its financial position and controls, and subsequently has addressed other issues to improve the management and running of the Bank. Efforts are now focussed on improving its development effectiveness.

8. Since taking up his appointment as President in 2005, Donald Kaberuka has continued and accelerated the reforms, providing strong leadership to the Bank. President Kaberuka came with a reputation for being a reformist and has implemented many changes since he arrived. In the last two years, the Bank has implemented a series of reforms to improve their ability to provide high quality assistance to African countries.

9. Among the most important reforms is increasing the number and quality of its staffing. The ADB has reduced its vacancy rate from 20% to less than 5% (of current staffing levels) in the past 18 months. The Bank is also in the process of decentralising its activities. It has opened 23 field offices to increase the impact of its operations in-country. The ADB has just over 1000 staff in total (although this excludes locally recruited staff in field offices). There are 290 staff in field offices, out of which 44 are international technical experts, 64 are locally recruited technical experts and 180 are support staff.

10. The Bank adopted a new structure in 2006, enabling a clearer country focus in its operations and a greater focus on development results in its strategies and projects. It has introduced measures to improve implementation of its projects and programmes, increased project supervision ratios, reduced the share of at-risk operations and strengthened its evaluation systems. The Bank has a set of Key Performance Indicators which will be used to inform decisions on budgeting and staffing as well as monitoring overall performance.

11. There is still some way to go to improve both the Bank's internal processes and its focus on results at the design stage, during implementation and at the evaluation phase. Specifically, the ADB needs to intensify its efforts to:

- ensure that all strategies and projects are well designed, including having appropriate baselines to monitor progress;
- ensure that all projects are monitored regularly;
- ensure that evaluation helps enhance learning ;and
- improve results through greater decentralisation and harmonisation.

Specific measures have been agreed and will be adopted in the next three years to address these areas.

12. In February 2003, the Bank was temporarily relocated to Tunis, because of the conflict in Cte d'Ivoire. Discussions are underway for the Bank to return to Abidjan. 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.

ADB'S ROLE IN AFRICAN AID ARCHITECTURE

13. The ADB is one of the few institutions—and the only Bank—wholly focused on the development of Africa. It has the potential to provide a unique African voice and perspective on development issues across the continent and internationally. In 2005, the Commission for Africa called for the ADB to become the “the pre-eminent financing institution in Africa within 10 years”. This call was supported by the High Level Panel appointed by President Kaberuka in 2007 to provide advice on the future vision and strategy for the Bank.

14. The ADB has built strong partnerships with, and received special mandates from, African governments and African institutions. It works with the African Union (AU) and the United Nations Economic Commission for Africa on African development issues, and has been given lead mandates by the New Partnership for Africa's Development (NEPAD) in infrastructure, corporate governance, as well as for the implementation of the African Peer Review Mechanism. The Bank also has a mandate to promote regional integration, and is an active contributor to the on-going AU initiative to rationalise Regional Economic Communities (RECs).

15. Recognising the ADB's expertise in infrastructure, the Bank also hosts the secretariats of the Infrastructure Consortium for Africa (ICA) and of the African Water Facility (AWF) on behalf of the international community.

ADB's Objectives and Priorities

16. The ADB is committed to assisting African countries achieve the Millennium Development Goals. Its mission is poverty reduction and development through growth and economic integration. To achieve this, the Bank has committed itself to help “Africa to diversify, to become competitive, integrated, globally connected, and increasingly self-financing”.

17. The Bank needs to remain relevant for all its African shareholders, including the MICs. MICs need flexible financial products to help them address their own development challenges, and the ADB needs to respond to those needs with its range of products. Policy based lending has increased in recent years, but project lending remains the most important instrument in terms of total commitments. Given the critical role of the private sector in MICs, the Bank has increased its support focussing on the financial sector, infrastructure and small and medium size enterprise development.

18. Many of its shareholders, including African countries, want the ADB to play a role across the development agenda, but its capacity has not been sufficient to respond to this demand, and it has found itself stretched too thinly over a number of sectors. In the past few years, there has been a concerted effort to focus its efforts in a smaller number of activities, recognising the need to demonstrate excellence in a few areas as a foundation for playing a wider role in Africa's development. In the next few years, the Bank's priority areas will be:

- Infrastructure—An increasing proportion of the Bank's new commitments will be in basic infrastructure, especially transport, power, water and sanitation, and communications. These investments will be designed to benefit both rural and urban populations, improving growth, productivity, employment and access to market opportunities and essential services. Infrastructure to support agriculture will be priority, with the Bank funding investments in irrigation, rural roads, marketing and storage facilities.
- Within infrastructure, there is a particular emphasis on regional integration. This reflects the constraints to growth of small domestic markets. Integration allows African countries to reap the benefits of economies of scale, stronger competition and more domestic and foreign investment.
- Governance—As an African institution, the Bank is uniquely positioned to address these challenges. It will focus its efforts on strengthening transparency and accountability in the management of public resources, at the country, sector and regional levels, with a special attention to fragile states and natural resources management.
- Fragile States—The Bank will enhance its engagement in fragile states. It will assist fragile states to become more effective states, and assist post-crisis and post-conflict countries move towards more stable political and economic development.
- Private Sector Development—The achievement of sustainable growth in Africa will be driven by the private sector. The Bank is supporting private sector development by: a) improving investment climate through policy-based lending; b) improving African private sector competitiveness through targeted support for national and regional infrastructure development; and c) leveraging innovative and complex Public-Private Partnerships (PPPs) by combining concessional and non-concessional resources in low income countries.
- Higher education, technology and vocational training—Developing high level skills is critical for inclusive growth. The Bank will invest in a range of activities to build skills and help address chronic high unemployment.
- Climate Change—The ADB 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 lakes, forests and river basins;

19. In focussing on these areas, the Bank needs to establish a reputation for delivering results. The Bank has strengthened its systems and its capacity to demonstrate and communicate results more effectively by introducing a performance management framework for the Bank as a whole. Institutional Key Performance Indicators are linked to the agreed Results Measurement Framework of ADF 11, which include results on development effectiveness and also on institutional effectiveness.

Debt

20. The ADB has played a leading role in helping to resolve the debt problems of heavily indebted poor countries (HIPC) in Africa. It participates fully in the Heavily Indebted Poor Countries Initiative, providing the exceptional debt relief that is required on ADB and ADF debts. It has also helped countries to qualify for HIPC relief by establishing the Post-Conflict Country Facility, which assists HIPCs to clear their arrears. To date 26 African countries have qualified for relief under the HIPC Initiative, with 19 countries completing the process. A further 7 countries could benefit from this exceptional debt relief if they wish to pursue it and meet the qualifying standards.

21. At Gleneagles in 2005, the G8 agreed the Multilateral Debt Relief Initiative (MDRI). Since 2006, HIPCs that complete the Initiative also receive 100% cancellation of their remaining ADB debts, in addition to cancellation at the IMF and World Bank.

22. The UK has assisted the ADB Group to meet the costs of its HIPC and MDRI debt cancellation. We have provided \$349 million (about £175 million) to the multi-donor HIPC Trust Fund, which helps multilateral creditors to provide full and timely relief. As of 30 September 2007, the ADB has received a total of \$1.89 billion (about £940 million) from the Trust Fund. We are also fulfilling the commitment to provide our share of the costs of MDRI debt cancellation. The ADF share of the MDRI is currently estimated to cost the UK approximately £433 million over the next 46 years. To date we have provided £11.89 million.

23. The implementation of these initiatives has helped qualifying African HIPCs to resolve their debt problems. This should provide a spur to growth, increasing investor confidence in these countries, as well as freeing up considerable resources for governments to spend to accelerate progress towards the MDGs. It has also had the benefit of strengthening the ADB's and ADF's balance sheets, cancelling large volumes of debt held by poor countries that could ill afford to service them.

24. The ADB has an important role in helping countries to avoid future debt problems. It has adopted the Debt Sustainability Framework, which gives countries and creditors guidance on prudent levels of borrowing, taking into account their economic position and policy framework. In countries where debt levels are too high, or there is a risk of this, the ADF provides grants or a mix of grants and concessional loans. As part of its work on strengthening economic governance and public expenditure management, the bank has a clear role in advising countries on the level and use of new debt, and the management of existing debts. In particular, following a call from the Commission for Africa, the ADB is looking to establish a legal support facility for HIPCs to help them deal with aggressive litigation (or so-called 'vulture fund' activity), which threatens to divert the benefits of debt relief away from poverty reduction. Their governance work, and that of other donors including the UK, will help to avoid such debts getting into the hands of vulture funds.

AFRICAN DEVELOPMENT FUND REPLENISHMENT

25. The negotiations for the eleventh replenishment of the ADF concluded in December 2007. The Deputies Report records the agreements reached. A total of \$8.9 billion (£4.5 billion) was agreed, with several donors providing large increases in their contributions.

26. There was strong agreement among donors that the ADF should focus its efforts on infrastructure, governance and regional integration. This recognised the importance of these issues for economic growth and poverty reduction in Africa, and the expertise and track record of the ADF in these areas. A number of cross-cutting objectives also received renewed emphasis, including gender equality, environmental sustainability and climate change adaptation.

27. New policy frameworks were agreed for the ADF's assistance to regional projects and fragile states. Around a quarter of ADF 11 resources will be used for regional operations, more than doubling the investments made under ADF 10. This will be mainly used for infrastructure—roads to connect countries and markets, increasing energy supply, and improving facilities for trade and exports.

28. A Fragile States Facility was also agreed, with a budget of US \$665 million (£330 million). This will provide countries emerging from conflict and crisis with additional resources, for example to help rebuild infrastructure and re-establish critical services. It will also provide supplementary targeted technical support for capacity building and knowledge management, across the full range of fragile countries. The facility will subsume the existing PCCF and will continue to assist countries to clear their arrears and so open up the possibility of regular programmes and qualifying for debt relief.

29. There was considerable discussion during the replenishment discussions about measures to improve the development effectiveness of the ADF. As part of its continuing efforts to take forward a wide-ranging reform programme, a new results framework was agreed. This will monitor development indicators at a country level and track progress against a range of demanding targets for improving project approval, implementation and supervision within the ADF.

DFID'S RELATIONSHIP WITH THE AFRICAN DEVELOPMENT BANK

30. The UK supports the Commission for Africa call for the ADB to become the leading financial institution in Africa. We see the Bank as having clear potential to play a larger role, and we are committed to strengthening African institutions. We agree that the Bank needs to focus its efforts in a small number of areas to demonstrate its effectiveness. It needs to establish a track record of excellence and use that to build up the institution. This will be the stepping stone to having a more important role in Africa.

31. The focus of ADB's work on accelerating economic growth is in line with DFID's objectives. Their ability to fund infrastructure, particularly regional projects, is an important complement to the support we provide through our bilateral programme and the work of other multilateral organisation we support.

32. In recent years, we have stepped up our engagement with the ADB, 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 continue to grow.

33. Our objectives for the ADB were set out in a strategy paper in 2006, which is a joint paper agreed by the constituency. This joint approach has enabled us to be more influential, giving consistent messages to the Bank. The objectives identified are:

- (i) Improving Bank effectiveness at headquarters level
- (ii) Improving Bank effectiveness in country
- (iii) Reinforcing ADB's contribution to African infrastructure
- (iv) Sharpening ADB's contribution to good governance in regional member (African) countries

34. The strategy is pursued by DFID staff with responsibility for our shareholder relationship with the Bank and by those working on our bilateral Africa programme.

35. DFID and the ADB agreed to the Enhanced Collaboration Initiative (ECI) in 2004. This operates in five pilot countries, Ethiopia, Mozambique, Uganda, Ghana, and Sierra Leone and its aim is to improve aid effectiveness and harmonisation through improved ADB and DFID collaboration at country level. Examples of work to date include co-financed programmes in Ethiopia, and a proposal that the ADB will represent DFID in the sector dialogue with other partners on water, sanitation and roads in Mozambique, as part of our commitment to fulfil the commitments under the Paris aid effectiveness agenda. Progress in some countries has been slower than expected due to the limited deployment of Bank staff on the ground, but increased decentralisation of ADB staff is expected to strengthen collaboration.

UK Financial Contributions

36. The UK pledged a contribution of £417 million to ADF 11. This doubles our ADF 10 contribution and makes us the biggest ADF donor for the first time. This decision was based on the progress that the ADF has made in improving its effectiveness, the contribution that it can make to economic growth and poverty reduction, and is part of our commitment to build African institutions. The ADF works in all poor African countries and scores more highly on the poverty focus of its resource allocation than other major development institutions. Nearly 70% of its resources are allocated to DFID's PSA countries.

37. In addition to core funding of the ADF, DFID provides assistance to the Bank through a Technical Cooperation Arrangement. This will provide up to £13 million over 5 years, from 2007, delivered through streamlined processes. This is the first such agreement agreed by any donor. Six priority sectors have been identified which are:

- Infrastructure;
- Water and Sanitation;
- Climate Change and Clean Energy;
- Governance;
- Knowledge and Statistics; and
- Institutional Strengthening.

38. DFID has also provided staff on secondment, for example to the Governance Department on Public Financial Management and also to the ICA.

39. We are also supporting a number of facilities for which the ADB helps to manage, including the Infrastructure Project Preparation Facility (IPPF) (\$12m). DFID is also providing Technical Assistance to the AWF (£350k), and the Rural Water and Sanitation Supply Initiative (RWSSI) (£6 million).

REPORT OF THE HIGH LEVEL PANEL ON THE AFRICAN DEVELOPMENT BANK

40. The High Level Panel (HLP) has set out a vision for the ADB to become the “premier development institution in Africa”. This includes the Bank being selective in its approach, focussing on regional integration and fragile states, optimising the use of its capital, and building its capacity.

41. Among the recommendations made by the HLP is to make the best use of the Bank's capital to accelerate Africa's progress towards the MDGs. This is in line with some shareholders' views 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. President Kaberuka agreed to undertake a capital review in 2007. The ADB has asked two private investment banks to undertake independent reviews of its capital and to provide advice on using any excess capital. The Bank is at the initial stages of thinking through this issue.

42. The principal new idea is that of ‘One Bank’. The Report recommends that the ADB should move away from being an institution which compartmentalises countries into middle and low income groups offering only non-concessional loans to the first group and highly-concessional loans to the second. Rather, it suggests that the Bank should be offering a more differentiated set of products to its clients, in particular to low-income countries which represent a wide spectrum.

43. The HLP also concluded that the Bank does not have enough staff to deliver what its members expect of it. The Report recognises that the Bank is making reasonable progress in changing the way it does business but argues that it does not have the human resources it needs to deliver an increased role, particularly compared to other Multilateral Development Banks. It proposes a medium term strategic ‘accord’ between shareholders and the Bank to deliver increased administrative resources in return for improved performance in terms of results and increased efficiency. This will enable the Bank to hire more staff and allow it to decentralise further.

 THE AFRICAN DEVELOPMENT BANK'S RELATIONSHIP WITH THE WORLD BANK

44. The ADB has a narrower focus than the World Bank in its operations, and has fewer resources. 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 on Africa, thus making IDA twice the size of ADF 11 in Africa.

45. The ADB works with the World Bank both in country and in headquarters. A number of programmes are jointly funded, and as decentralisation of both institutions increases, more joint working is expected. The same can be said of the ADB's relationships with other donors on country: as more ADB staff is deployed to country offices, this engagement will improve.

46. The ADB has committed to all new partnerships following the principles of the Paris Declaration, in particular: harmonisation of procedures and instruments; selectivity of partners and collaboration; and results management. Partnerships will put emphasis on strengthening coordination and harmonisation mechanisms which are crucial for improved aid effectiveness. The ADB will harmonise its procurement rules, standard bidding documents and practices with those of the World Bank, subject to restrictions related to the rules of origin.

47. The multilateral development banks collaborate on a number of issues. On some topics formal working groups have been set up eg on climate change, on fragile states, on resource allocation, and to share experience and discuss issues.

March 2008

Supplementary memorandum submitted by the Department for International Development

Note by DFID following the evidence session on 24 April 2008

African Development Bank Governance, Economic and Financial Management Department Focus on Nigeria, April 2008

The following activities are currently being supported by the Governance, Economic and Financial Management department (OSGE) for Nigeria. They are aimed at tackling ongoing governance challenges from an operational and policy perspective, through projects, and economic and sector analyses:

INSTITUTIONAL SUPPORT PROJECT FOR GOVERNANCE, CAPACITY BUILDING AND POVERTY REDUCTION

Total ADF grant—UA 4.00 million

Total Government Contribution—UA 0.92 million

The efforts of the Federal Government of Nigeria to achieve rapid economic growth and reduce poverty are being undermined by the weak capacity of key government agencies for economic management and governance. The aim of the project is to support and complement efforts of the Nigerian Government and development partners to strengthen the country's capacity for economic management and good governance.

The Government's overall sector goal is to contribute to poverty reduction by enhancing the capacity for good governance and economic management. Specifically, the project is contributing to building the capacity of the Ministry of Finance (the African and Bilateral Relations Unit—ABER) the Judiciary, and the National Assembly, to build their capacity in the following areas:

- (i) ABER—Enhancing project appraisal, implementation, coordination and management capacity for improved implementation rate of ADB financed projects
- (ii) Supreme Court, and the Federal High Court—Enhancing legal and judicial capacity for better governance
- (iii) National Assembly—Improving oversight function and enforcement of accountability in the budget cycle.

This is being achieved through relevant functional training programs and study tours, and the provision of operational equipment. The project is scheduled to be completed by 30 June 2008.

SUPPORT TO THE AFRICAN PEER REVIEW MECHANISM

The Bank has been lending its support to the African Peer Review Mechanism (APRM) together with its strategic partners the UNDP and United Nations Economic Commission for Africa, ever since the Inaugural Summit of the APRM Committee of Participating Heads of State and Government (APR Forum) in 2004.

The APRM is a mutually agreed instrument voluntarily acceded to by member states of the African Union as a self monitoring mechanism. The mandate of the APRM is characterized by African ownership and leadership, and the overarching goal is for all participating countries to accelerate their progress towards adopting and implementing the priorities and programs of the New Partnership for Africa's Development (NEPAD), achieving mutually agreed objectives and compliance with best practice in respect to each of

APRM areas of governance and development, namely: Democracy and political governance, Economic governance and management, Corporate governance and Socio Economic development. The AfDB has been mandated by NEPAD to in particular focus on Corporate and Economic Governance.

Nigeria has acceded to the APRM, and recently, after having completed its Country Self Assessment report, received a country review mission in February 2008, to validate its report and prepare a country review report that will eventually be peer reviewed by Heads of State during the next AU summit. The Bank provided technical support to the preparation of the report and the national action plan that will help Nigeria articulate, and implement activities based on best practices for good governance. The bank is also lending its support to the revision of the overall ARPM process that will include reviewing the Monitoring and Evaluation framework of national plans of action. This revised framework will positively impact Nigeria's capacity to achieve sustainable results in the area of governance.

ECONOMIC AND SECTOR WORK

(i) *Country Governance Profile*

The Bank's Country Governance Profiles are a general assessment and dialogue tool on the key governance issues in any given country. They support both the exercise of the Bank's fiduciary responsibilities and the achievement of its development objectives. For the fiduciary responsibilities, the CGP identifies the strengths and weaknesses of governance arrangements in particular areas in a country and helps in assessing the risks that these may pose to the use of Bank funds. Concerning the development objectives, the CGP helps facilitate a common understanding by the Bank and where possible, development partners, of the country governance arrangements in both the public and the private sectors, thus facilitating the design and implementation of capacity building programs and specific reforms.

The Bank undertook its first CGP for Nigeria in 2002. The profile is currently being updated to highlight the evolution of key governance issues and the trends being experienced in the implementation of Nigeria's governance priorities. In identifying the main challenges, OSGE will be guided in its policy dialogue and its approach to economic and financial governance activities.

(ii) *Fiscal Decentralization study*

The Bank plans to carry out a study that will assess and evaluate fiscal discipline at state level, for more sustainable, transparent and accountable financial management of public resources. This follows the recent adoption of Nigeria's Fiscal Responsibility Bill. Though this has been adopted at the federal level, there are concerns over how implementation will be conducted at the state level. The study which is expected to be completed in early 2009, will form the basis for a subsequent Institutional Support Project that should contribute to minimizing fiscal indiscipline at the local level, and enhancing fiscal decentralization and macro-economic development nationwide.

Memorandum submitted by the Institution of Civil Engineers (ICE) and Engineers Against Poverty (EAP)

1. INTRODUCTION

The Institution of Civil Engineers (ICE) was established in 1818, and today represents almost 80,000 professionally qualified civil engineers members worldwide. ICE seeks to advance the knowledge, practice and business of civil engineering, to promote the breadth and value of the civil engineer's global contribution to sustainable, economic growth, and ethical standards, and to include in membership all those involved in the profession.

Engineers Against Poverty (EAP) is an international non-governmental organisation that aims to promote social development in engineering projects and services. EAP is supported by the UK Department for International Development (DFID), the ICE, and the Institution of Mechanical Engineering (IMECHE).

The evidence for this submission arises out of an ICE/EAP research report, entitled 'Modifying Infrastructure Procurement to Enhance Social Development' published in November 2006. A copy of the report is attached. The report sets out how current procurement practices are hindering or enabling social development in low and middle income countries in Africa and Asia. Workshops were held with a number of donor agencies in early 2007 to discuss the findings and recommendations of the report. The workshop with the African Development Bank was chaired by their Head of Procurement, Ahmed Benbarka, and attended by 17 representatives from the Project Appraisal, Operations and Procurement Units.

2. AfDB's PRIORITIES AND OBJECTIVES

Prioritising infrastructure investment

With the African Development Bank prioritising infrastructure projects in its plans for accelerating economic growth and as the lead agency to facilitate the NEPAD agenda for regional integration, this submission focuses on the inhibiting factors in the procurement of infrastructure and the consequential failure to maximise development opportunities.

Participants expressed three areas of concern at the AfDB workshop:

a. Developing a local contracting and supply base

AfDB was very concerned that much of the funding invested in African infrastructure flows straight out again in the form of contracts awarded to foreign contractors and suppliers. Procuring services and goods from local contractors and suppliers and using techniques adapted to the local resource endowment, would generate income and employment locally and could make a substantial contribution to economic growth and poverty reduction. African economies also need to diversify and develop some industries in order to grow and the high weight/volume to value ratio means that construction is a good industry to support.

b. Maintenance of infrastructure

A developed local construction industry is also essential for the maintenance of infrastructure assets. Maintenance is a long neglected issue. A recent estimate puts the need for investment in new infrastructure projects to meet the Millennium Development Goals in sub-Saharan Africa at 5% of GDP, while the investment required for the maintenance of existing assets is estimated to be only slightly less at 4%.¹ Reliance on foreign enterprises to design and construct facilities means that they are often not sustainable as the expertise disappears as soon as the construction is complete. This is a further reason why the development of local suppliers is important.

The ICE/EAP delegation explained that there are ways to facilitate the use of local enterprises on large and small scale projects throughout the procurement process. As a consequence of this discussion ICE and EAP are currently drafting a guidance note suggesting how this can be achieved.²

c. Poor project implementation

AfDB acknowledged that, despite the widespread use of foreign contractors, implementation of infrastructure projects 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. In particular, social policies are not carried forward into tender and contract documents and as a consequence are not implemented. ICE and EAP suggested that AfDB change its approach to focus on 'best value' rather than 'lowest price' and to consider placing a higher emphasis on quality in the evaluation of bids. AfDB acknowledged this was desirable, but would require a fundamental change in the way it does business. They also believe that their current policies and rules are sufficiently flexible to achieve good project outcomes and delivery of social development objectives. However they were uncertain how to enforce and monitor these.

3. THE LEADERSHIP ROLE OF THE AfDB—REGIONALLY AND ON GLOBAL ISSUES

Leading on regional integration

AfDB's is the lead agency in developing the Infrastructure Short-Term Action Plan (I-STAP) for the New Partnership for Africa's Development (NEPAD). This policy has been driven by the demand for regional integration in order to reduce poverty through growth and full participation in the world economy.

However, there are problems in AfDB's attempts to address Africa's infrastructure shortfalls. The main problem is identifying investment sources, but the emphasis on large-scale construction projects has also led to criticisms that they are costly and have little impact on the poor. DFID has argued that there is a need for large projects to promote national and regional integration, but past investment has been skewed towards these large projects at the expense of the promotion of local services to meet the needs of poor people.³

At the workshop, AfDB recognised these criticisms and stated that they are looking at how they move from funding trans-national projects to smaller-scale projects that are thought to have more impact on alleviating poverty in local communities. In support of this objective a five fold increase in funding for water projects since 2003 has been accompanied by a shift from large urban projects to small projects in the rural areas with a focus on sustainability. The AfDB has also recently set up the Rural Water Supply and Sanitation Initiative (RWSSI), which was established in response to the challenge of supporting the water-related Millennium Development Goals, as well as addressing the problem of low access to water supply and sanitation in rural Africa.

¹ Antonio Estache, Africa's infrastructure: Challenges and opportunities, 2006 www.imf.org/external/np/seminars/eng/2006/rrpia/estach.pdf.

² A first draft of the guidance note will be available shortly

³ DFID "Making connections: Infrastructure for poverty reduction", 2002

Whilst wishing to encourage smaller development focused projects, ICE and EAP believe that it is possible to increase the developmental impact of both large and small scale projects. To achieve this, it is very important to consult potential users and affected communities in order to tailor projects to local circumstances. Well designed surveys of intended beneficiaries and other affected communities should reveal what kind of asset/service is sustainable by the community. It may be that lower cost solutions to service delivery which draw on local resources in the construction and maintenance of the assets are better able to meet the needs than high tech alternatives. Whether or not this is the case, the planning, design and implementation of projects should take account of national development objectives, such as the creation of opportunities for productive employment which is much needed throughout the region.⁴

4. COHERENCE BETWEEN DFID OBJECTIVES IN AFRICA AND THOSE OF THE AfDB

DFID has for some years been providing Poverty Reduction Budget Support (PRBS) to a number of African countries including Rwanda, Tanzania, Uganda, Ghana, Mozambique, Zambia, Ethiopia and Malawi. Under PRBS donors provide funds directly into a partner government's own financial system to support national poverty reduction strategies. The provision of aid as budget support means that DFID will automatically be using the recipient country's financial systems, including the country procurement systems. DFID's pre-conditions for providing aid as budget support are that the receiving country's government prioritises poverty reduction, has open and transparent financial systems, and respects human rights and other international obligations.⁵

DFID has also been in the forefront of policies to untie aid. Aid untying and using country procurement systems are key objectives of the 'Paris Declaration' to which a large number of bi-lateral and multi-lateral development institutions have signed up.

In the AfDB the use of country procurement systems has not yet progressed very far. Within the AfDB the water department is taking the lead in delegating responsibility for project implementation to borrowing countries. This department is using country systems for International Competitive Bidding in Uganda and Tanzania and for small projects let under National Competitive Bidding in other countries. However, in other departments the Bank retains considerable control over procurement, with some dedicated Project Implementation Units (PIUs) still being used. Recently AfDB procurement has been decentralised to 26 field offices but they have little authority and major decisions still have to be approved in headquarters, causing considerable delay.

The system is now being reviewed to give more autonomy to the field offices, but it would seem to make more sense to instead push ahead with delegating responsibility for procurement to country organisations and systems. ICE and EAP would encourage AfDB to make greater use of country procurement systems, so long as they are transparent and stand up to scrutiny, in order to build their capacity.

5. THE RELATIONSHIP BETWEEN WORLD BANK AND THE AfDB

Harmonised procurement policies

Procurement reform in Africa has been driven by World Bank led attempts to harmonise procurement policies. AfDB has reviewed and updated its procurement policies as part of the process of harmonisation with the remaining Multi-lateral Development Banks. The procurement policies are guided by four basic considerations:

- Economy and Efficiency
- Fairness
- Development of Regional Members Countries contractors and suppliers
- Transparency

Despite recognising the need to balance local development with other procurement objectives, the MDB procedures for procurement of works generally insist on International Competitive Bidding (ICB) and acceptance of the lowest evaluated bid. Although there is a technical component to the bid evaluation, in reality lowest price invariably wins. Hence, there is a focus on competition at the expense of development objectives. This is reflected in the new procurement regulations in many African countries which are reforming their procurement procedures under the direction of the World Bank.

⁴ In October 2007, Ministers of Labour and public Works from 11 Southern African countries, meeting in Durban, issued a statement in which they committed to support the creation of appropriate policies, institutions and tools to ensure the employment intensity of infrastructure investment is increased to its full potential.

⁵ DFID, "AfDB Development Effectiveness Summary", 2007.

The World Bank promotes ICB and acceptance of the lowest price bid, as it believes that these methods are the most likely to reduce opportunities for corruption.⁶ The lowest price is easier to police and less open to abuse.⁷ However, corruption is rife under the current regime and lowest price does not necessarily offer the best value for money with a detrimental effect on the quality of the infrastructure asset. Furthermore, there has been no systematic attempt to evaluate the extent to which these restrictions may themselves have a negative impact on development.

Whilst recognising the desire to enforce strict rules where previously few existed, ICE and EAP recommends that AfDB and the Multi-lateral Development Banks review the UK Office of Government Commerce guidelines for Achieving Excellence in Construction, particularly how to achieve best value in construction procurement. We also suggest that procuring entities in borrowing countries be encouraged to take advantage of the provision in the UNCITRAL Model Law (upon which many countries have based their procurement regulations) to allow consideration of economic development criteria in tender evaluation.⁸ These criteria may include the impact of a bid on the Balance of Payments and foreign exchange reserves, the extent of local content, economic development potential, encouragement of employment, transfer of technology and development of managerial, scientific and operational skills. Unfortunately this provision in the Model Law may not be reflected in national legislation, or if present may not be taken up in practice. It is recommended that countries should, if necessary, adjust their national regulations to include it.

6. CONCLUSIONS

In summary ICE and EAP recommends that:

- Procuring services and goods from local contractors and suppliers and using techniques adapted to the local resource endowment, would generate income and employment locally and could make a substantial contribution to economic growth and poverty reduction. The development of local suppliers is also necessary for the maintenance of infrastructure assets.
- To increase the developmental impact on both large and small scale projects, it is important to consult potential users and affected communities in order to tailor projects to local circumstances.
- AfDB makes greater use of country procurement systems, so long as they are transparent and stand up to scrutiny, in order to build capacity.
- AfDB and the Multi-lateral Development Banks review the UK Office of Government Commerce guidelines for Achieving Excellence in Construction, particularly how to achieve best value in construction procurement.
- Procuring entities in borrowing countries be encouraged to take advantage of the provision in the UNCITRAL Model Law (upon which many countries have based their procurement regulations) to allow consideration of economic development criteria in tender evaluation.

John Hawkins, Manager Management Procurement and Law, Institution of Civil Engineers

Jill Wells, Programme Manager, Engineers Against Poverty

Submitted on behalf of the Institution of Civil Engineers and Engineers Against Poverty

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Memorandum submitted by Transparency International

OVERVIEW

1. TI considers the African Development Bank (AfDB) to be uniquely positioned to draw on regional and international experience to support governance reforms vital to the social and economic development of its Regional Member Countries (RMCs).

2. The AfDB, unlike the World Bank, provides the Governments of African countries a strong voice in all decisions of the Bank. More than any other financial institution supporting the region, the African Development Bank has the potential of genuinely reflecting the voice of citizens in African countries.

⁶ A further factor is the influence of the 'business community' in donor countries. For many years there has been some expectation among the major donors that benefits in the form of contract awards will be commensurate with the size of donations and donor country firms. That there is still some connection between contributions and awards would seem to be borne out by the fact that the United Nations supports purchasing from developing countries but still has to include on tender lists firms from 'Under-utilised major donors countries'.

⁷ Harland, C., L.Knight, N. Caldwell, J. Telgen, Government reform and public procurement: Executive report of the first workshop, 2003, International research study on public procurement, University of Bath, Centre for Research in Strategic Purchasing and Supply and University of Twente, Initiative for Purchasing Studies

⁸ UNCITRAL Model Law on procurement of goods, construction and services, Article 34

3. TI considers this to be single most important comparative advantage of the AfDB. It confers on the AfDB the opportunity and responsibility to demonstrate that it is guided by the concerns of citizens in taking decisions on both the content and process of its development support to RMCs. RMCs in turn have the opportunity to include their citizens and political representatives at key decision-making points to ensure that the support provided by the AfDB reflects their priorities.

4. The AfDB has an expressed commitment to elevate the quality of governance to the top of the region's development agenda. A coordination of its efforts with regional initiatives such as the NEPAD/APRM process positions it well to support learning between its member countries in the region.

5. The proportion of today's official bilateral and multi-lateral lending to Africa from the World Bank, AfDB and OECD countries has significantly diminished compared to that of total foreign lending in the 1970s. New lenders with commercial interests have appeared instead: China, Kuwait, Saudi Arabia, India, Brazil and the United Arab Emirates.

6. AfDB could lead the international agenda in setting and implementing transparency and accountability standards in lending for development and private sector investments. In doing so it would minimize the risks to sustainable development and good governance inherent in the diversified sources of credits and investments for RMCs. The AfDB, where it acts together with other MDBs and donors, would then still in a position to contribute to institutional frameworks that determine whether commercial lending and investments benefits citizens and reduces poverty in RMCs.

7. TI points below to some specific issues, where it sees an opportunity for the AfDB to demonstrate its comparative advantage and lead the international agenda in the region.

SPECIFIC RECOMMENDATIONS

I. *Accountability to citizens through transparent and inclusive decision-making*

8. The AfDB is a signatory of the Paris Declaration and many of the RMCs have ratified the UNCAC. The AfDB thereby expresses its commitment to ensure aid effectiveness by ensuring the highest standards of accountability to citizens. TI considers that the AfDB could support RMCs in advancing on this objective through directly assisting citizens in playing a truly informed role in development programmes.

9. From extensive experience available from other financial institutions on supporting national development strategies, such as the PRSP processes, the engagement of citizens, civil society and political representatives has been peripheral and unable to inform and sustain development investments.

10. The AfDB is well-placed to pioneer a fund for direct support to citizens and civil society in decision-making on national development strategies and implementation. This would allow RMCs to advance on their implementation of UNCAC Article 13⁹ and demonstrate effective citizen participation to other signatories of the UNCAC.

II. *Internal systems and incentives for public accountability*

11. To ensure the greatest effectiveness of its operations, the AfDB had initiated the process of conferring more decision-making responsibilities to its country offices. TI is concerned that this by itself will not increase effectiveness without a concurrent effort to create spaces for citizens to provide direct feedback on the relevance and effectiveness of support provided by the AfDB.

12. While the establishment of AfDB's Independent Review Mechanism is a welcome initiative, it focuses on adverse effects of AfDB financing and is in itself not a pro-active instrument creating accountability to citizens in the mainstream of decision-making. TI recommends that the AfDB could ensure greater public accountability through a pro-active policy of informing citizens in the RMCs of its development plans and provide them with a voice at the outset of planning processes and during implementation. The AfDB could consider setting new standards of public accountability by linking performance incentives for its staff in country offices, to the degree of informed, institutionalised and inclusive engagement of citizens and civil society in its decision-making on country strategies, programmes and during implementation.

⁹ Article 13 of the UNCAC states in part that each State Party shall take appropriate measures, within its means and in accordance with fundamental principles of its domestic law, to promote the active participation of individuals and groups outside the public sector, such as civil society, non-governmental organizations and community-based organizations, in the prevention of and the fight against corruption and to raise public awareness regarding the existence, causes and gravity of, and the threat posed by corruption.

III. *Specific support to anti-corruption strategies*

13. As part of the initiative of MDBs to harmonize their policies and lending practices and align them to country priorities, TI considers it essential that RMCs are supported in developing high standard anti-corruption policies.

14. The AfDB is particularly well-placed to lead the harmonisation efforts by MDBs and bilateral donors and support RMCs in ensuring that anti-corruption efforts are placed within the mainstream of national strategies. The COMPAS initiative allows the AfDB to compare itself favourably with other MDBs where it succeeds in setting benchmarks with committed RMCs.

15. A universal agreement exists on the link between anti-corruption efforts and the positive impact on poverty reduction. TI's National Integrity Systems studies undertaken in a number of countries in Africa recognise that the lack of political will has rendered most institutions mandated with fighting corruption largely ineffective in many African countries.¹⁰ The need to actively engage not only the executive, but also non-executive stakeholders including the legislature, citizens, civil society, media, the private sector etc. through multi-stakeholder processes is recognised as being essential to establish broad-based country ownership of anti-corruption strategies. The AfDB could consider direct support to engage stakeholders in multi-stakeholder processes in RMCs.

16. A central aspect of anti-corruption efforts is directed at budget transparency. Extensive commitments have been made by many RMCs on transparent and accountable public finance management under the UNCAC. These commitments will be difficult to achieve without technical assistance to support and monitor progress. The AfDB could establish a separate facility to both support such efforts as well as include advancements on the UNCAC as part of its performance criteria for lending.

17. Infrastructure has become a focus of AfDB lending. This is a sector particularly prone to corruption if policy and investment decisions are not undertaken through transparent decision-making procedures. Citizens need to be able to verify that investment decisions are not influenced by corruption but have gone through a transparent decision-making process of comparing options and identifying the most cost-effective and pro-poor investment decision. This should be the case not just where the AfDB attempts to minimize social and environmental costs. Lessons from including citizens in infrastructure projects in the water sector that create ownership stakes and management participation particularly on operation and maintenance could inform the AfDB's procedures.

18. The AfDB has committed itself to supporting the Extractive Industries Transparency Initiative (EITI). By providing incentives to those RMCs to follow EITI recommendations, setting benchmarks and widely publicizing good practice, the AfDB can create public awareness on the benefits of budget transparency to poverty reduction.

IV. *Public finance management and the role of parliaments*

19. The AfDB, as a signatory to the Paris Declaration, has committed itself to providing financial resources in a manner that strengthens good governance, transparency and accountability in partner countries.

20. In its role as regional bank, led by RMCs, the AfDB could directly support the capacity of parliaments to undertake effective budget oversight and report back to the public on the use of public resources.¹¹ Revenues from licences, royalties, investments etc. undertaken through domestic and multinational enterprises and particularly those from non-renewable natural resources are part of development resources that should be reviewed by parliaments in the context of national development strategy planning and the annual review of budgets.

V. *Giving an African voice to the implementation of existing policy frameworks*

21. The current EU Policy Coherence for Development programme is aimed at aligning European policies on trade, investment, research etc. to support development objectives. The AfDB as a regional institution would be well placed to liaise with African governments and civil society to monitor European policies in trade, investment, research and other areas to ensure that they are aligned to the overall objectives of the sustainable development. The AfDB can also lead and support African governments and civil society organisations in monitoring compliance to the OECD guidelines for multinational enterprises.

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¹⁰ Overview: NIS Studies of Southern African Countries (Transparency International 2007), available at <http://www.transparency.org/policy—research/nis/regional/africa—middle—east>

¹¹ See TI's policy position on Poverty, Aid & Corruption brought out in June 2007 on <http://www.transparency.org/global—priorities/poverty>