AfDB: Stopping the rot

01/04/1999

?In Africa,? says a spokesman for the African Development Bank (AfDB), ?the demand for infrastructure is huge and growing?. The lack of local government financing available to meet the demand for infrastructure means that the Bank has an important role to play in privately-funded projects which normally involve foreign investment.

The AfDB has recently recognized the importance of private sector involvement in the provision of modern, economical infrastructure. Private firms are replacing foreign aid-backed state utilities and are delivering better services, more efficiently and at lower costs. Says spokesman for the AfDB: ?In 1996 the Bank decided to finance infrastructure projects under the private sector window. Since then the number of such projects, and correspondingly project finance, is increasing.? The Bank attaches a lot of importance to the development of the private sector in the regional member countries and it has achieved remarkable progress in establishing a good working relationship with investors and co-financiers. These include CFD/Proparco, EIB, IFC, FMO, CDC, DEG, KfW and Opic.

Says Guy Antoine, manager for western and central Africa for the International Finance Corporation in Washington, who has had dealings with the AfDB for many years: ?It is always a challenging job to do private sector finance in Africa and we always welcome those who want to join us. That is what the AfDB has been doing. We have started a number of cofinancing deals and we are keen to do more?.

The Bank's private sector reform which began in 1991 has been led primarily by president Omar Kabbaj who is, according to the South African press, the man responsible for saving the bank from collapse. Although the success of the reforms has been largely attributed to Kabbaj, who took over in August 1995 and implemented the changes, the reform plan was formulated under his predecessor Babacar Ndiaye.

In recognizing the need for reform the bank has brought its commercial lending rates more in line with those in the international market and has focused its attention on providing soft loans only to those countries which are poorest. There are 39 members which remain eligible for these concessionary loans as their governments' cannot afford to borrow at the Bank's new increased commercial interest rates.

Of the remaining 14 members, 11 countries have been barred from applying for concessionary loans altogether. They have been deemed too wealthy to need them ? having gross domestic products of above $540 a head. The bank's reforms have not been welcomed by all. Says a spokesman for the AfDB: ?Its true that a number of the countries that do not qualify for concessionary loans are not happy like Gabon, Namibia, the Seychelles and Swaziland and they have complained bitterly about this decision.? A further three countries are eligible for both AfDB and African Development Fund loans, known as blend loans, which go to projects which are thought to be efficient.

Despite these regulations for public projects all African nations, no matter how poor or war-torn, can apply for financing for private projects. ?Any private operator can apply for financing,? says a spokesperson for the AfDB. ?For example if a manufacturer comes to us with a project to make tinned fish in Khartoum we will look into to it to see if it is a viable project.?

The AfDB provides a bridge between the demand for, and the availability of, investment. Total foreign direct investment flows to Africa have more than tripled over the past five years, reaching $90 million in 1995. But these inflows have not been rising as fast as they have to other emerging markets and have not kept up with demand. The AfDB is limited to what it can provide and will not normally invest or lend more than $15 million or 33% of the total cost of a project. ? While the Bank's financing may be modest in relation to the total financing needs of these projects, the Bank's association is intended to provide confidence and comfort to lenders and investors, who may hesitate to participate otherwise, due to perceived risks, or lack of familiarity with conditions in the host countries,? says a spokesperson at the AfDB. In 1998 the AfDB lent $154 million from its resources for projects worth $1.5 billion.

The Bank has recently raised its profile with an investment in Côte D'Ivoire's high-profile Azito power project. The AfDB provided senior and subordinated debt to a $55 million tranche which was arranged by a club which included the Commonwealth Development Corporation, the Dutch Development Agency FMO and the German development Bank DEG.

The Bank was established in Côte D'Ivoire in 1964 and began operations in 1996 with a mission to promote economic and social development through loans, equity investment and technical assistance. The Bank is supported by countries in Africa, the US, Latin America, Europe and Asia. It has 53 African shareholders, which encompass all the nations on the continent, and 24 international shareholders. The bank forms part of the African Development group with its affiliates African Development Fund and Nigeria Trust Fund.

Since 1996 the bank's private sector reforms have succeeded in increasing the Bank's efficiency by providing soft loans only to those who are in most need and providing expertise to enable people to help themselves. This appears to be the only way that the AfDB can survive and the only way to do any lasting good for the economies on the African continent. n

Countries disqualified from concessionary loans

Algeria, Botswana, Gabon, Libya*, Mauritius, Morocco, Namibia, Seychelles, South Africa, Swaziland and Tunisia.

Countries eligible for blend loans (from both AfDB and ADB)

Egypt, Nigeria, Zimbabwe.

*Libya is one of the largest investors in the AfDB but has chosen not to borrow from it on the basis that other countries have greater need than it for loans.