

**Ministry of Foreign Affairs** – (Department for Department for Multilateral Cooperation, MUS)

**Meeting in the Council for Development Policy 1 July 2020**

Agenda item 2

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| <b>1. Overall purpose</b>                       | For discussion and recommendation to the Minister                      |
| <b>2. Title:</b>                                | Organisation Strategy for the African Development Bank Group 2020-2024 |
| <b>3. Presentation for Programme Committee:</b> | 28 May 2020  |

# Organisation Strategy for the African Development Bank Group 2020-2024

*This strategy forms the basis for the Danish contributions to the African Development Bank Group from 2020-2024 with a total amount of DKK 1.230 M. The main priorities for Danish support to AfDB Group are: 1) inclusive growth and job creation for youth, 2) climate change and green growth, 3) fragility, and 4) gender equality with the cross-cutting issue of countering the development impact of COVID-19 in Africa. These priorities have been chosen because they address the most important barriers and opportunities for a just and sustainable development in Africa. To generate a sustainable, green and equitable development in Africa, governments must build resilient societies, create jobs for youth and women, build robust and inclusive societal structures, and secure green growth. These priorities are especially important in the short-term when Africa is trying to recover from the negative effects of COVID-19.*

## Key results:

- The AfDB Group is one of the main sources of finance for the SDG's and Paris Climate Goals in Africa
- The AfDB group's long term development engagement contributes to creating sustainable development and eradicating poverty in Africa.
- The AfDB Group promote ambitious economic reforms and help countries build strong institutions.
- The AfDB group helps regional member countries respond to the developmental effects of the COVID-19 crisis.

## Justification for support:

*The AfDB Group is an important interlocutor and development partner for Denmark in Africa. The priorities of the Bank Groups Ten Year Strategy and the high-five priorities corresponds well with Danish development priorities as expressed in the Danish government's development political priorities for 2020. Especially, in relation to the Danish government's priority of Africa, fighting fragility, promoting green growth, equality and youth.*

## Major risks and challenges:

- The Bank Group is exposed to contextual risk relating to political turmoil, corruption and fragility but can also be affected by global market developments and financial shocks.
- The Bank Group faces institutional risk related to human resource management, institutional efficiency, quality of operations and mismanagement of funds.
- The AfDB Group has established various policies and procedures to reduce exposure to risks assumed in the normal course of providing development banking services.

<b>File No.</b>	2020 - 16075					
<b>Continent</b>	Africa					
<b>Responsible Unit</b>	MUS					
<b>Sector</b>	Multiple sectors					
<b>Partner</b>	The African Development Bank Group					
	<i>DKK mill.</i>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Commitment</b>	1.230					
<b>Projected ann. disb.</b>	101.3	122.75	140.8	161.4	167.1	
<b>Duration</b>	2020-2024					
<b>Previous grants</b>	Yes, since 1973					
<b>Finance Act code</b>	06.37.01					
<b>Head of unit</b>	Henriette Ellermann-Kingombe					
<b>Desk officer</b>	Rose Marie Arvid Larsen					
<b>Reviewed by CFO</b>	NO / YES: Name of CFO					

## Relevant SDGs [Maximum 5 – highlight with grey]

 No Poverty	 No Hunger	 Good Health, Wellbeing	 Quality Education	 Gender Equality	 Clean Water, Sanitation
 Affordable Clean Energy	 Decent Jobs, Econ. Growth	 Industry, Innovation, Infrastructure	 Reduced Inequalities	 Sustainable Cities, Communities	 Responsible Consumption & Production
 Climate Action	 Life below Water	 Life on Land	 Peace & Justice, strong Inst.	 Partnerships for Goals	

## Strategic objectives:

The overall mission of the AfDB Group is to spur sustainable economic development and social progress in regional member countries. In line with this mission, AfDB Group's Ten Year Strategy pursues two overarching objectives. The first is to make growth inclusive by broadening access to economic opportunities for more people, countries and regions, while protecting the vulnerable. The second is to make growth sustainable by helping the continent transition gradually to green growth.

## Justification for choice of partner:

The AfDB Group has a unique and central role to play in Africa's development. It is the only major multilateral financial institution dedicated entirely to Africa's development. It plays a central role in Africa's regional institutional architecture, alongside the African Union, World Bank and the UN, with a strong mandate to mobilise resources for development and promote regional economic integration. The AfDB Group acts as the voice of Africa on global development and climate policy. Further, the AfDB Group provides policy advice and intellectual leadership on a range of development issues.

## Summary:

The organisation strategy is the central point of reference for Denmark's dialogue and partnership with the AfDB Group 2020-2024. It sets the Danish priorities for the AfDB Group within the institution's own development strategies. Based on the Government of Denmark's development policies and plans, the main priorities for Danish support to AfDB Group are: 1) inclusive growth and jobs for youth, 2) climate change and green growth, 3) fragility, and 4) gender equality, with the cross-cutting issue of countering the development impact of COVID-19 in Africa.





**MINISTRY OF FOREIGN AFFAIRS  
OF DENMARK**  
*Danida*

**STRATEGY FOR DENMARK'S  
ENGAGEMENT WITH THE AFRICAN  
DEVELOPMENT BANK 2020-2024**

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## List of Abbreviations

ADF	African Development Fund
AfDB	African Development Bank
HR	Human resources
JfYS	Jobs for Youth Strategy
SDG	Sustainable Development Goals
SME	Small and Medium Size Enterprises
UN	United Nations

## 1. Objective

This strategy forms the basis for the **Danish contributions** to the African Development Bank Group (AfDB Group) from 2020-2024 with a total amount of DKK 1.230 M. This strategy is the central point of reference for Denmark's dialogue and partnership with the AfDB Group. It sets the **Danish priorities for** the AfDB Group within the institution's own development strategies. Based on the Government of Denmark's development policies and plans, the main priorities for Danish support to AfDB Group are: 1) inclusive growth and jobs for youth, 2) climate change and green growth, 3) fragility, and 4) gender equality, with the cross-cutting issue of countering the development impact of COVID-19 in Africa.

## 2. The Organisation

### 2.1. Mandate and mission

The AfDB Group was established in 1964. Today, the AfDB Group has 81 members consisting of 54 regional member countries and 27 non-regional member countries. African members shall always own 60 pct. of the AfDB Group's capital while non-regional shareholders own 40 pct.

The overall mission of the AfDB Group is to spur sustainable economic development and social progress in regional member countries. In line with this mission, AfDB Group's Ten Year Strategy pursues two overarching objectives. The first is to make growth inclusive by broadening access to economic opportunities for more people, countries and regions, while protecting the vulnerable. The second is to make growth sustainable by helping the continent transition gradually to green growth<sup>1</sup>.

With the adoption of the Sustainable Development Goals (SDGs), the Paris Climate Agreement in 2015, the AfDB Group introduced a set of high-five priorities to align the Bank Group's ten year strategy with the global goals and agendas.<sup>2</sup> They set five central themes for the work of the bank: 1) Light up and power Africa, 2) Feed Africa, 3) Industrialise Africa, 4) Integrate Africa, and 5) Improve the quality of life for the people in Africa.

### 2.2. Key results

In the past four years, the Bank's High 5 priorities have delivered impressive results on the ground, including:

- **Light Up and Power Africa:** helping to connect 16 million people to electricity
- **Feed Africa:** 70 million people provided with agricultural technologies to boost food security;
- **Industrialize Africa:** 9 million people given access to finance through private sector investee companies;
- **Integrate Africa:** 55 million people provided improved access to transport services;
- **Improve the Quality of Life for the people of Africa:** 31 million people with access to water and sanitation.

### 2.3. Organisation and Budget

The AfDB Group consist of two entities: The African Development Bank (AfDB) and the African Development Fund (ADF). By the close of 2018, AfDB managed DKK 620 B in total authorised capital, while ADF managed DKK 280 B in total resources. The AfDB Group is the fourth largest provider of official development finance to Africa and one of the largest provider of non-concessional lending among traditional development actors. This makes the AfDB Group one of the main sources of finance for the

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<sup>1</sup> African Development Bank (2013);, *At the Center of Africa's Transformation*

SDG's and Paris Climate Goals in Africa<sup>3</sup>, while, of course, being much smaller than the World Bank, which is around twice the size when looking solely at operations in Africa.

The AfDB is the Bank Group's window for non-concessional lending<sup>4</sup>. It provides loans, guarantees and equity investments to regional member countries. The AfDB uses paid-in and callable capital to raise capital in international markets where it holds top credit rating (AAA-ratings). The bank leverages paid-in capital from member countries nine times. The bank also provides technical assistance and advisory services, helping regional member countries build knowledge and capacity. Currently, 21 of 54 sovereign governments in Africa fulfil the AfDB's eligibility requirements. AfDB mainly lends to governments but it can also lend to private-sector counterparts across the continent. In addition, AfDB mobilises resources through trust funds. In 2019, 2.8 pct. of all AfDB project approvals came from trust funds.

The ADF is the Bank Group's provider of concessional lending and grant financing. The ADF contributes to poverty reduction and economic and social sustainable development by financing projects and reforms and providing technical assistance and capacity building in low-income African countries that are not eligible to borrow from the AfDB.

#### 2.4. Decision-making

The highest decision-making body of the AfDB Group is the Board of Governors, with one representative per member country. The Board of Governors meets annually to review the implementation of past policy decisions and to deliberate on new policy issues. The Minister for Development Cooperation is Denmark's governor of the Bank, while the Director for Development Cooperation is the alternate governor. Decisions by the Board of Governors requires a two-third majority. Each member's vote is determined by its capital stock in the Bank, which ensures that any significant decision require support by both regional and non-regional members.

The Board of Directors is responsible for overseeing the Bank Group's operations. The Board of Directors consists of 13 representatives from regional member countries, and 7 from non-regional member countries. A constituency of countries elects each representative. Decision making in the Board of Directors requires two-third majority. Denmark is part of the Nordic-Indian constituency, together with Norway, Sweden, Finland, and India. The positions of executive director, senior advisor and advisor in the Nordic-Indian constituency office rotates between members. Denmark currently holds the senior advisor position and Norway holds the executive director position. In 2023-2025, Denmark will take on the executive director position. Ireland became a member of AfDB last year and is expected to join the Nordic-Indian constituency in 2020.

#### 2.5. Largest shareholders

Denmark's current shareholding is 1.14 pct. which positions Denmark as the 11th largest shareholder among the 28 non-regional member countries. USA is the largest non-regional shareholder (6.4 pct.), followed by Japan (5.3 pct.) and Germany (4.0 pct.). The UK has the biggest burden share (12.4 pct.) in the ADF. China is not very active in the Bank Group's board of directors or board of governors and has a shareholding of only 1.18 pct. However, China is a very active co-financer of the bank's infrastructure projects through its Africa Growing Together AfDB co-financing fund of USD 2 billion. Furthermore, the majority of the top companies that are awarded AfDB contracts are Chinese.

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<sup>3</sup> AfDB, (2019): A Proposal for a seventh General Capital Increase- *A Stronger Bank for Africa's Accelerated Development*.

<sup>4</sup> Non-concessional loans are long-term loans extended on terms that are relatively close to market terms. By comparison, concessional loans have terms that are substantively more generous than market loans.



Among the regional member countries, Nigeria is the biggest shareholder with 9.1 pct., followed by Egypt (5.7 pct.) and South Africa (4.9 pct.). Furthermore, Coté D'Ivoire, the home of AfDB's headquarters, is an important shareholder with 3.7 pct.

Denmark and the Nordic countries always try to establish alliances broadly with both regional and non-regional member countries depending on the issue at hand.

### 3. Key Strategic Challenges and Opportunities:

#### 3.1 Development in Africa

The African economies are widely diverse, but some overall trends of the past decades should be emphasised. Improvement in economic governance and the business environment have ushered in a long period of sustained economic growth lifting millions out of absolute poverty. Rapidly growing cities, a young and fast growing population and the increased purchasing power of the urban middle-class have been making African countries increasingly attractive markets for investment. A small, but growing number of African countries have been embarking on a structural shift to manufacturing and higher-value added services and agricultural products. Economic growth has been accompanied by an expansion in basic health and education services, raising Africa's human capital<sup>6</sup>.

The negative effects of the COVID-19 pandemic, however, have put the positive development trends of the past decades at risk. For African countries, the direct costs of responding to the COVID-19 crisis will be accompanied by a wide range of adverse economic impacts. Sub-Saharan Africa is projected to have its first recession in 25 years with GDP declining by 2.1-5.1 percent in 2020<sup>5</sup>. Furthermore, existing challenges on the continent are being exacerbated by the pandemic including persistent conflict and fragility, poor governance, gender equality and human rights challenges, as well as accelerating climate impacts<sup>6</sup>. Africa's public health systems are expected to come under severe stress. Unemployment will increase and place national social protection systems under great pressure. The global economic crisis will affect African countries through multiple channels, including reduced trade, financial flows, tourism, disruption in supply chains and declining prices of oil, gas and other commodities. Many African countries – particularly those already dealing with high levels of debt – may face sharp increases in their fiscal and current account deficits, constraining their ability to respond to the COVID-19 crisis and manage its wider economic impacts<sup>7</sup>. These negative economic effects are expected to push 23 million people in Sub-Saharan Africa into poverty and result in high welfare losses.

Africa is the last development frontier – and, arguably, the region least resilient to a global recession and health crisis. With a decade left to achieve the SDG's, it is increasingly clear that the success or failure rests substantially on progress in Africa.

#### 3.2 AfDB's relevance and comparative advantage

The AfDB Group has a unique and central role to play in Africa's development. It is the only major multilateral financial institution dedicated entirely to Africa's development. It plays a central role in Africa's institutional architecture, alongside the African Union, the World Bank, and the UN with a strong mandate to mobilise resources for development and promote regional economic integration. The AfDB Group acts as the voice of Africa on global development and climate policy - for example, it helped formulate and communicate the African position for COP21. Further, the AfDB Group provides policy advice and intellectual leadership on a range of development issues.

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<sup>5</sup> World Bank (2020): *Africa's Pulse*

<sup>6</sup> AfDB, (2019): A Proposal for a seventh General Capital Increase- *A Stronger Bank for Africa's Accelerated Development*.

<sup>7</sup> AfDB (2020): *THE BANK GROUP'S COVID-19 RAPID RESPONSE FACILITY (CRF)*

The Bank Group is currently playing an important role in helping regional member countries through the COVID-19 crisis. The Bank Group has identified up to USD 10 B in resources that can be made available in 2020 to help member countries and their private sector enterprises respond to the COVID-19 crisis. USD 2.3 B will be earmarked to ADF countries, which are the most vulnerable. The Bank Group's engagement will be tailored to the nature of the shock facing a country, and will include poverty alleviation, social protection and policy based financing to support structural reforms. The Bank will collaborate and work in close synergy with the UN, World Bank and the IMF. The AfDB group for example approved a USD 2 million grant for the World Health Organization in support to its health operations on the continent, an area where the Bank Group does not have a lot of experience. The Bank Group has additionally launched a record-breaking USD 3 billion Social Bond to attract risk tolerant finance for COVID-19 response operations. Denmark supports the Bank Group's strong COVID-19 response, which is aligned with the Danish governments focus on helping Africa through the pandemic.

Member countries' trust in the ability of the AfDB Group was emphasised in 2019, when the seventh general capital increase of 125 pct. was approved by members. This was the largest capital increase in the bank's history. Additionally, donors approved the 15th replenishment of 10 pct. of ADF in 2019. These agreements were accompanied by strong commitments on climate, fragility, jobs for youth, gender equality and strengthening the institutional effectiveness and capacity of the Bank Group. Denmark played an important role in the negotiation processes by advocating for high financial scenario outcomes and ambitious commitments especially on climate. The two processes provides the Bank Group with a strong financial basis to deliver on their commitments in the coming decade.

Over the past decade, the AfDB Group has furthermore instituted reforms to become more transparent and accountable to governments and the public. This has led to an active involvement of civil society organisations and other non-state actors. The AfDB Group now has a participatory approach to its operations emphasizing accountability, transparency, good governance and dialogue. Civil society organisations advise the Bank Group on the formulation and implementation of country operations, diagnostics reports and regional policies and programs. This helps the Bank Group take account of local and context-specific factors in bank engagements as well as create local ownership<sup>8</sup>.

The AfDB Group's main strengths and comparative advantages are:

- **Legitimacy:** the AfDB Group has strong presence all over Africa, operating in 54 countries with 40 country offices. 58 pct. of AfDB Group staff work out of country offices. The Bank is a trusted partner for African governments with strong legitimacy and convening power on the continent, being e.g. the only international financial institution invited to Heads of States meetings at the African Union.
- **Knowledge:** The AfDB Group is a leading institution in Africa for generating data and knowledge products about Africa and African development<sup>9</sup>.
- **Institutional development and capacity development in recipient countries:** The AfDB Group is well placed to draw on its privileged access to African decision-makers to promote ambitious economic reforms and help countries build strong institutions. The Bank Group engages with member countries to strengthen fiscal systems, increase accountability in the use of public resources, increase domestic resource mobilisation, facilitate the delivery of public services, and strengthen public financial management<sup>8</sup>.
- **Strong selectivity:** The AfDB Group is currently increasing its focus on sectors where its expertise and investments is believed to be particularly catalytic; investing in quality infrastructure,

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<sup>8</sup> AfDB: Framework for Enhanced Engagement with Civil Society Organizations

<sup>9</sup> CSIS (2019): The Role of the AfDB and the Future of Africa

strengthening Africa's private sector, promoting investment in regional integration, strengthening economic governance and mobilising development finance for Africa.

### 3.3 Addressing AfDB Group challenges

The AfDB Group faced serious governance issues in the 1990's. Since then, it has strengthened procedures, safeguards and oversight and maintained its AAA-rating. In 2016, the president of AfDB Group, Mr. Akinwuni Adesina, launched a reform process focused on strengthening the bank's representation in regional member countries and making operations more transparent and cost efficient<sup>10</sup>.

However, the bank still has a number of institutional shortcomings. The bank is therefore implementing further institutional reforms throughout the next decade, focusing on human resource management, institutional efficiency and quality of operations. One of Denmark's main priorities is to ensure that the following institutional challenges and reforms are addressed and implemented:

- **Human resource (HR) management:** Compliance with HR procedures is weak across the organisation. Challenges include limited tools and training of HR staff and high leadership turnover.<sup>11</sup> Decentralisation of operations has added to the challenge of ensuring that all employees have the relevant skills and resources. Gender equality within the bank is furthermore weak. The Bank Group recognises the shortcoming and are implementing reforms to integrate and increase compliance of HR procedures and gender equality across the organisation.
- **Increasing effectiveness and quality of operations:** The Bank Group aims to increase the effectiveness and quality of operations by ensuring increased synergy between sector complexes and regional offices. Further, the Bank Group aims to improve coherence and complementarity between public sector and non-sovereign operations and enhancing knowledge and capacity development<sup>12</sup>. A 2018 evaluation found that the Bank Group has underperformed in its policy dialogue activities despite its position as trusted partner to African decision makers. This was mainly due to lack of coordination and capacity of bank staff<sup>13</sup>. To address this issue the bank aims at strengthening institutional and human capacity for policy dialogue.
- **Handling allegations against elected officials:** The Bank maintains a comprehensive system of internal controls for handling the risk of corruption, which are explained further in section 8. However, the banks processes for examining allegations against elected officials has proven to be ineffective on multiple occasions. This is a weakness of the bank that needs to be addressed urgently. Denmark has zero tolerance for corruption and misconduct. It is therefore crucial that the AfDB group have effective internal processes in handling corruption and misconduct allegations. It is a top priority for the nordic countries that the Bank Groups procedures for handling allegations against elected officials is evaluated and reviewed.
- **Partnerships:** Africa is seeing an increasing number of new development actors, raising the premium on working together to reach the SDG's and climate goals of the decade. As a donor to many of the larger multilateral organisations, Denmark can help promote synergy and a sound division of labour. This can for instance be done by advocating for increased country level donor coordination in political dialogues with multilateral organisations.
- **Analysis of country contexts:** The AfDB Group does not have a mandate to interfere in countries' internal political affairs. Mindful of political sensitivities, the AfDB Group's context analyses of the political and economic situation of African countries have often proven too optimistic. This is problematic, as the bank's analysis should present an objective reflection of

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<sup>10</sup> AfDB, (2019): A Proposal for a seventh General Capital Increase- *A Stronger Bank for Africa's Accelerated Development*.

<sup>11</sup> IDEV (2017), *AfDB Human Resource Management Policy and Strategic Directions: A Formative Evaluation*

<sup>12</sup> IDEV (2019): *Independent Evaluation of the Implementation of the Development and Business Delivery Model of the AfDB*.

<sup>9</sup> IDEV (2018): *Independent Evaluation of AfDB Program Based Operations*.

the situation in countries. It is the banks responsibility to always be objective. To ensure that the Bank Group is delivering on its responsibilities the Nordic-Indian constituency monitors that knowledge available from other institutions is taken into consideration when the Bank Group is making its diagnostic studies and policy papers. Furthermore, the constituency works with Nordic embassies to verify the bank's context analyses in Danish priority countries. Comments from embassies conveyed at board level has contributed to the accuracy of the bank's analyses.

- **African representation in the ADF:** Only three African countries are donors to the ADF. As more countries in Africa move into the middle-income category, solidarity with the poorest countries should increase, and the sustainability of the fund improve with more African donor countries joining ADF. The governance structure of the fund should be revised to create incentives for African countries to become donors. Denmark will promote the idea of such an adjustment in line with the Danish priority of promoting representative multilateral institutions.

Denmark recognises that the AfDB Group has a number of shortcomings, but the Bank Group has come a long way in tackling them and is prioritising continuous reforms. Denmark has been part of the Bank Group's institutional development journey since the 80's and its completion requires our continued engagement.

## 4. Justification of support and Danish priorities

### 4.1 Justification of support

Denmark became a member of the AfDB Group in 1973. The AfDB Group is an important interlocutor and development partner for Denmark in Africa. The banks priorities of the Ten Year Strategy and the high-five focus areas corresponds well with Danish development priorities as expressed in the Danish government's development political priorities for 2020<sup>14</sup>. Especially, in relation to the government's priority on Africa, fighting fragility and migration, promoting green growth, equality and youth employment. Furthermore, Danish cooperation with the African Development Bank is essential for reaching the Danish Minister for Development Cooperation's goals in relation to creating access to water and renewable energy in Africa.

The AfDB contributes to the realization of all the 17 SDGs. In view of the AfDB's comparative advantages in the multilateral development architecture, Denmark considers the following six SDG's particularly pertinent for the AfDB during the coming strategy period: 1. No poverty; 6. Clean water; 7. Sustainable energy; 8. Decent jobs and economic growth; 10. Reduced inequalities; 13. Climate Action.

Using development finance to leverage and catalyse commercial finance in line with the Addis Ababa Action Agenda will be crucial to deliver on the SDGs in Africa. The Bank Group is increasingly using innovative approaches for blending commercial and concessional finance to support bank-led projects. This includes ADF loans to governments to invest in public private partnership and the use of blended financing pools, such as renewable energy funds that catalyse commercial capital into new low-carbon technologies.

In addition, the Bank Group plays a vital role in creating investment opportunities. This is important for Danish companies doing business in Africa and will be especially important in increasing global export in the aftermath of COVID-19. Every year the bank hosts the Africa Investment Forum, which brings together development finance actors and policymakers from Africa to link Africa's investment opportunities to available sources of capital. Furthermore, to stimulate additional private sector investments in low-income countries, the ADF offers a Partial Risk Guarantee instrument, which protects

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<sup>14</sup> UM (2019): *Regeringens Udviklingspolitiske Prioriteter 2020*

private lenders against well-defined political risks related to the failure of a government or a government-related entity<sup>15</sup>.

The AfDB Group is a good platform for advancing Danish development priorities because:

- It is a significant and trusted development actor in Africa, where Denmark has considerable political and development interests;
- Its policies and strategies are in line with the Danish development priorities' on poverty reduction and sustainable growth, and addresses long term development needs crucial for the prevention of migration;
- It is central to helping regional member countries respond to the COVID-19 crisis and its economic consequences.
- It is instrumental in setting the African agenda on green growth, sustainable energy and climate change;
- It is stepping up its engagement in situations of fragility in Africa;
- As an African owned, African managed, all-African institution it holds a status as preferred partner for African countries;
- It is an institution rated as efficient and effective and it is striving to improve.

#### 4.2. Danish priorities

The four Danish priority areas for the AfDB are: 1) inclusive growth and job creation for youth, 2) climate change and green growth, 3) fragility, and 4) gender equality.

The Danish priorities for the AfDB group are even more important with the unprecedented impact of COVID-19 in Africa. Countering the effects of COVID-19 will be a cross-cutting issue across all the priorities.

These priorities have been chosen because they address the most important barriers and opportunities for a just and sustainable development in Africa. To generate a sustainable, green and equitable development in Africa, governments must build resilient societies, create jobs for youth and women, build robust and inclusive societal structures, and secure green growth. These priorities need to be an integral part of efforts to recover and rebuild after the COVID-19 crisis in Africa.

*Inclusive growth and job creation for youth:* The growing share of working age people in Africa's populations might catapult countries up the development ladder by generating more productive and better-paid jobs in more advanced sectors. Rapid population growth also presents challenges, fuelling widespread youth underemployment in several countries. The mismatch between the qualifications supplied by the education system and the skills demanded by businesses is exacerbating unemployment and prompting an urgent need to develop appropriate skills. These challenges can potentially grow with the negative economic effects of the COVID-19 pandemic, as 20 million informal and formal jobs are projected to be lost if the crisis continues<sup>16</sup>. The closing of education and training will further result in loss of investment in skills. However, if Africa's demographic potential is managed properly, it could unlock tremendous economic opportunities for Africa and its partners in the aftermath of the pandemic.

The Bank has a key role to play in unlocking the potential of Africa's private sector and ensuring that it is inclusive, diversified and able to deliver jobs and opportunities at scale for young Africans. Creating a dynamic and resilient economy depends in part on a strong private sector with firms capable of competing globally, ready to invest and trade across borders. The Bank Group's role includes lending and making equity investments in the private sector and assisting regional member countries strengthen

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<sup>15</sup> AfDB, (2019): A Proposal for a seventh General Capital Increase- *A Stronger Bank for Africa's Accelerated Development*.

<sup>16</sup> AU (2020): *IMPACT OF THE CORONAVIRUS (COVID 19) ON THE AFRICAN ECONOMY*



their financial sectors and promote more favourable business and investment climates. The Bank Group's work also focuses on accelerating economic transformation through investment in infrastructure that helps to connect citizens to public services, as well as farmers and other economic agents to markets and value chains<sup>17</sup>.

The aim of the Bank Group's "Jobs for Youth in Africa Strategy" (JfYS) (2016-2025) is furthermore to support countries scale up their response to the youth unemployment and underemployment crisis, reaping the demographic dividend through the creation of employment opportunities for young people, with a particular emphasis on young women<sup>18</sup>.

Denmark's priorities for influencing the Bank Group's work with *Inclusive growth and job creation for youth* are:

- Call on the bank to collaborate with other development partners and country stakeholders to generate high-quality job diagnostics at a country level.
- Call on the bank to include youth as a cross cutting issue across all the Bank Group activities.
- Call on the bank to engage more strategically in technical and vocational education for youth, and combine skills development with apprenticeship and internship programs in both the public and in the private sector, including in the informal economy.
- Urge the bank to focus on migration hot spots and fragile countries in their jobs for youth operations.
- Urge the bank to also target the informal sector in their interventions, especially in their COVID-19 response.
- Closely follow the implementation of the bank's JfYS and the policy commitment (made in connection to the 15<sup>th</sup> replenishment of the ADF) that 40% of Bank-approved ADF projects integrate skills and decent jobs for youth by 2022. This will also be pursued through the Danish participation in the Youth Entrepreneurship and Innovation Trust Fund which will be described in more detail in section 5.2.
- Encourage and influence the Bank Group's support to the African Continental Free Trade Area.

*Climate change and green growth:* Climate change poses significant challenges to Africa's economic, social and political development. Despite only contributing with 4% of global greenhouse gas emissions the continent is already experiencing an increased frequency and intensity of extreme weather events, severe environmental degradation, desertification, stress on water resources, reduced crop productivity, and loss of biodiversity. The socioeconomic consequences are severe, increasing fragility as communities compete for resources in affected areas. ADF countries are the most vulnerable to climate change and the least equipped to deal with its consequences. In spite of this, Africa only receives around 4% of global climate finance. Addressing climate threats is a central part of securing a successful post-COVID-19 recovery and ensuring transformational growth. The COVID-19 crisis should be followed by a "build back better and greener" approach, where economic transformation will be generated by a greener and more sustainable development pathway in Africa.

The Bank Group works along four main pillars aligned with the Paris Agreement: climate-resilient development; mitigation and low carbon development; financial resource mobilisation; and enabling environment<sup>19</sup>. By 2021, the Bank Group will introduce a new climate change and green growth strategy. On current targets 40 percent of new approvals annually will be climate finance (2020-2023) with 50

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<sup>17</sup> ADF15 Deputies Report (2019): *An Enabling Environment for Inclusive and Sustainable Transformation, Decent Jobs and Greater Resilience*.

<sup>18</sup> AfDB (2016): *Strategy for jobs for youth in Africa (2016-2025)*

<sup>19</sup> AfDB (2016): *Second Climate Change Action Plan (2016-2020)*

percent for mitigation and 50 percent for adaptation and resilience building in climate sensitive sectors. The 40% is considered an ambitious climate-target for a Bank Group that works in the poorest continent with numerous development needs. The bank will target climate finance investments into building climate smart agriculture to reduce the numbers of people exposed to the impacts of extreme weather across the continent. In addition, the Bank Group work with establishing vital infrastructure on the continent to e.g. increase access to water and energy in Africa. The Bank Group is becoming a champion for SDG 7 and SDG 6 on the continent, driving e.g. investments in large renewable energy projects in countries with no or limited experience with renewable energy. An example is the Desert to Power Initiative, which aims to connect 250 million people in Sahel to electricity produced by solar panels. Increasing access to energy and water will be an important countermeasure to the COVID-pandemic in Africa.

Denmark's priorities for influencing the Bank Group's work with *Climate change and green growth* are:

- Closely follow and comment on the drafting and implementation of the new strategy for climate change and green growth. The strategy should call for more ambitious and time-bound goals on climate where AfDB should continue to increase its share of investments in renewable energy and energy efficiency under time-bound goals, thus contributing to building Africa back better.
- Closely follow and influence the drafting and implementation of the Bank Group water sector strategy (2021).
- Call on the Bank Group to engage with countries in formulating and implementing ambitious National Determined Contributions and ensure that projects align with the Paris Agreement. Projects should focus on long-term energy planning with a holistic approach where renewable energy investments and spatial deployment minimizes environmental impact and maximizes social economic benefits and just transitions.
- Call for AfDB to support energy access target in line with SDG 7. Denmark also supports this ambition through the Sustainable Energy Fund for Africa. Projects should entail decentralized renewable energy solutions with emphasis on off grid solutions for remote rural communities.
- Call on AfDB to help countries phase out fossil fuel subsidies.
- Call for the AfDB to scale up its support to create access to water and develop water security in arid areas to enhance climate resilience in line with SDG 6.
- Urge the Bank Group to strengthen its focus on environment, in particular access to water and biodiversity with emphasis on nature based solutions for low carbon development and climate resilience.

*Fragility:* 21 out of the 36 fragile countries and territories are in Africa. The negative impacts and financial strains resulting from the COVID-19 pandemic will reduce fragile countries' ability to respond to their security challenges especially in the Sahel region. Empowering African nations to transition out of fragility is central to the Bank Group's core mission. The Bank Group builds resilience by tackling the root causes of fragility and structural vulnerabilities such as lack of economic opportunity, discrimination of ethnic or social groups in public spending, climate change, and migration. While these drivers exemplify the variability of fragility patterns in Africa examples of successful transitions out of fragility, such as those of Côte d'Ivoire and Rwanda, demonstrate that countries can move quickly out of fragility when governments are committed to building resilience. The Bank Group's work with fragility focuses on three priority areas: (1) Strengthening state capacity and support for effective institutions; (2) Promoting inclusiveness to build resilience; and (3) Leading on policy dialogue, partnership, and advocacy on issues of fragility in Africa.

The Bank Group is part of the MDB Platform on Economic Migration and Forced Displacement to support member countries in developing a strategic alignment that enhances responses to irregular migration and forced displacement. The Bank Group also partners with the African Union and the United

Nations Economic Commission for Africa as members of Africa's High-Level Panel on Migration. Similarly, the Bank Group is an active member of the Sahel Alliance.

A new fragility strategy for the Bank Group will be introduced in 2021. Recognising the economic costs of internal displacement and migration, the Bank Group will work with regional member countries and partners to better identify drivers of migration as part of its fragility agenda. The Bank Group is well positioned to support longer-term efforts to stem irregular migration in areas such as improved access to employment opportunities and mitigation of climate change impacts<sup>20</sup>.

Denmark's priorities for influencing the Bank Groups work with *fragility* are:

- Urge the Bank Group to strengthen internal delivery capacity to work with fragility in terms of both skills development and staff capacity.
- Support the Bank Group's efforts to increase institutional capacity to engage in policy dialogue with governments to strengthen institutional reforms and address roots causes of fragility.
- Call on the Bank Group to work in close corporation with other development and humanitarian institutions, including the World Bank and UN organisations in contexts of fragility.
- Closely follow and influence the drafting and implementation of the new fragility strategy (2021). Secure the inclusion of learning and cross-referencing to the World Bank's strategy for Fragility, Conflict & Violence in the strategy.
- Work for a holistic Bank Group approach in relation to refugees, displaced people and responding to irregular migration and displacement.
- Call on the Bank Group to intensify work with addressing the disproportionate impact of armed conflict on women in line with UN resolution 1325. Stress the importance of women's equal and full participation in peace and security.

*Gender equality:* African women are key economic actors, performing the majority of the agricultural work, owning a third of all firms and, in some countries, constituting seven out of every 10 employees. Women are also central to family welfare and household economies. Yet women face a broad range of barriers to access to services as well as economic participation, including barriers that directly impact their right to decide over their body, their life and their future. Progress towards gender equality on the continent remains slow. Furthermore, women are likely to be more affected by the COVID-19 crisis. Pandemics are known to disproportionately impact women's health, livelihoods and safety. Women, who are highly represented in the informal sector in Africa, are most at risk of losing their livelihoods and wages.

Gender equality is a cross-cutting issue for the AfDB Group and is also a priority for the Bank Group's COVID-19 response facility. The Bank Group will develop a new gender equality strategy in 2020 with bank-wide objectives and an action plan. To help mainstream gender into its operations, a gender marker system will be rolled out to track the extent to which projects include gender objectives, outcomes or outputs. The Bank Group has furthermore, set out a range of targeted interventions to promote women's economic empowerment. These include access to electricity and clean cooking solutions, improved agriculture practices, lines of credit for women-owned and -led small and medium-sized enterprises, and access for girls and young women to education and training in science technology engineering and mathematics skills. Gender will also be part of the Bank Group's knowledge work and policy dialogue with regional member countries, focusing on key ingredients for the economic empowerment of women, such as access to land and finance.<sup>21</sup>

Denmark's priorities for influencing the Bank Groups work with *gender* are the following:

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<sup>20</sup> ADF-15 (2019): *Strategic Direction of the Bank Group's Fragility Agenda*

<sup>21</sup> ADF15 Deputies Report (2019): *An Enabling Environment for Inclusive and Sustainable Transformation, Decent Jobs and Greater Resilience.*



- Closely follow and influence the drafting and implementation of the gender equality strategy and action plan (2020).
- Follow the implementation of the Bank Group's own policy commitments to; 1. achieve gender screening of 100% of operations by 2025, 2. categorise 75% of all ADF public sector operations along the Banks Gender Marker System by 2022.
- Call on the Bank Group to intensify the identification and tackling of the root causes of gender inequality, including in women's economic empowerment, as well as in in fragile contexts.
- Increase focus on gender equality internally within the Bank Group by e.g. securing that the Bank Group hires more women in managerial positions.

## 5. The means of influence

In this section, Danish means of pursuing the Danish priority areas will be described.

### 5.1. Nordic-Indian constituency

The Nordic-Indian constituency's seat on the Bank Group's board of directors is Denmark's primary channel of influence into the AfDB Group. While an important development actor in Africa, India is not very active in the work within the constituency. With India less active, Nordic-Indian executive director primarily represent the Nordic countries. The Nordic countries have a long history of support to the Bank Group and are among its highest contributors in per capita terms. The support from AAA-rated countries (Denmark, Sweden and Norway) is essential for the Bank Group to maintain its AAA-rating. Close collaboration and alignment has given Nordic countries channels of influence and access not necessarily available to other shareholders. The Nordic countries have similar priorities, resulting in a high level of consistency in the Nordic positions on the board of directors.

The Nordic-Indian constituency works together with Nordic embassies to gain input on bank projects and strategies. Furthermore, embassies can play a part in pushing Danish priorities at country/regional level by questioning and raising issues through donor coordination forums or directly to the Bank Group.

One of Denmark's other channels of influence is through participation in the negotiations of the general capital increase of the AfDB and the replenishment of the ADF. These processes provide the Bank Group with the non-earmarked funds for its core operations and defines the main priorities of the Bank Group's operations. In 2019, Denmark participated actively in close collaboration with the Nordic countries in the negotiation processes and was part of pushing ambitious goals and commitments.

### 5.2. Trust funds

Denmark provides support to some of the AfDB Group's thematic trust funds. This is a means for Denmark to support the Bank Group's development of analytic and operational capabilities in areas of high priority for Denmark. Mindful of the potentially corrosive effects of earmarking and of the proliferation of new concerns pushed on to the AfDB agenda through trust funds, Denmark will exercise restraint and priority will be given to multi-donor engagements. Denmark plans to supporting the following three trust funds in the strategic period:

**Second phase of Sustainable Energy Fund for Africa (SEFA), DKK 300 million (2020-2030):** The objectives of SEFA are to contribute to universal access to sustainable, reliable, and affordable energy services and reduce emissions from the energy sector as well as to leverage climate finance to renewable energy in Africa. The projects from the first phase of SEFA are expected to lead to 250,000 new

connections providing access to about 1.6 million people, and a reduction of 12 million tons of CO<sub>2</sub><sup>22</sup>. SEFA is a key vehicle for Denmark to influence the Bank Group become a transformative actor for inclusive and green growth.

**Youth Entrepreneurship and Innovation Trust Fund (YEI), DKK 35 million (2018-2025):**

Denmark established YEI together with the AfDB in 2018. YEI operations are targeted to migration hot spots in Africa. YEI aims at supporting dynamic and innovative youth-led start-ups and Micro, Small & Medium Enterprises, both in the formal and in the informal sector. The fund is a means for Denmark to increase the Bank Groups focus on youth employment.

**African Water Facility (AWF), to be confirmed (2021-?):**

Denmark has previously supported the AWF and is looking to reengage in this strategic period to deliver on the Minister for Development Cooperation's goal of increasing access to water in Africa. AWF provides grants and expert technical assistance to implement innovative water projects and raise investment for water projects throughout Africa.

### 5.3. Secondments

Secondments are possible vehicles for positive collaboration in and monitoring of the implementation of Danish priorities as well as provision of critical technical support to the Bank Group. One of the priorities in this strategic period is to deploy Danish secondments into the Bank Group to work with Danish priority areas for example within renewable energy.

## 6. Monitoring

Denmark can monitor the Bank Group's progress vis-a-vis the Danish priorities set out in this strategy through the Multilateral Organisation Performance Assessment Network (MOPAN) evaluations and through the Bank Group's own Annual Development Effectiveness Review and Results Measurement Framework.

The performance and evaluation of the AfDB Group is monitored by MOPAN which is a network of 18 donor countries including Denmark. MOPAN will make a new evaluation of AfDB in 2021.

The Bank Group's independent evaluation unit prepares the Annual Development Effectiveness Review. It reviews development trends across Africa in each of the high five priority areas of the bank and assesses how the Bank Group's operations have contributed. It is a management tool for the Bank Group, helping assess its performance against the targets and milestones in the Bank Group's result measurement framework.

Each level of the Bank Group's result measurement framework sets out indicators and annual time-bound, quantified targets. The Bank Group also disaggregates indicators and targets by gender whenever possible. The result measurement framework assess impact at four levels. Level 1 tracks development progress across Africa, Level 2 measures the Bank Group's contributions towards development in all its operations, Level 3 assesses the quality of the Bank Group's operations, and Level 4 monitors the Bank Group's efficiency as an organisation.

Recently, the ADF has published its own results measurement framework (annex 1). The ADF results framework is aligned, but separate, from the AfDB Group's results framework, providing results specific to ADF countries. Denmark will receive annual updates on progress made in implementing the ADF result measurement framework.

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<sup>22</sup> Sustainable Energy Fund for Africa(2019): *Conversion to a Special Fund and Scale Up*

The AfDB Group’s reporting on results and institutional improvements will continuously be followed by Denmark together with the Nordic-Indian constituency. The following Bank Group indicators<sup>23</sup> are the most relevant to track in relation to the Danish priorities:

	ALL AFRICAN COUNTRIES		
	Latest	Target	
	2018	2018	2025
<b>DK Priority: Green growth and climate change</b>			
Level 1: Share of population with access to electricity (%)	52	59	97
Level 1: Installed renewable capacity (GW)	37	51	92
Level 1: Access to safely managed drinking water services (% population)	72	75	83
Level 2: New renewable power capacity installed (MW)	197	560	5600
Level 2: People with new electricity connections	570	2400	24000
- Of which women	261	1200	12000
Level 2: Emission reductions in energy (thousand tons CO2)	719	1800	18000
Level 2: People with new or improved access to water and sanitation	8,2	3,62	36,2
Level 3: New operations with climate informed design	85	81	>95
<b>DK Priority: Inclusive growth and jobs</b>			
Level 1: Youth employment rate	14	13	11
- Rate for young women	15	15,5	13
Level 1: Population living below the poverty line	40	39	32
Level 2: Direct jobs created	1,2	1,06	10,6
- Of which jobs for women	0,6	0,53	5,3
Level 3: Quality of Country Strategy Papers	3,1	3,2	>3.7
Level 3: Quality of new operations	3,3	3,4	>3.7
<b>DK Priority: Fragility</b>			
Level 1: Number of refugees and internally displaced people ( number)	23,9	12,3	Towards 0
<b>DK Priority: Gender equality</b>			
Level 1: Gender Inequality Index	0,52	0,49	0,4
Level 3: New operations with gender informed design (%)	87	81	>95

## 7. Budget

The Danish contribution to the 15<sup>th</sup> replenishment of the ADF will be DKK 694 million to be disbursed in the period 2020-2029, cf. the table below.

The Danish cash payment for shares in connection to the 7<sup>th</sup> general capital increase of the AfDB will be DKK 536 million to be disbursed in the period 2020-2028.

### Expected Danish contributions to the Bank Group:

Million DKK	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
AfDB	67	67	67	67	67	67	67	67			536
ADF	34.3	55.75	79.8	94.4	100.1	96.8	83.2	68.2	59.9	21.7	694.15

### Callable Capital of the 7<sup>th</sup> general capital increase of the AfDB:

Denmark will provide callable capital for 94 pct. of the shares that Denmark has and will subscribe to. In connection with the 7<sup>th</sup> general capital increase of the AfDB approximately DKK 8.2 billion will be provided in callable capital.

### The 16<sup>th</sup> replenishment of ADF:

<sup>23</sup> AfDB (2019): *Annual Development Effectiveness Review*

During this strategic period the negotiation for the 16<sup>th</sup> replenishment of the ADF is planned to be finalised and should become active in 2023.

## 8. Risks and assumptions

The AfDB Group has established and executes various policies and procedures to reduce exposure to risks assumed in the normal course of providing development banking services. The Bank Group maintains a comprehensive system of internal controls designed to keep contextual, operational and institutional risks at appropriate levels. These internal controls are periodically updated to conform to industry best practice.<sup>24</sup> The Bank Group's oversight, compliance and accountability mechanism are implemented by the Auditor General, Department for Integrity and Anti-Corruption, Evaluation Department, Ethics Department, Environmental & Social Safeguards and Compliance Department, Internal Review Mechanism and the Ombudsperson<sup>25</sup>.

**Contextual risks:** The Bank Group operates in challenging environments. The Bank Group is particularly exposed to contextual risk relating to political turmoil corruption and fragility but can also be affected by global market developments and financial shocks. Adequate risk management systems are in place and operational at the project level and to monitor fiduciary risks. Criteria to assess the level of risk for all countries have been established and risk assessments are part of the Bank Group's country strategy papers. When a project document is prepared, it is screened and categorised based on risk level, with this determining the risk mitigation methods required. It is followed up in project monitoring report and project completion report. At the portfolio level the AfDB has a live early warning system designed to anticipate risk and allow corrective action to be taken. Country performance and sector performance are ranked, with risk being one of the performance criteria. Teams are required to develop "turnaround plans" for those countries/sectors that are most critical.

**Financial risks:** With its preferred creditor status the Bank Group never writes off loans to the public sector. The only exception was the Multilateral Debt Relief Initiative from 2005 where donors provided 100 percent relief on eligible debt from three multilateral institutions to a group of low-income countries. However, African countries are exposed to a number of external and internal shocks that can force the government to seek a restructuring of their portfolio with the AfDB to enable the country to service its debt. These risks, as well as the potential losses on its private sector portfolio, are handled by the Bank Group's risk management framework and the buffers created by its equity. It would take a systemic financial meltdown affecting many borrowers or several large borrowers to provoke a situation where the Bank Group would have to ask shareholders to release their callable capital, a situation which has never occurred<sup>2</sup>. However, there is a risk associated with African countries being downgraded in connection to e.g. a pandemic. This influences the Bank Group's head room for new lending.

**Operational risks:** The Bank Group is exposed to various types of operational risk, including the potential losses arising from internal activities or external events caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transaction processing, settlement systems and the execution of legal fiduciary and agency responsibilities. The Bank has a business continuity and disaster preparedness plan, to assure the immediate continuity of all essential operations in the aftermath of a disaster.

**Institutional risks:** The Bank Group faces institutional risk related to human resource management, institutional efficiency and quality of operations. However, one of the main institutional risks of the Bank Group is related to corruption and mismanagement of funds. In 2016, the Bank Group adopted an

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<sup>24</sup> AfDB (2008): *Risk management Policies and Processes*.

<sup>25</sup>AfDB, (2019): A Proposal for a seventh General Capital Increase- *A Stronger Bank for Africa's Accelerated Development*.

Integrity Due Diligence Policy and in 2017 an Illicit Financial Flows Policy to prevent these issues. The Bank Group currently conducts pre-financing integrity due diligence checks on projects and institutes continuous integrity due diligence checks, including tax due diligence throughout the project cycle. The Bank Group has completed plans to mainstream anti-money-laundering/counter-terrorist financing and counter-Illicit Financial Flow measures in all Bank Group activities. This work is spearheaded by the Bank Group's Integrity and Anti-corruption Department.

In order to further strengthen, the Bank Group's anticorruption and investigation work, the Bank Group has enhanced the transparency of follow-up actions taken following completion of internal investigations. However more can be done, the Bank Group's Integrity and Anti-corruption Department only reports to bank management. One way to increase the oversight and transparency of the departments work is to have the department report to the board of directors as well. Furthermore, there are shortcomings in the bank's procedures for handling cases against elected officials and in the bank's whistleblower policy. These are to be evaluated and reviewed in 2020. Strengthening the banks oversight and procedures for handling corruption is a top priority for the Nordic-Indian constituency and the agenda is being pushed at all levels including through the Nordic governors.