

## **ARAB BANK FOR ECONOMIC DEVELOPMENT IN AFRICA (BADEA)**

*Even though a signatory to the Paris Declaration, participation of the Arab Bank for Economic Development in Africa in the 2008 Paris monitoring survey was limited, with only 4 entries (Mali, Senegal, Sierra Leone and Malawi). Because of this restricted coverage, results cannot be relied upon to be representative and are thus not reported.*

### **1) QUANTITY OF AID**

#### **1.1 Current/Recent Quantity Performance:**

based on disbursements	<b>2006</b>
<b>ODA Net Disbursements</b>	68.4
<b>ODA Gross (=loans+grants) Disbursements</b>	109.4

Source: BADEA (2007, p56).

The Arab Bank for Economic Development in Africa (henceforth BADEA) net disbursements stood at US\$ 68.4 million for 2006, up 31% compared to 2005. Gross disbursements were US\$ 109.4 million (table 1.1). BADEA's total budgeted allocation (i.e. commitments) for 2006 stood at US\$ 170 million (BADEA, 2007, p14).

#### **1.2. Future Quantity Intent**

BADEA plans to ramp up its total commitments over the period 2005-2009, with the corresponding Five-Year Plan budgeted at US\$ 675 million. Increasing by USD 10 million a year, BADEA expects to reach a total commitment of USD 200 million in 2009 (BADEA, 2004).

### **2) KEY AGENCIES/MECHANISMS**

#### **2.1 Agencies and Structures**

BADEA is financed by the member countries of the League of Arab States. Its operations started in 1975. BADEA's mission is to foster the economic development of non-Arab African countries, encourage Arab capital participation in Africa, and provide Africa with the necessary technical assistance. In 1977, the resources of the Special Arab Fund for Africa were merged with those of BADEA.

#### **2.2 Key Policies and Documents**

*BADEA's 5<sup>th</sup> Five-Year Plan (2005-2009)* (BADEA, 2004)

Agreed in 2004, the 5<sup>th</sup> five-year plan introduces some changes to BADEA's policies. These include: (i) more than tripling the Bank's paid up capital to USD 2.2 billion, (ii) increasing total commitments as described above, (iii) according special attention to countries in conflict, (iv) using Arab and African expertise, commodities and services

in BADEA-financed projects, and (v) introducing the possibility of more flexibility in its lending terms along with added incentives to service loans in a timely manner.

### 3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

#### 3.1. Recipient Countries

In 2006, BADEA provide concessional financing to 40 African countries, with a majority of funds going to LDCs.

Top 10 recipients	US\$m	% of total
1. DRC	13.5	7.9%
2. Mali	13.2	7.8%
3. Namibia	12.7	7.5%
4. Sierra Leone	11.3	6.7%
5. Kenya	10.0	5.9%
6. Malawi	10.0	5.9%
7. Tanzania	8.7	5.1%
8. Nigeria	8.4	4.9%
9. Ghana	8.0	4.7%
10. Senegal	7.3	4.3%
<b>Total</b>	<b>103.2</b>	<b>60.7%</b>

Source: BADEA, 2006 data (2007, p16-17).

Distribution among groups of recipients (2006):

based on approvals	% of total approvals
LDCs	61%
Other LICs	21%
SSA	100%

Source: BADEA (2007, p16-17).

#### 3.2. Allocation Criteria

##### 3.2.1. Pre-selection criteria

BADEA loans are limited to low-income sub-Saharan African countries. Beyond this, there are no pre-selection criteria.

##### 3.2.2. Allocation criteria:

Although BADEA has no specific allocation criteria, it tries to provide annual assistance (mostly loans) to each eligible country which is servicing its debt. BADEA loans cannot exceed 60% of the estimated total cost of the project, with a maximum amount fixed at US\$ 18 million. If the cost does not exceed US\$ 15 million, BADEA can contribute 90% thereof (BADEA, 2004).

### 4) AID POLICIES

#### 4.1. Concessionalality

BADEA gives out both loans and grants. Grants are only used for TA and feasibility studies; hence, the share of grants in BADEA's overall portfolio is tiny (table below)

Concessional (for 2006 approvals):

Grant share of total ODA	3.66%
Grant share of ODA to LDCs	3.56%

Source: BADEA (2007, p16-17).

Loans to LICs have an average grant element of 74.3%. Almost all loans (incl. loans to MICs) are concessional according to the ODA definition (grant element > 25%). BADEA does not offer non-concessional resources; but since 2003, it considers as concessional any loan whose 25% grant component is calculated on the basis of a discount rate of 5% (BADEA, 2004). A 0.25% reduction is applied on interest rates and administrative charges for recipient countries that honor their payments within 30 days.

Terms of BADEA Concessional loans (for 2006):

	Loans to LICs	Loans to MICs
Grant Element (%)	74.3%	46.5% - 56.0%
Maturity (years)	30	22 - 25
Grace Period (years)	10	4 - 7
Interest Rate (%)	1.0%	2.5% - 3.0%
Service charge (%)	0.0%	0.0%
Currency denomination	US\$	US\$

Source: BADEA (2007, p16) and own calculations.

The 5<sup>th</sup> Five-Year Plan outlines a strategy whereby countries will be able to reduce their interest and administrative charge by 0.25% by making their payments within 30 days of the due date (BADEA, 2004). Among HIPC governments, the countries in which concessional of BADEA resources is highest are Chad, Mali, Mozambique and Rwanda (all with concessional loans).

#### 4.2. Types of Assistance

BADEA mostly finances projects, which absorbed 96.3% of total assistance in 2006. The remaining 3.7% went to technical assistance and institutional support actions (the latter currently stands at US\$ 84.23 million for the 1975-2005 period and at US\$ 6.2 million in 2006; it will be increased annually by USD 250,000 until it reaches the US\$ 7 million ceiling). BADEA is very sensitive to the issues of skills transfers and capacity enhancement that it finances through training. It provides neither budget support nor balance of payments support and grants debt relief in the form of debt rescheduling over long periods (BADEA, 2006). BADEA is committed to debt relief, with costs for full debt relief to HIPCs estimated at US\$ 270 million (as of end-June 2007 in NPV terms – see IDA and IMF, 2007, p77). HIPCs indicate that due to its lack of programme support it does not rank highly in terms of aid types.

Types of Assistance (for 2006):

based on approvals	US\$m	% of total
Stand-alone TA	163.7	3.7%
General Budget Support	-	-

Sectoral projects & programmes (incl some TA)	6.2	96.3%
Action related to debt	-	-
Developmental food aid	-	-
Other commodity assistance	-	-
Emergency and distress	-	-
<b>Total</b>	<b>169.9</b>	<b>100.0%</b>

Source: BADEA (2007, p16-17)

### 4.3. Channels of Assistance

BADEA recognizes only governments. Thus, it does not provide assistance to NGOs or the private sector. Project-aid granted by BADEA is mostly channeled into the accounts of line ministries, which can cause coordination problems for central ministries like the Ministry of Finance. Most HIPC's nevertheless indicate high levels of BADEA aid captured on-budget, with best practice (=all aid on-budget) in Ethiopia, the Gambia, Mali, Malawi, Mauritania and Sierra Leone.

### 4.4. Sectors and Projects

Distribution of Loans by Sector (for 2006)

Sectors (based on approvals)	US\$ mio	% of total loans	No of projects
Social & Admin. Infrastructure	43.1	26.3%	7
<i>Education</i>	-	-	-
<i>Health</i>	14.8	9.1%	3
<i>Population</i>	-	-	-
<i>Water supply &amp; sanitation</i>	28.3	17.3%	4
<i>Gov't and civil society</i>	-	-	-
Economic Infrastructure	76.3	46.6%	10
<i>Transport and communications</i>	61.3	37.4%	8
<i>Energy</i>	15.0	9.2%	2
Production	32.8	20.1%	4
<i>Agriculture</i>	26.8	16.4%	3
<i>Industry, mining, construction</i>	6.0	3.7%	1
<i>Trade and tourism</i>	-	-	-
Multi-sector	11.5	7.0%	2
<b>Total</b>	<b>163.7</b>	<b>100.0%</b>	<b>23</b>

Source: BADEA (2007, p16).

The 2005-09 5 year plan gives priority to agricultural, rural development and infrastructure, “*without neglecting other sectors like industry, energy, health, education, and environment*”. BADEA assistance further focuses on operations targeting poverty alleviation, food security and encouraging women’s participation (BADEA, 2004).

The greatest share goes to economic infrastructure (US\$ 76.3 million, corresponding to 46.6% of project commitments in 2006 – see table above). In 2005, BADEA allocated US\$ 1.57 million to the organization of Afro-Arab trade fairs to promote trade between Arab and African countries, which is very often not listed among the key PRSP sectors of the countries receiving its aid (BADEA, 2006).

The 5-year plan adds that for sectoral allocations there is “*some flexibility to cope with the needs and priorities of the recipient countries*”, even though the same document goes on to say that flexibility is also there to maintain “the overall sectoral balance”(BADEA, 2004). Among HIPCs, Ethiopia, the Gambia and Sierra Leone indicate that BADEA provides more than 75% of its assistance to PRSP priority sectors.

#### **4.5. Flexibility**

Under certain circumstances, BADEA could finance balance of payment deficits as part of coverage against oil price hikes. But since the end of FASAA in 1977, it no longer does so, because it lacks the necessary resources for the coverage of external shocks. BADEA also proposed in its 5<sup>th</sup> Five-Year plan to introduce a measure which would allow it to extend more than one loan for one country in the same calendar year in case of enhanced country need (BADEA, 2004). However, neither in 2005, nor in 2006 did BADEA make use of this possibility (see respective annual reports).

BADEA is assessed rather poorly for flexibility by HIPCs, with an overwhelming majority of countries (19 out of 21) indicating very low flexibility, but Mozambique and Zambia indicate that it has been flexible in changing financing plans and moving money to new government priorities.

#### **4.6. Predictability**

BADEA is a donor with relatively flexible disbursement procedures. It regularly honours its multi-year commitments. HIPCs consider BADEA a relatively predictable donor with 6 of 9 countries indicating more than 75% of funds are disbursed in the planned year, and the same number of countries replying specifically to the multi-year indicating that BADEA makes multi-year commitments.

#### **4.7. Conditionality**

BADEA does not have any economic policy conditionalities.

#### **4.8. Policy Dialogue**

Owing largely to its lack of representation in-country, BADEA neither engages in the direct periodic dialogue countries have with the World Bank and the IMF nor in the policy dialogue fora existing in some countries between the Government and other development partners. Nevertheless, it uses international conferences and annual meetings to participate in and support some policy dialogues. It places a high premium on coordination with other Arab financial institutions (see section 5.5).

This is well reflected in HIPC assessments, with countries reporting BADEA does not have any BWI-linked disbursements, and that it has in-country engagement.

### **5) AID PROCEDURES**

#### **5.1 Conditions Precedent**

BADEA demands that requests for financing of projects with proven technical, economic and financial feasibility should be submitted to it. BADEA does not execute directly the projects it finances, but requires the setting up of a public or private execution agency, which should be clearly indicated in the loan agreement.

No disbursement can be made without the prior transmittal to BADEA of a legal notice announcing the freeing up of counterpart funds and, in some cases, the establishment of a project execution/implementation unit. (However, these conditions precedent are sometimes waived, e.g. for a recent project in Burkina Faso, BADEA did not ask for counterpart funds). According to HIPCs, counterpart funding is not demanded at all in Sao Tome, and is not onerous in Ethiopia or Zambia. ( ).

In general HIPCs do not see BADEA's conditions precedent as very cumbersome, with Mozambique indicating the best performance, followed by Sao Tome and Cameroon.

A key aspect which sometimes delays agreements and disbursements is that BADEA acts (for its loans) only when it co-finances with another donor (normally Arab – see also section 3.2 and 5.5).

## **5.2 Disbursement Methods**

The loan agreement contains information on first and last disbursements. Disbursements are subject to a withdrawal application submitted to BADEA by the ministry in charge of finance or the plan. The disbursement application file comprises: a transmittal letter; a copy of the contract concluded by a supervisor with the named beneficiaries, advances, invoices or briefs used as a basis for the drafting of the funds withdrawal application.

Disbursements are made following the agreed modalities using one of the under-mentioned methods or a combination of several methods.

- Direct payment: whereby the Bank pays directly to the supplier the sums indicated in the specified currency or currencies and in one or more specified accounts.
- Payment as reimbursement.

According to HIPCs, BADEA rarely disburses more than 50% of funds as cash advances (eg in the Gambia, Ethiopia and Sao Tome). Nevertheless, BADEA's disbursement procedures cause only moderate delays, with the least in the Gambia, Mali, Malawi and Mauritania.

## **5.3 Disbursement Procedures**

BADEA related project execution/implementation units need to keep a reliable accounting system to enable BADEA to carry out all document-based controls that it deems necessary. BADEA may at any time conduct spot-checks of project execution, whilst it demands a quarterly progress report to be submitted within thirty days after the end of the quarter. Upon completion of the project, and formally within a period of 6 months thereafter, the beneficiary must forward to BADEA a report on the project and the start of operation of facilities put in place.

According to HIPCs, BADEA often uses government procedures for disbursement and financial management, with the Gambia, Malawi and Rwanda reporting no additional procedures.

#### 5.4 Procurement Procedures

Procurement procedures are based on competitive bidding procedures, but are mostly limited to Arab, African or Arab-African firms. In some cases, bidding is even restricted to the regional area in Africa in which the project is being implemented (BADEA, 2005).

HIPCs do not see BADEA's procurement practices as highly restrictive, however, because of the openness to local procurement, but the procurement procedures do appear to cause some delays (less so in Ethiopia, the Gambia and Mozambique). Where possible, BADEA makes use of the Arab co-ordination group's *Procurement guidelines for supplies and works contracts used by institutions of the Coordination Group*.

#### 5.5 Coordination

In 1975, the "Coordination Group" was set up, with the aim of harmonizing operational procedures among 8 Arab aid institutions, which often act as co-financers of the same projects. The members are: (i) The Islamic Development Bank (IsDB), (ii) the Arab Gulf Program for UN Development (AGFUND), (iii) the Arab Fund, (iv) Arab Bank for Economic Development in Africa (BADEA), (v) OPEC Fund for International Development, (vi) Kuwait Fund for Arab Economic Development, (vii) Abu Dhabi Fund for Arab Economic Development and (viii) the Saudi Fund for Development. The Group publishes common guidelines and procedures (e.g. the ones listed in World Bank, 2005).

BADEA generally insists on co-financing its projects with another donor. Co-financing donors are mostly the Arab donors that make up the "Coordination group". In 2004-05, co-financing concerned 13 projects amounting to a total of USD 94.3 million (BADEA, 2006).

According to HIPCs, best practice on harmonizing with other (especially Arab) donors is found in the Gambia and Uganda.

#### Key Sources *(All internet sources were accessed on 1 April 2008)*

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### **ANNEX 1: DATA SOURCES FOR THE ARAB BANK FOR ECONOMIC DEVELOPMENT IN AFRICA (BADEA) ODA**

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The Arab Bank for Economic Development in Africa (BADEA) does not report aggregated or disaggregated ODA data to the OECD/DAC. The figures used in this profile come from BADEA annual report (BADEA, 2007). Only the numbers in table of section 1.1 are on a disbursement basis. All other figures are based on commitments/approvals.