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Ready to be Africa's Climate Bank?

A Mapping of Climate-related Policies, Programs and Practice at the African Development Bank

EXECUTIVE SUMMARY

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Executive Summary

The African Development Bank (AfDB) is a public development bank that lends money and gives grants in Africa. The Bank's influence has been rapidly increasing on the continent along with its lending to high-risk sectors such as major dams, biofuels and extractive industries. In 2011, as part of a multi-year replenishment cycle, AfDB received commitments of $9.5 billion in donor funds for its lending to low-income countries for 2011-2013, and in 2010 reached an agreement to triple its capital base to nearly $100 billion in an effort to sustain its higher lending levels to middle income countries and the private sector. AfDB project approvals in 2010 reached $3.97 billion for the private sector and middle-income borrowers, and $2.24 billion to low-income African governments.

In early 2011, AfDB indicated its intention to establish and manage an Africa Green Fund to support African states that individually lack the knowledge and technology to secure needed global climate funds. In the context of the expected widespread impacts of climate change on the continent, the Bank is positioning itself as a strategic partner that will help African states resolve the dilemmas posed by sustainable development and climate change adaptation.

Within this context, it is appropriate and necessary to interrogate the Bank's actual track record on sectors and initiatives related to climate change, as these can provide clues to the Bank's suitability to manage any future infusions of funds to address climate change in Africa.

This mapping represents largely a desk review of AfDB's engagement, commitments and, when possible, implementation of work surrounding climate change and environmental sustainability. This review was supplemented by discussions with AfDB staff from several departments, who generously provided their time and insights on how the Bank functions internally, and how it intends to operate in the future. As the Bank has strict rules about staff being quoted and representing the institution, these discussions are considered as informal interviews.

Conclusions

In all, the Bank's track record of tackling climate change is minimal. While it has typically approved good and progressive policies, strategies, and frameworks that discuss most of the pertinent issues, actual implementation of policies has ranged from low to non-existent.

The Bank has made important commitments to tackle climate change, yet actual efforts have been plagued by a lack of buy-in from senior management and the board. However, the tide appears to be turning, as the Bank has begun to appreciate the opportunities that climate leadership could bring.

A near constant series of internal restructurings has taken its toll on the Bank's climate change agenda, as responsibility has shifted from department to department, each tasked with mainstreaming climate throughout the institution. Real resources have yet to accompany these moves, which further hampers the Bank's ability to attract and retain competent and experienced staff.

The Bank's commitment to climate change is currently being tested in the energy sector in which, with the exception of 2011, the volume and fossil fuels content of its portfolio have increased rapidly. The Bank's proposed new energy policy makes strong reference to developing a cleaner energy portfolio, but there is significant pushback within the Bank and on its board to becoming more prescriptive. The energy and climate change department has made a strong effort to introduce a meaningful shift in the energy portfolio within the context of the Energy Strategy review, but it remains unclear which forces within the Bank will prevail. It is clear, however, that a business-as-usual approach could seriously undermine the Bank's standing as it seeks to position itself as a climate change leader.

While the regular approval of progressive policies and strategies may never bring about real change, the environmental and social safeguards review and subsequent implementation will be an important process to follow. Meaningful procedures to integrate gender, climate change and community consultation are important steps toward demonstrating the Bank's commitment to environmental and social sustainability.

The **Climate Change Action Plan** (CCAP), which has been under development since early 2008 and is rumored to be nearing approval, presents an important opportunity for the Bank to make new, real commitments toward mitigating and adapting to climate change. The CCAP could help the Bank operationalize its various commitments to assist countries in developing cleaner energy portfolios, reducing greenhouse gas emissions caused by deforestation, climate proofing Bank investments, integrating adaptation into vulnerable sectors, and adhering to operational safeguards that protect the environment and communities.

The mapping is broken down into discrete sections with the major findings in each section described briefly below.

Organizational structure, lending windows and staffing

First, a presentation of the Bank's lending windows and make-up and dynamics of the Bank's board of directors is discussed, along with a breakdown of responsibilities within the Bank to handle issues relating to climate change.

The creation of the **Energy, Environment and Climate Change Department** (ONEC) in 2010 represented the Bank's first real attempt to dedicate resources and staffing to tackle the issue of climate change and manage the Bank's various climate-related commitments such as climate trust funds and the new energy strategy. This has helped ensure greater consistency from the Bank on climate, yet ONEC continues to face difficulties attracting and retaining staff with sufficient expertise, and is left with a resulting overreliance on consultants.

While ONEC has overall responsibility for mainstreaming climate throughout the Bank, though its specific mandate in this regard is unclear, other departments such as Transportation, Agriculture and Water and Sanitation are expected to integrate climate considerations into their programs. Progress in this arena is limited to date.

The newly formed interdepartmental **Climate Change Coordinating Committee** (CCCC) could serve as a body to effectively manage the Bank's myriad climate commitments, yet its long-term mandate remains unclear, and the Bank's track record with such committees and task forces has little to show for the effort.

Energy lending

Secondly, the mapping covers in some depth the Bank's trends in lending to the energy sector since 2004, which provides a first of its kind assessment of the Bank's lending operations, based on actual lending figures culled from the Bank's annual reports. This research revealed that the Bank's energy figures continue to climb, both in absolute and relative terms. By 2010, the energy sector comprised a full quarter of AfDB's total lending for the year, up from just 6 percent in 2004. This represents a major escalation in the sector, as AfDB's total annual lending portfolio grew more than double during that time. While its contribution still represents a small piece of overall investments in Africa's energy sector, AfDB has reached a par with the World Bank and has become one of the premier public sector lenders on the continent.

This research also revealed several interesting findings on the distribution and make-up of its energy portfolio. Above all, the sheer volume of energy lending dedicated to wealthier borrowers, at 76 percent, far outstripped the Bank's support for low-income countries. South Africa, Egypt, Morocco and Tunisia – countries that enjoy among Africa's highest electrification rates – were by far the largest recipients. Though these countries represent the continent's largest emitters, conventional thermal power generation for oil, gas, and coal-fired power plants represented 86 percent of lending to middle income borrowers, and 61 percent of the Bank's total energy portfolio.

Meanwhile, the Bank's energy lending to its 40 low-income borrowers remained quite low, with a heavy emphasis on transmission lines, nearly half of which were cross-border, and traditional distribution projects. Half of the distribution projects had at least a rural electrification component designed to increase energy access for the poor, yet the Bank itself has noted that conventional distribution projects are not an especially cost-effective way to increase energy access in rural areas.

The research also interrogates the Bank's often over-stated role in supporting large-scale hydropower in Africa. Despite the high-profile nature of the projects it has supported, and the often resulting environmental and social consequences, hydropower accounted for just

3 percent of the Bank's lending portfolio from 2004 to 2010. However, the Bank is poised to approve several new large hydropower projects in the next year, and its repeated pronouncements about supporting projects such as the Inga Dam in the Democratic Republic of Congo and the emphasis in its new energy policy and strategy suggest that the Bank is finally ready to become a major financier of African hydropower.

This review is juxtaposed with the Bank's 2008 **Clean Energy Investment Framework** (CEIF), where the Bank laid out priorities for a new energy framework that would assist countries to move toward a cleaner, more sustainable energy portfolio. The framework, which would use AfDB funds to support renewable projects and help countries institute regulatory regimes to facilitate renewable energy, never materialized. A persistent lack of buy-in from senior management and the board, which did not appreciate the need to address or consider climate change, meant that internal mechanisms to mainstream the CEIF and a proposed Climate Change Action Plan to operationalize the CEIF were never enacted.

This chapter also presents the factors that served as the impetus to develop a **new Energy Sector Policy** and **Energy Sector Strategy**, including a series of high-profile and highly controversial hydropower and coal projects. Based on a review of these documents, which are still in draft form, this section provides a critique of the Bank's new approach and how it handles, or ignores, the issue of climate change.

The draft policy contains well-formulated guiding principles aimed at ensuring energy access for the poor and integrating consideration of adapting to and mitigating climate change, yet this does not translate into any meaningful framework for project selection or into the criteria for each subsector, and lacks clear guidance for staff. Overall, the policy as it stands would open the door to virtually any type of energy lending, including conventional coal-fired power plants, export-oriented biofuels projects, and major hydropower dams with very limited caveats, criteria or guidance.

While the draft five-year Energy Strategy predicts a significant shift toward cleaner energy solutions through 2016, a wide-open Energy Policy could undermine what is otherwise a mature stance on bringing cleaner energy to those who need it most.

Adaptation

The third chapter discusses the Bank and its attempts to integrate climate adaptation and resilience into its portfolio, as well as its work with borrowers to develop the necessary national frameworks to tackle the issue. Discussion centers primarily around the **Climate Risk and Adaptation Management Strategy** (CRMA), which was approved in 2009.

The CRMA is based on the premise that the African continent is most vulnerable to climate change and climate variability, a situation compounded by low adaptive capacity, as well as high poverty, poor governance and weak institutions. The CRMA was developed to mainstream climate risk consideration into the Bank's portfolio, as well as to support countries in integrating climate variability into their most sensitive sectors. In the case of the latter, the Bank has been faced with limited internal capacity to assist governments, and has relied on high-caliber consultants from outside Africa to lead this work.

While the inclusion of climate risk management within the Bank's portfolio and corresponding indicators were well thought out and warranted, little progress has been made. The screening manual, adaptation review procedures and other tools have only just been developed. Up to now, there is no evidence that the Bank has made progress on climate proofing its investments, or even that project selection has been informed by a discussion of climate risk. Essentially, it has taken two years to begin implementing the CRMA, though the Bank appears poised to make up for lost time. In October 2011, the Bank held a first training for staff on the Bank's new adaptation tools, which would be piloted in the agriculture, water, energy and transport sectors.

By any measure, the Bank's timeframe of 2009-2011 to implement the CRMA did not pan out, yet the imminent discussion of a Climate Change Action Plan could provide the impetus to integrate adaptation into the Bank's portfolio in a meaningful way. This will, however, require real buy-in from senior management and the board to ensure project staff have sufficient capacity and incentives.

Apart from the CRMA, the issue of climate adaptation is reviewed in the Bank's 2010 Agriculture Sector Strategy. While climate risk and management are cited widely in the pillars and principles underlying sectoral support, adaptation would mostly be pursued via the same capacity building and knowledge generation efforts encapsulated within the CRMA. Little information about these activities is available, at the same time that the Strategy seems to place little emphasis on its actual lending portfolio.

Overall, despite its good intentions, the Bank has not been able to demonstrate a real track record on climate adaptation, which raises questions about the Bank's suitability to become the go-to institution for climate finance in Africa, a significant portion of which will have to be for adaptation, in part to address the structural underfunding of adaptation on the continent.

Climate funds

Fourthly, the mapping interrogates the Bank's role within the **Climate Investment Funds** (CIFs), which include the Clean Technology Fund (CTF), the Pilot Program for Climate Resilience (PPCR), the Scaling Up Renewable Energy Program for Low-Income Countries *(*SREP), and the Forest Investment Program (FIP). Administered by the World Bank, the CIFs are designed to be implemented by regional development banks, and thus AfDB has become the implementing and disbursing agency for Africa. Details on AfDB's actual engagement in the CIFs are sparse, though questions of the Bank's value-add with respect to these diverse trust funds have persisted over time. For example, AfDB's limited role in the FIP, which is designed to help countries reach goals on Reducing Emissions from Deforestation and Forest Degradation (REDD), suggests that the Bank's lack of experience in the forestry sector, coupled with the absence of a specific safeguard policy at the Bank guaranteeing the rights of indigenous peoples, raises serious questions about the Bank's suitability.

The experience with the Clean Technology Fund (CTF), which finances low-carbon energy projects or technologies that reduce emissions in middle-income countries, is in some ways different. As discussed above, AfDB has managed large loans for the energy sector in high-emitting countries such as South Africa and Egypt, and thus has some depth of experience in developing major projects there. However, the actual role of the Bank remains unclear, and it has been suggested that it is in fact the World Bank that has driven CTF financing in Africa, with AfDB playing a background role.

The Bank's own climate- and energy-related trust funds are discussed next. The only such fund that has reached maturity is the **Congo Basin Forest Fund** (CBFF), which was among the very first REDD trust funds world-wide. Though the Bank has made an effort to maximize the opportunity, and has had success in attracting staff and in screening projects, actual disbursements remain quite limited. Perhaps most importantly, the valuable expertise that the Bank secretariat staff has gained has not translated into real internalizing of REDD issues at the Bank. The lack of spill-over between CBFF staff and staff working on the FIP – despite both being housed in the Agriculture Department – provides a telling example of how compartmentalized these units are. This suggests that the Bank is not undergoing real transformation as a result of its climate endeavors.

Gender

AfDB's experience with integrating gender has gone through many iterations. Drawn from a series of documents including a Gender Policy (2001), Gender Plan of Action (2004) and its subsequent "upgrade" (2008), the Bank has repeatedly affirmed its commitment to tackling gender issues. In the case of the 2008 update, the issue of gender and climate change was finally acknowledged through recognition of the need to fully integrate women in the adaptation design processes. This approach is reiterated in the 2009 CRMA and in the 2008 Medium-Term Strategy. Perhaps as a result of these processes, the Bank regularly discusses gender in its project documents and publications, but there is little evidence that this discussion actually informs project preparation and implementation.

As with so many well-crafted and forward-looking documents at the Bank, there is little evidence of follow through on gender, and there has persisted an apparent disconnect between lofty documents and the provision of an empowered and dedicated unit to tackle these issues. For instance, AfDB created a Gender, Climate Change and Sustainable Development Unit as one of its priority actions in 2008. However, the short-staffed unit was given nearly sole responsibility for the issues of gender and climate, among others, and these were otherwise not mainstreamed throughout the Bank. Following a major organizational restructuring, gender was again divorced from climate change and moved to the Quality Assurance and Results Department which, again, is tasked with mainstreaming gender into the rest of the Bank. Since this restructuring in June 2010, the unit head position was vacant for well over a year until October 2011.

Safeguards

Environmental and social safeguards are included in the study because of their interrelation with the Bank's portfolio governing climate change, and because the extent of their implementation bears heavily on the Bank's track record in ensuring the environmental and social sustainability of its operations.

AfDB's existing policies were developed piecemeal over the course of several years, and were designed to protect the environment and local communities from the negative impacts of AfDB-financed projects. In addition to core safeguard policies governing environmental assessment and involuntary resettlement, the Bank operates under a number of cross-cutting or sectoral policies, including gender and agriculture, among many others. However, the Bank itself has noted that these documents lacked clear requirements. The resulting lack of coherence as to what constitutes actual requirements has stymied Bank staff, clients and the public for years.

The Bank has never conducted an evaluation of the safeguard policies or their implementation, and thus evidence of implementation or lack thereof is sparse. However, an investigation by the Bank's Independent Review Mechanism (IRM) into lack of safeguards compliance in the Bujagali Dam project in Uganda cites widespread safeguard policy violations that have led to direct harm on local communities.

Within this context, AfDB is developing a **new Integrated Safeguards System** (ISS) that could bring AfDB's policies up to international standard. Early indications suggest that several policy innovations could become part of the ISS, including project-level grievance mechanisms, labor standards, climate change considerations and, at long last, the rights of indigenous peoples. Without a significant dedication of resources for staffing and training of other departments, problems with implementation could continue to plague the institution.

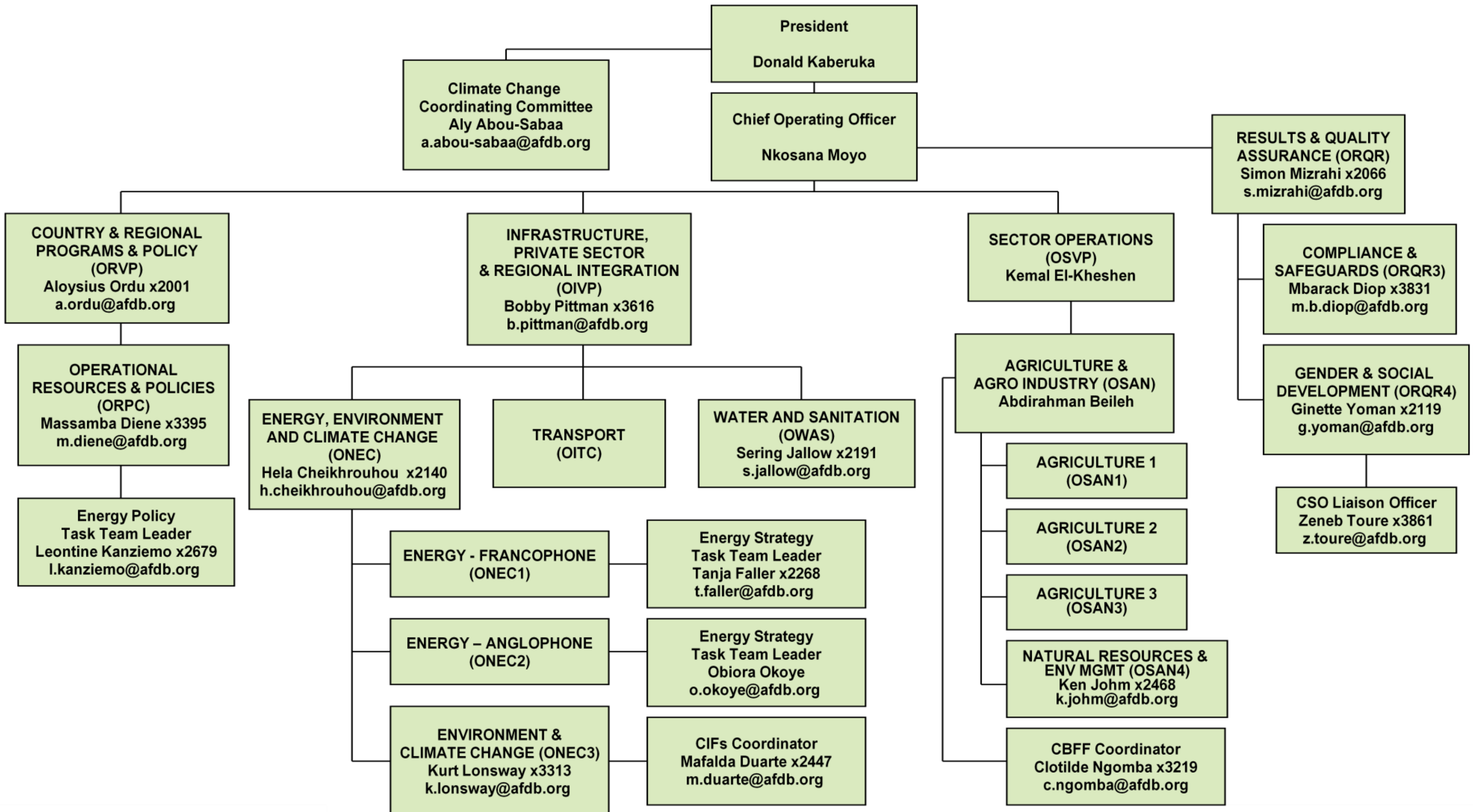
The Africa Green Fund

The AfGF warrants separate treatment, as it represents a new and Bank-driven effort to attract a much larger sum of climate finance, and demonstrates the Bank's interest in reinventing itself as the climate bank for Africa. While AfDB has opted not to launch the AfGF during the COP 17 meetings in Durban, the Bank is expected to continue to pursue plans to administer climate funds for Africa in the future. While the AfGF would not be exclusively oriented toward adaptation, it is premised on the notion that African governments have had limited success in attracting climate finance, and that adaptation needs in particular are higher than in any other region.

The Bank's **draft framework for an Africa Green Fund** did not define concrete proposals, and in many ways the objectives represent a repackaging of previous, unfulfilled commitments by the Bank. These include streamlining access to existing, AfDB-managed trust funds and providing support to governments to institute policy frameworks that support adaptation and low-carbon growth. The only apparently new proposal is the creation of the AfGF instrument itself, independent of the Bank's own decision-making structure, to host and deliver any funds made available from pledges arising from existing and future climate agreements.

However, while African governments have come out strongly and consistently in support of the African Development Bank hosting a separate regional fund for the continent, the anticipated benefits of AfDB administering Africa's share of scaled-up global climate finance flows remain unclear. As evidenced in the Congo Basin Forest Fund, as well as in the CIFs and throughout the Bank's own portfolio, onerous internal procedures have severely constrained disbursements. The rationale for an African institution hosting climate funds should be weighed against the possible drawbacks.

Annex 1: AfDB Organizational Chart
Relevant Climate- and Energy-related Departments*



* Current as of November 10, 2011

Note that all AfDB phone numbers begin with +216 71 10 (plus extension)