2010
ANNUAL REPORT *IN BRIEF*

AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

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BOARDS OF GOVERNORS

ADB	ADF
Forty-Sixth Annual Meeting	Thirty-Seventh Annual Meeting

Lisbon, Portugal
June 9-10, 2011

ANNUAL REPORT IN BRIEF

by the
Boards of Directors

of the
African Development Bank

and the
African Development Fund

Covering the period
January 1 to December 31, 2010

ADB-ADF/BG/AR/2010

AFRICAN DEVELOPMENT BANK GROUP: FAST FACTS

Constituent Institutions	The African Development Bank (ADB) The African Development Fund (ADF) The Nigeria Trust Fund (NTF)
Shareholders	53 African countries (regional member countries) 24 non-African countries (non-regional member countries)
Mission	To promote sustainable economic growth and reduce poverty in Africa
Authorized Capital at December 31, 2010	UA 67.69 billion
Subscribed Capital at December 31, 2010	UA 23.92 billion
Paid-up Capital at December 31, 2010	UA 2.38 billion
Approved Operations, 2010	139 operations totalling UA 4.10 billion, financed as follows: ADB: UA 2.58 billion ADF: UA 1.46 billion NTF: UA 29.5 million Special Funds*: UA 32.4 million

Of which:	UA 3.08 billion (53 operations)
Loans	UA 596.6. million (56 operations)
Grants	UA 203.0 million (6 operations)
HIPC	UA 189.9 million (11 operations)
Equity Participation	UA 32.4 million (13 operations)
Special Funds*	
Sector Approvals, 2010	Infrastructure: UA 2.60 billion (70.9 percent of total loans and grants) Finance: UA 319.9 million (8.7 percent) Multisector: UA 301.2 million (8.2 percent) Social: UA 193.6 million (5.3 percent) Industry, Mining and Quarrying: UA 188.0 million (5.1 percent) Agriculture and Rural Development: UA 68.3 million (1.9 percent)
Total Cumulative Loan and grant Approvals, 1967–2010	3,526 loans and grants totalling UA 55.93 billion

* *Special Funds: These are the approvals for the operations of the African Water Facility, the Rural Water Supply and Sanitation Initiative, and the Global Environment Facility.*

OVERVIEW

During the year, the Bank Group continued to implement its Medium-Term Strategy (2008–2012) by focusing its operations on the four core priority areas of infrastructure development; private sector development; governance; and higher education, technology and vocational training. At the same time, the Bank also ensured that the cross-cutting themes of gender, environment, climate change, and knowledge management were mainstreamed into its operational agenda. During the year under review, the Bank also pursued its role as a knowledge institution for the continent, not only by widely disseminating research findings, publishing flagship reports, and updating its Data Portal, but also by undertaking economic and sector work (ESW), and eliciting lessons learned to inform its future operations. The Bank's contribution to forging a unified voice for Africa at major international fora was underscored by its active participation at the G-20 Summit, among others.

A landmark achievement during the year was resource mobilization, as the Bank tripled its capital resources through a 200 percent Sixth General Capital Increase (GCI-VI), while securing a 10.6 percent increase in contributions from State Participants for the ADF-12 replenishment over the ADF-11 level. This will allow the Bank to continue to support its regional member countries (RMCs) in their pursuit of the Millennium Development Goals, and to lift their populations out of poverty and onto a path of sustainable economic growth.

The positive strengthening of the Bank Group's capital base, together with the consolidation of its institutional reforms, shaped the context for the institution's operations during the year under review. The total approvals for 2010 amounted to UA 4.10 billion, compared to UA 8.06 billion recorded in the previous year. The operations in 2010 signaled the lending trend returning to a more regular level, following the unprecedented demand for Bank Group resources in 2009, due to the global financial crisis. Notwithstanding, the Bank Group approvals for 2010 were still 15.9 percent higher than that of 2008.

REVIEW OF THE ECONOMIC SITUATION AND THE ROLE OF THE BANK

Africa's recovery from the global economic and financial crisis began in 2010 and has been driven by higher domestic demand, stronger export revenues, and increased inflows of foreign direct investment, remittances, and official development assistance. Real GDP growth rose to 4.9 percent in 2010, from 3.1 percent a year earlier at the peak of the global financial crisis. Growth is expected to fall back slightly to 3.7 percent in 2011 before recovering to 5.8 percent in 2012.

The continent's fiscal deficit narrowed from 5.2 percent of GDP in 2009 to 3.3 percent in 2010. However, owing to the recent sociopolitical unrest in some African countries and the repercussions being experienced in neighboring countries, the forecast is for a fiscal deficit of 3.9 percent in 2011, but narrowing to 3.2 percent in 2012. Similarly, the current account balance of the continent improved from a deficit of 1.6 percent of GDP in 2009 to a surplus of 0.4 percent in 2010. However, the projection is that the surplus will turn to a deficit of 0.2 percent in 2011 before reverting to a surplus of 0.2 percent in 2012.

The Bank Group's operational focus is shaped by its Medium-Term Strategy (MTS), 2008–2012. The launch of the MTS in 2008 coincided with the onset of the fuel, food, and financial crises, which had a major impact on regional member countries (RMCs). The Bank responded swiftly and flexibly to the pressing needs of its clients during this period. It frontloaded resources, restructured its loan portfolio, and offered fast-disbursing instruments to help RMCs cope with the short-term effects and to reduce the longer-term impacts. Total Bank Group lending amounted to UA 8.06 billion in 2009 – an increase of 160.3 percent over the 2007 level, and far higher than had been planned prior to the onset of the crisis.

Between 2008 and 2010, the Bank's total investment in the core priority areas of infrastructure; private sector development; governance; and higher education, technology, and vocational training amounted to 88.4 percent of its total commitments. Of the total investments in the core areas, sovereign infrastructure operations during this period accounted for 51.3 percent; private sector, 25.0 percent; and governance, 22.0 percent. This is broadly in line with the thrust of the MTS. However, operations approved for higher education, science and technology (HEST) were less than 2.0 percent of the total lending, which suggests a need to refocus on this area.

The recent sociopolitical upheavals occurring in some African countries in the last quarter of 2010, such as Côte d'Ivoire, Tunisia, Egypt, and Libya, are likely to slow the economic growth of these states in 2011, as well as those of neighboring countries. In particular, the crisis in Côte d'Ivoire may impact other countries in the subregion, like Burkina Faso, Mali, and Niger – through its impact on financial transfers, investment, trade, and foreign exchange reserves of the Central Bank of West African States (BCEAO). There is, therefore, a need for the Bank and development partners to support the governments involved in these crises to accelerate the process of economic recovery, and to create jobs and opportunities, particularly for the urban youth and college graduates. The strengthening of the Bank's capital base through the Sixth Capital Increase (GCI-VI), together with the 10.6 percent increase in the ADF-12 replenishment resources, will allow the Bank to fulfill its mandate to support all its RMCs in their drive to reduce poverty, improve living standards, and increase employment levels in the long term.

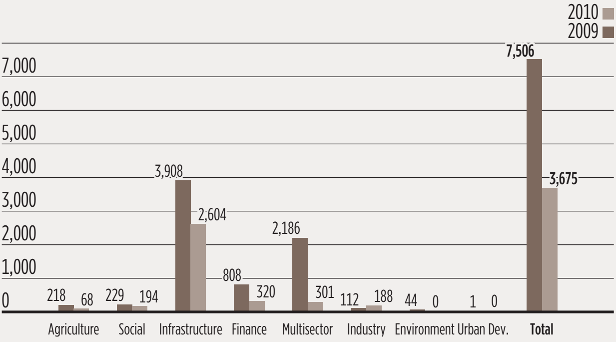
BANK GROUP STRATEGIC DIRECTIONS AND PRIORITIES

Development Effectiveness and Managing for Results

Over the past few years, the Bank has made steady improvements in the use of Results Measurement Frameworks (RMFs) to assess the performance of all three of its financing windows, namely the ADB, the ADF, and the NTF. In September 2010, the Bank adopted the "One Bank" RMF, which is founded on the tenet that the planning, monitoring, and assessment of results should be implemented as a continuum across all areas and sectors of the institution.

The RMF includes indicators to measure policy-based operations, regional operations, and private sector operations as part of a single reporting framework covering all the Bank's interventions. By combining output and intermediate outcome reporting, the new RMF offers a more accurate gauge of the Bank's effectiveness in promoting sustainable development in RMCs. The One-Bank RMF also provides the anchorage for the new *Annual Development Effectiveness Report (ADER),* which will be launched in 2011.

Figure 1
Bank Group Loan and Grant Approvals by Sector, 2009-2010* (UA millions)



* *Total loan and grant approvals exclude equity participations, HIPC debt relief, and Special Funds.*

During the year, substantial progress was made in firming up tools and procedures for enhancing the quality-at-entry of Bank Group operations and country strategies. Further, to support results-oriented reporting and quality project implementation, two new initiatives were launched in 2010: the revision of the results-based logical framework (RLF) for operations, and the preparation of a revamped Implementation Progress and Results Report (IPRR). In the IT area, the Bank undertook the SAP functional upgrade on the Key Performance Indicators (KPIs), while developing a Results Reporting System that will strengthen its ability to track and demonstrate its contribution to development outcomes.

Bank Group Approvals by Sector

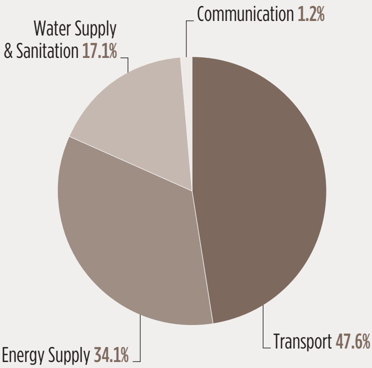
The distribution of total approvals among the various sectors during 2010 reflected the Bank's adherence to its policy of selectivity, project focus, and development effectiveness. In particular, it aimed to meet the rising demand for infrastructure development on the part of its RMCs. Consequently, in line with the institution's Medium-Term Strategy, infrastructure accounted for the largest allocation of approvals, at UA 2.60 billion (70.9 percent), followed by finance (mostly comprising private sector operations) at UA 319.9 million (8.7 percent), then multisector (which includes support for governance and public sector management, etc.) at UA 301.2 million (8.2 percent). These three sectors jointly attracted 87.8 percent of the total operational loans and grants (see Figure 1).

Investing in Infrastructure

The Bank selectively targets high-impact projects in its infrastructure portfolio, to stimulate an investment-friendly climate, strengthen RMCs' competitiveness and productivity, create jobs, and promote sustainable economic growth. In terms of the subsectoral breakdown, transportation attracted the most funding (47.6 percent), followed by energy supply (34.1 percent), water supply and sanitation (17.1 percent), and communication (1.2 percent) (see Figure 2).

The prioritization of infrastructure not only in the MTS, but also in RMCs' national agendas, acknowledges the crucial role that modern, reliable, and affordable infrastructure plays in achieving sustainable economic growth and poverty reduction.

Figure 2
Subsectoral Distribution for Infrastructure, 2010

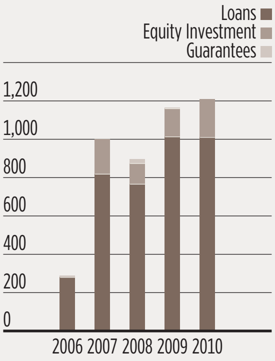


Deepening Private Sector Investment

The Bank continued to sustain its high level of investments in private sector operations in 2010 by committing UA 1.21 billion for financing 28 new projects. This was a 4.3 percent increase over the 2009 level of UA 1.16 billion. The 2010 total approvals figure comprised UA 1.02 billion in project loans and lines of credit, and a further UA 189.9 million in private equity (see Figure 3). The private sector's share of total approvals in 2010 was significant, representing 46.7 percent of ADB and 29.5 percent of Bank Group total approvals, respectively.

With regard to the distribution of private sector operations by country classification in 2010, middle-income countries (MICs, namely, those eligible only for ADB resources) received the highest share (43.0 percent), followed by regional and multinational projects (38.0 percent), and then

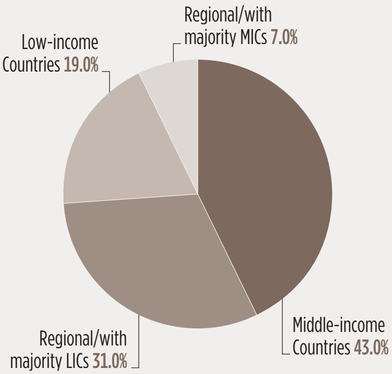
Figure 3
ADB Private Sector Approvals, 2006-2010 (UA Millions)



low-income (ADF-only eligible) countries (19.0 percent). In a drive to increase private sector operations in low-income countries (LICs), the Bank has provided lines of credit to African banks and development finance institutions, and has engaged in equity participation in regional funds located in MICs, for onlending to projects in LICs. This approach minimizes the Bank's risk exposure, while supporting projects in poorer countries. If the regional/multinational operations that target mostly LICs are taken into account, then the share of private sector approvals supporting beneficiary LICs totals around 50.0 percent (see Figure 4).

With respect to private sector operations in low-income countries (LICs), the two principal approvals in 2010 in terms of loan size were for the Blaise Diagne International Airport (UA 59.6 million) in Senegal and the Markala Sugar Project (UA 25.6 million) in Mali. The latter represented the

Figure 4
Private Sector Operations by Country Classification, 2010



first public–private partnership in the agriculture sector of an LIC. The project aimed not only to boost sugar production, but also to generate 30.0 MW of electricity for the use of the communities in the project area. In this way, it was able to draw resources from both the ADB and the ADF.

Supporting Economic and Governance Reforms

During the year under review, the Bank consolidated its internal operational and policy frameworks on governance, and on Policy Based Operations in particular. The institution reinforced its results agenda by adopting the Core Sector Indicators (CSIs) on governance, in accordance with the Bank Group's RMF adopted in 2010.

The Bank's governance agenda is implemented at three interrelated levels: country, sectoral, and regional. During the year, the Bank Group approved 21 programs and projects in support of good governance, for a total commitment of UA 298.9 million in 18 countries. At the country level, one such project was the Institutional Support Project for Improving the Business Climate and Diversifying the Congolese Economy. At the sectoral level, the Bank concentrated on improving governance and promoting integrity, particularly in high-risk sectors such as infrastructure, and through increasing support to country procurement systems. It assisted Liberia, Mozambique, Sierra Leone, and Tanzania to adopt and implement the Extractive Industries Transparency Initiative (EITI). In addition, the Bank continued to support regional and subregional initiatives that promote standards and codes of good economic and financial governance.

As a strategic partner of the African Peer Review Mechanism (APRM), the Bank continues to provide support to the Mechanism. During 2010, it participated in the country review of Sierra Leone, assisted in the streamlining of the APRM questionnaire, and contributed to the development of the monitoring and evaluation framework for the National Programs of Action (NPoAs).

Promoting Higher Education, Technology, and Vocational Training

In order to enhance the socioeconomic advancement and integration of RMCs into the world economy, the Bank's MTS affirmed Higher Education, Science and Technology (HEST) as one of its core areas of intervention, with support for Technical and Vocational Education and Training (TVET). This approach will help to build the continent's capacity for research and innovation, so that it can fully participate in, and benefit from, the technological advancements of the twenty-first century.

During the year under review, the Bank approved UA 47.6 million to the subsector, distributed as follows: UA 25.5 million for a Technical and Vocational Training Project in Niger; UA 12.9 million for a Higher Education Support Project in Eritrea; UA 8.6 million for the Regional ICT Center of Excellence in Rwanda, and a grant of UA 0.6 million to support Education Quality and Technical and Vocational Education and Training in Botswana.

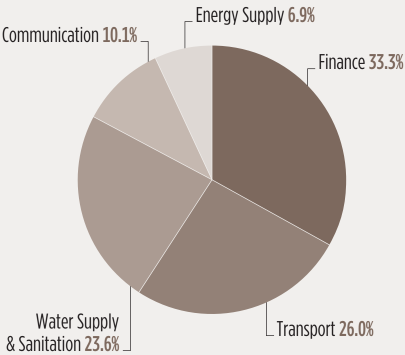
Promoting Regional Integration

In 2010, the Bank produced background issue notes and reports for the preparation of Regional Integration Strategy Papers (RISPs) for all the African subregions. As a result, the initial versions of the RISPs for Southern and East Africa were produced, as well as the second version for Central Africa. The RISPs will be finalized for all subregions in 2011 and will provide guidelines on the Bank's proposed interventions over the next five years.

Total approvals for the Bank Group's multinational operations (including loans, grants, and equity participations) in 2010 amounted to UA 515.1 million for 22 projects and programs, which is a decrease from the 2009 level of UA 1.17 billion. Figure 5 shows that in 2010, the largest share (66.6 percent) of loan and grant approvals to multinational projects went to infrastructure (comprising transportation, water and sanitation, communication, and energy supply), with the remainder allocated to finance (33.3 percent).

One of the key regional infrastructure approvals during the year was for the Lake Victoria Water Supply and Sanitation Program (UA 75.4 million), which targeted an important transboundary natural resource, namely the second largest lake in the world. Private sector operations also provided significant support to the Bank's regional integration

Figure 5
Sectoral Composition of Loan and Grant Approvals of Multinational Projects in 2010



objective. During the year, the Bank approved one project loan, one line of credit (LOC), and ten multinational private equity investments worth UA 322.5 million for this purpose.

Energy, Environment, and Climate Change

The Bank has established the Energy, Environment, and Climate Change Department as a timely response to the evolving needs and priorities of its RMCs. In accordance with its MTS, the Bank is positioning itself as the lead financier for energy-related investments in Africa, while supporting low-carbon development in the continent. To this end, the Bank is in the process of formulating its Energy Strategy. In 2010, the Bank approved UA 887.6 million for 14 operations in the energy sector. Of these projects, 11 were public sector operations, for a total commitment of UA 753.5 million. The remaining three, which jointly amounted to UA 134.1 million, were private sector operations.

In the area of climate change, the Bank was highly active during the year. It launched the African Carbon Support Program and collaborated with other multilateral development banks on climate change innovation. Furthermore, at the Climate Conference in Cancun, Mexico, in December 2010, the Bank's President called on the international community to support the establishment of an African Green Fund, to be hosted by the Bank. In addition, the Bank approved the Climate Investment Fund Implementation Mechanism, and Africa secured as much as UA 516.0 million in funding from various Climate Investment Funds.

Promoting Gender Equality

As part of the Bank's institutional fine-tuning, a new Gender and Social Development Monitoring Division has been established to ensure the quality-at-entry of operations and enhanced results monitoring. Gender equality is being mainstreamed into the new Supervision Reporting format, the new Operations Manual, and the revised CPIA rating system. In addition, the Bank has developed a gender results tracking system, which proposes gender equality as a new quality-at-entry standard to be included in the Readiness Review.

To assist its operations, during the year under review, the Bank produced three new Country Gender Profiles and conducted assessments of gender mainstreaming in Social and Human Development, and gender-responsive budgeting. It also mainstreamed gender equality in some policies, including the Bank's new Energy Policy. Gender specialists in Operations and in Quality Assurance and Results Monitoring assisted in raising the quality of operations by participating in the project-cycle activities, Country Strategy Papers, and other country dialogue work.

Support for Fragile States

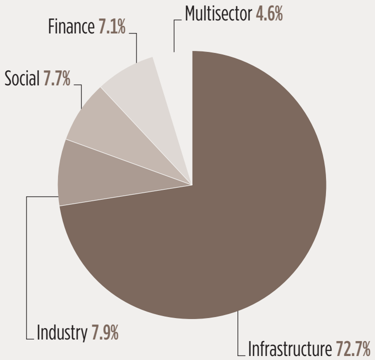
The Bank Group aims to assist fragile states toward full economic recovery and reengagement with the international community. The Fragile States Facility (FSF) provides assistance in three areas, namely: (i) supplemental investment support in the Bank's core priority areas; (ii) arrears clearance; and (iii) targeted support for capacity building and technical assistance. In 2010, under the FSF, the Bank approved UA 110.7 million for supplemental budget support, rehabilitation, and reconstruction of basic infrastructure, governance, capacity building, and human resource development in six states (Burundi, Guinea Bissau, Democratic Republic of Congo, Liberia, Sierra Leone, and Togo). While the results of these commitments cannot yet be fully quantified, early indicators show improvements in Country Policy and Institutional Assessment (CPIA) ratings and in portfolio performance indicators, such as disbursement ratios and the number of operations supervised.

At the final ADF-12 replenishment consultations in September 2010, the ADF Deputies agreed to a replenishment amount of UA 764.0 million to be transferred to the FSF, for the ADF-12 period (2011–2013). Then in October, the Bank operationalized the Zimbabwe Multidonor Trust Fund (the Zim-Fund), and by end-December 2010, an estimated UA 26.6 million (US$ 42.0 million) had been paid into that fund by donors.

Support for Middle Income Countries (MICs)

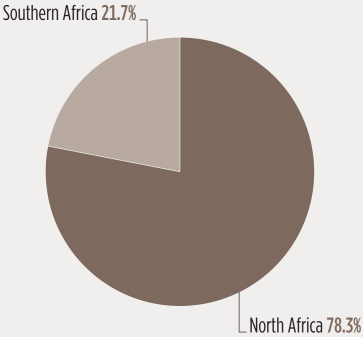
During the year, the Bank Group's approvals for operations in middle-income countries (MICs) (excluding multinational projects and programs) amounted to UA 1.88 billion. Although this is well below the 2009 approvals level, nonetheless it represents an increase of 69.4 percent over 2008, thereby reflecting the Bank's commitment to enhance its engagement in MICs.

Figure 6
Sectoral Distribution of Bank Group Lending to MICs, 2010



The sectoral distribution for Bank Group lending to MICs in 2010 confirms infrastructure to be the major sector, attracting 72.7 percent of all financing, followed by industry (7.9 percent), social (7.7 percent), finance (7.1 percent), and multisector (4.6 percent) (see Figure 6). The geographic distribution of financing to MICs shows that North Africa attracted the biggest share (78.3 percent), while Southern Africa received 21.7 percent (see Figure 7). This is a reversal of the 2009 distribution, when North Africa accounted for just 21.8 percent, with Southern Africa receiving 78.2 percent of the total financing to MICs.

Figure 7
Geographical Distribution of
Bank Group Lending to MICs, 2010



RESOURCE MOBILIZATION, COFINANCING, AND BILATERAL FUNDS

Sixth General Capital Increase (GCI-VI)

During the Bank Group Annual Meetings, on May 27, 2010 in Abidjan, Côte d'Ivoire, the Board of Governors endorsed a 200 percent increase in the Bank's capital resources from UA 24.00 billion to UA 67.69 billion. This substantial increase has allowed the Bank Group to maintain a higher level of lending, including to the private sector, in response to sustained demand for financing from its RMCs, which include both low- and middle-income countries.

ADF-12 Replenishment

At the final ADF-12 replenishment consultation held in Tunis on September 7-8, 2010, the donors agreed on a replenishment level of UA 6.1 billion (US$ 9.5 billion) for the three-year period 2011–2013. The replenishment represents a 10.6 percent increase in donor contributions over ADF-11. The donors further agreed that 20 percent of the ADF-12 resources will be allocated to the regional operations envelope, and UA 764.0 million will be transferred from the ADF-12 resources to the Fragile States Facility (FSF).

ADF-11 Resources, Allocation, and Utilization

The total resources for the ADF-11 cycle amount to UA 5.63 billion, made up of UA 3.57 billion of donor contributions and UA 2.06 billion of the Advanced Commitment Capacity (representing internally generated resources). After a number of adjustments, the amount of UA 4.14 billion was left available for allocation to the 40 ADF-eligible RMCs under the Performance-Based Allocation (PBA) process. As of end-December 2010, 98 percent of the ADF-11 resources available for allocation had been committed and allocated using the PBA system.

Enhanced HIPC Initiative: Progress Report

The Bank mobilizes resources for the enhanced HIPC initiative for the benefit of the 33 eligible RMCs after they have reached their decision and/or completion points. During the year, two RMCs (Congo Republic and Liberia) reached their completion points, while Comoros reached its decision point. This brings the total number of countries that have reached their completion points in 2010 and that now qualify for irrevocable HIPC debt relief to 23. Moreover, seven RMCs have reached their decision points, while three remain at pre-decision point (see Figure 8).

The Multilateral Debt Relief Initiative (MDRI) provides additional debt relief to eligible RMCs that have reached their HIPC completion points. The total estimated cost of all the ADF debts to be canceled under the MDRI is UA 5.90 billion

(US$ 9.06 billion). At December 31, 2010 a total amount of UA 4.90 billion in MDRI debt cancelations had been provided to RMCs that had reached their completion points and qualified for irrevocable HIPC debt relief assistance.

Cofinancing

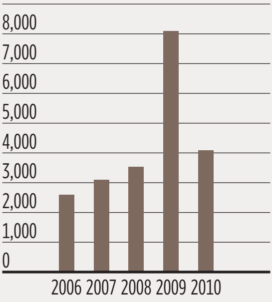
During the year under review, the Bank approved 28 cofinancing projects, for a total cost of UA 8.41 billion, which is a decrease of 56.1 percent from the peak of UA 19.16 billion in 2009 for 36 projects. Of the 2010 total combined cost, the Bank Group's contribution amounted to UA 1.28 billion (15.2 percent), external partners contributed UA 6.14 billion (73.0 percent), while governments and other local contributors accounted for UA 996.4 million (11.8 percent).

Figure 8
Classification of RMCs by HIPC status (at end December 2010)

STATUS OF COUNTRIES

Completion Point		Decision Point	Pre-Decision Point
Benin	Mauritania	Chad	Eritrea
Burkina Faso	Mozambique	Comoros	Somalia
Burundi	Niger	Côte d'Ivoire	Sudan
Cameroon	Rwanda	Dem. Rep. Congo	
C.A. Rep	São Tomé	Guinea	
Congo Rep.	& Principe	Guinea Bissau	
Ethiopia	Senegal	Togo	
Gambia	Sierra Leone		
Ghana	Tanzania		
Liberia	Uganda		
Madagascar	Zambia		
Malawi			
Mali			
23		7	3

Figure 9
Bank Group Total Approvals, 2006-2010 (UA millions)



A breakdown of external sources shows that in 2010, in addition to contributions from multilateral and bilateral partners, UA 228.9 million was provided by private sector institutions. The private sector contribution was used to finance both regional and national projects. Among the multilateral partners, the main cofinanciers were the West African Economic and Monetary Union (WAEMU), the World Bank (WB), the European Investment Bank (EIB), and the European Union. The key bilateral cofinanciers were the United Kingdom, Korea, Japan, Spain, and France.

Bilateral Trust Funds

A total of UA 21.2 million was approved under the Bilateral Trust Funds in 2010 to support 66 activities. This represented a 74.0 percent increase over the 2009 level of UA 12.2 million. These activities cover the preparation of Economic and Sector Work (ESW), Regional Integration Strategy Papers

(RISPs), and capacity building in the priority areas of infrastructure, governance, private sector, regional integration, and climate change. Finland was the largest donor (UA 8.4 million), followed by Korea (UA 3.4 million), DFID-UK (UA 2.4 million), Norway (UA 2.2 million), and Japan (UA 2.0 million).

OPERATIONAL ACTIVITIES

Bank Group approvals in 2010 totaled UA 4.10 billion, which was a decline from the peak of UA 8.06 billion recorded in the previous year (see Figure 9). The year 2009 was though an exceptional one, characterized by an unprecedented demand for Bank Group resources from RMCs experiencing liquidity constraints in the face of the global financial crisis. Nonetheless, the Bank Group approvals level for 2010 was 16.1 percent higher than that of 2008 and signals a return to a more regular level of lending. Of the total approvals, UA 3.67 billion took the form of loans and grants, while UA 425.3 million was channeled to debt relief, private sector equity participations, and allocations from the Special Funds (namely the African Water Fund, the Rural Water Supply and Sanitation Initiative, and the Global Environment Facility).

Total approvals from the Bank Group's three windows shows that the ADB accounted for UA 2.58 billion (63.0 percent); the ADF, UA 1.46 billion (35.5 percent); and the NTF, UA 29.5 million (0.7 percent); while Special Funds accounted for UA 32.4 million (0.8 percent).

African Development Bank (ADB)

The approvals from the nonconcessional ADB window in 2010 totaled UA 2.58 billion for 59 operations, compared to UA 5.60 billion in 2009 for 84 activities. This reflected a significant decrease in both project lending and policy-based loans after the record lending levels of 2009 in the wake of the economic and financial crisis. Notwithstanding, the approvals level for 2010 was 42.8 percent higher than that of 2008. The distribution of ADB approvals in 2010 by financing instrument shows that project lending and private equity participations accounted for the largest share, at 89.0 percent, while debt relief accounted for 5.6 percent; policy-based lending for 5.0 percent; and grants for 0.4 percent.

Disbursements from the ADB window in 2010 amounted to UA 1.34 billion, which is a 43.0 percent decrease from the UA 2.35 billion disbursed in 2009. At end-December 2010, cumulative disbursements (including nonsovereign loans) totaled UA 21.31 billion. By year-end, 810 loans had been fully disbursed for an amount of UA 18.75 billion, representing 88.0 percent of cumulative disbursements.

African Development Fund (ADF)

ADF total approvals in 2010 amounted to UA 1.46 billion, compared with UA 2.43 billion in 2009. The two main beneficiary sectors were infrastructure, which attracted UA 1.10 billion (77.1 percent) and multisector (including programs supporting good governance), with UA 214.8 million (15.1 percent). This is consistent with the Medium-Term Strategy's emphasis on investing in high-impact areas, which will boost sustainable growth, scale up the business-enabling environment, and encourage investment flows.

Disbursements of ADF loans and grants totaled UA 1.17 billion in 2010, compared to UA 1.73 billion in 2009, which represents a decrease of 32.4 percent. Cumulative disbursements at end-December 2010 amounted to UA 14.77 billion. A total of 1,673 loans and grants were fully disbursed, amounting to UA 11.75 billion, which represents 80.0 percent of cumulative disbursements.

The Nigeria Trust Fund (NTF)

During the year, one loan amounting to UA 0.7 million was approved under the NTF window for Sierra Leone. In addition, UA 28.8 million was approved as debt relief under the HIPC Initiative for Liberia.

NTF disbursements increased to UA 5.02 million in 2010, from UA 4.87 million in 2009, representing a rise of 3.1 percent. By end-December 2010, cumulative disbursements amounted to UA 226.7 million. Altogether, 61 loans were fully disbursed for a total amount of UA 205.3 million, representing 91.0 percent of cumulative disbursements.

INSTITUTIONAL REFORMS AND CORPORATE MANAGEMENT

Institutional Reforms

The implementation of institutional reforms in 2010 has achieved the following: (i) improvements in the coordination, monitoring, and management of corporate performance; (ii) enhanced operational effectiveness by fine-tuning the Bank's organizational structure and strengthening its field offices (FOs); and (iii) streamlining of the budget reform process by further decentralizing budget management, thereby reducing average project processing times.

- *Improved Coordination and Corporate Performance:* The Senior Management Coordinating Committee (SMCC) played a pivotal role in ensuring that the Bank Group's corporate functions operated with optimal efficiency and effectiveness. It also took action to arbitrate cross-Complex resource allocations in line with strategic priorities. In addition, the Operations Committee (OpsCom) stepped up its efforts to ensure quality-at-entry in operations, which includes strengthening the upstream peer review and country team structures.

- *Budget Reforms:* In January 2010, the Bank launched its Unit of Account (UA) Budgeting system, which is a key component of Phase II of the ongoing budget reforms. UA Budgeting has further decentralized budget management and has also introduced a more rigorous staff planning process aimed at better alignment of staff numbers and profiles to Work Program needs.

- *Decentralization:* By year-end 2010, the Bank had signed Host Country Agreements for its targeted 26 field offices, of which 23 are fully equipped and functioning, with differing levels of staffing mix. A comprehensive revision of the Delegation of Authority Matrix was carried out during the year, which empowered field offices with the authority to negotiate, sign and administer loans, manage portfolios, supervise projects, and dialogue with RMCs and partners. To reaffirm its commitment to the decentralization process, Management is fine-tuning its implementation plan through a Decentralization Roadmap, to be approved in 2011.

- *Operations Business Processes:* The Bank undertook an organizational fine-tuning exercise in 2010 to set up and strengthen those units responsible for sharpening the Bank's strategic focus. This included the establishment of the Energy, Environment, and Climate Change (ONEC) Department and the new Strategy Office (STRG) within the Presidency; as well as placing the Quality Assurance and Results (ORQR) Department under the oversight of the Chief Operating Officer (COO). The Bank also put in place a "One Bank" Results Measurement Framework, founded on the principle that the planning, monitoring, and assessing of results should be carried out as a continuum across all sectors and areas of the institution. The fine-tuning exercise and the decentralization process have led to improvements in a number of the Bank Group Key Performance Indicators (KPIs), including: portfolio management, supervision, procurement, financial management, and portfolio quality.

KNOWLEDGE MANAGEMENT AND DEVELOPMENT

Operational Knowledge

Knowledge derived from the Bank's operational activities provides lessons to guide the Bank's future interventions and improve its efficiency and development effectiveness. In this regard, the knowledge development products can be subdivided into: (i) economic and sector work (ESW), (ii) strategic products and events, and (iii) operational lessons and best practices.

The ESWs undertaken in 2010 included a portfolio review of the "Evaluation of Public Revenue Potential" in Senegal; a study on "Improving Civil Service Performance" in The Gambia; a study on "Energy Conservation Development Strategy" in Mali; and a study on "Private Sector Development" in Gabon. Regarding strategic knowledge products, a number of thematic background studies were undertaken to feed into the preparation of the Regional Integration Strategy Paper (RISP) for Southern Africa, 2011–2015.

In connection with the Bank's engagement in fragile states, there are a number of key lessons to guide operations in this area. At the country level, human capacity constraints in key sectors continue to pose challenges to reconstruction efforts. Added to that is the need to address state legitimacy and establish a transparent and judicial process. Job creation and food security remain at the top of the development agenda, followed closely by the need to improve the private sector investment climate.

Research and Capacity Building

Development Research: Significant progress was made during 2010 to enhance the Bank's visibility through the mainstreaming of knowledge development in Bank Group operations. The process encompassed: (i) high-quality research on the development challenges facing the continent; (ii) strengthening the network of economists through more frequent interactions and professional exchanges; and (iii) increased collaboration with the Operations Complexes, especially in the preparation of economic and sector work. The Bank also contributed significantly to policy dialogue in RMCs, providing analytical and policy support to the Committee of Ten (C-10) African Ministers of Finance and Central Bank Governors. In this way, the Bank has helped to promote a unified voice for Africa at major international fora, including at the Third Korea–Africa Economic (KOAFEC) meeting in September and later at the G-20 Summit in Seoul in November 2010.

Capacity Building and Training in RMCs: Activities in this area centered on the two key pillars of the Bank Group's Capacity Development Strategy, namely: *Pillar 1* – enhancing the development effectiveness of Bank Group operations; and *Pillar 2* – strengthening the capacity of RMCs for policy design and development management. Altogether, 1,395 participants attended the Bank's seminars and workshops delivered under Pillars I and II of the Strategy.

The Eminent Speakers' Program was launched in 2006 by the Bank to create a platform for the sharing of views on Africa's pressing development issues and to promote a discourse on policy options. In 2010, presentations were made by Professor Joseph Stiglitz, a Nobel Laureate in Economic Science (2001); Professor Wole Soyinka, a Nobel Laureate in English Literature (1986); and Dr. Jean-Michel Severino, former Vice President for Asia at the World Bank.

Statistical Capacity Building and Data Dissemination in Support of Results Measurement: These activities focused on: (i) building capacity in 52 RMCs, five subregional organizations, and six regional training centers, (ii) mainstreaming results measurement in Bank operations, including developing the Data Portal (DP); and (iii) deepening collaboration with other bilateral and multilateral partners for the coordination of statistical activities in the region. The Bank also continued to coordinate the data collection under the International Comparison Program (ICP) statistical initiative in RMCs. In addition, the process of preparing Country Statistical Profiles (CStPs) was launched during the year, to provide the necessary baseline data for country programming in the Bank's Data Portal. To this end, nine CStPs and one Regional Integration Statistical Profile (RIStP) were prepared.

Internal Audit

Internal Audit provides independent and objective assurance, advisory, and consulting services for Bank Group operations, financial, and corporate administrative activities. Internal Audit maintains a quality assurance program, which includes internal and external quality assessments. External quality assessment is conducted every five years.

In November 2010, an external quality assessment was carried out by the Institute of Internal Auditors, which awarded the Bank the Institute's highest rating. This confirms that the Bank's activities in this area adhere to International Standards for the Professional Practice of Internal Auditing. During the year, the Bank conducted 12 audits in the Finance and Corporate Complexes, 20 audits of trust and grant funds, 10 project audits in RMCs, and six audits in field/regional offices. Three specially requested audits and advisory services were also undertaken.

Integrity and Anti-Corruption

Within the context of the Bank's 2010 initiative to fine-tune its organizational structure, the Integrity and Anti-Corruption function, formerly part of the Office of the Auditor General, was made into a separate department.

During 2010, the Bank received 35 complaints, all of which were reviewed. Twenty-one were closed, with two resulting in the debarment of one company and two individuals. Sanctions proceedings concerning the function's recommendation to debar another company and an individual were still ongoing at year-end, as were 16 other investigations.

As part of its agenda to strengthen its partnerships with sister organizations, the Bank was a co-signatory (along with the World Bank, the Asian Development Bank, EBRD, and IADB) to the Agreement for Mutual Enforcement of Debarment Decisions, whereby the sanctions imposed by one participating institution on a specific company can be mutually enforced by the others.

Procurement and Financial Management (PFM)

In supporting the Operations Complexes, the Procurement and Financial Management (PFM) Department seeks to minimize fiduciary risks and enhancing accountability. During 2010, the Bank continued to consolidate its PFM reform initiative and carried out the following activities, among others:

i. Completing the review of country National Competitive Bidding procurement laws, procedures, and bidding documents for 25 RMCs;

ii. Assessing about 460 appraisals and supervisions and contributing to Public Expenditure and Financial Accountability (PEFA) reviews, Country Portfolio Performance Reviews (CPPRs), Country Strategy Papers (CSPs), and Procurement Capability Reviews (PCRs), and project launch exercises; and

iii. Actively participating in MDBs' Financial Management Harmonization Working Group Meetings and in international PFM conferences and workshops to promote harmonization of policies and procedures among multilateral and bilateral donors.

In order to reduce the fiduciary risk and ensure that the proceeds of loans and grants are used for the purposes intended, the Bank positioned key PFM international and local staff in the Service Centers and field offices.

BOARDS OF DIRECTORS

The Boards of Directors continued to ensure adherence to the Bank Group's Medium-Term Strategy in the regional and country strategies, projects, and other documents that it reviewed and/or approved. The implementation of the MTS as well as quality assurance and results, formed the cornerstones of the organizational fine-tuning which the Board of Directors approved. Furthermore, additional resources were allocated to enhance the quality-at-entry of the Bank's operations, through the creation of an Operations Committee (OpsCom) Secretariat. In addition, to ensure clarity and a common understanding both internally and externally in the measurement of results, the Boards of Directors of the Bank and the Fund approved a "One Bank" Results Measurements Framework (RMF).

The Board of Directors of the Bank endorsed the documents containing the proposals for the Sixth General Capital Increase (GCI-VI), as well as the related institutional reforms, and the amendments to the Share Transfer Rules – all of which were approved by the Board of Governors of the Bank at the 2010 Annual Meetings. Members of the Boards of Directors also participated in all the ADF-12 Replenishment meetings and actively made the case with their relevant capitals for the Replenishment.

NET INCOME ALLOCATION AND BUDGETS

Net Income Allocation

The 2010 financial statements of the Bank Group highlight the robustness of the Bank's financial position. The Bank earned income before distribution, approved by the Boards of Governors, of UA 213.7 million and an allocable income of UA 236.1 million. The Board of Governors also approved distributions from the 2009 allocable income to the following: (i) UA 27.8 million to the Surplus Account; (ii) UA 50.0 million for ADF-11; (iii) UA 66.0 million for the Democratic Republic of Congo (DRC) Special Account; and (iv) UA 5.0 million for the Technical Assistance Fund of Middle-Income Countries (MIC-TAF).

Credit Ratings

The ratings agencies Standard & Poor's, Moody's, Fitch Ratings, and Japan Credit Rating Agency reaffirmed their AAA and AA+ rating of the Bank's senior and subordinated debt, respectively, with a stable outlook. This reflects the Bank's strong membership support, its preferred creditor status, sound capital adequacy, and prudent financial management and policies.

The 2011 Administrative Expenses and Capital Expenditure Budgets

In December 2010, the ADB Board of Directors approved an Administrative Expenses and Capital Expenditure Budget for 2011 comprising the following: Administrative Expenses of UA 289.1 million, a Capital Expenditure of UA 40.0 million, and a contingency budget of UA 2.9 million. The ADF Board of Directors approved an indicative Administrative Budget of UA 201.3 million for the Fund for the financial year ending December 31, 2011.

The Way Ahead

Now that the global financial crisis has receded, the Bank needs to refocus on its core business of addressing the structural bottlenecks to Africa's economic growth. These include: the massive infrastructure deficit; shallow and fragmented markets (due to limited integration); the paucity of skills needed to build a competitive economy; weak institutions and poor governance; building capable states; promoting private sector development; economic diversification; and the long-term challenges of climate change and energy generation. In this respect, the Bank has a role to play in further integrating climate change mitigation measures into its interventions, and mainstreaming action, in collaboration with its development partners. Going forward, the Bank will need to show the flexibility and responsiveness in meeting the needs of its RMCs as it has in the past.