Statement by Omar Kabbaj, President of the African Development Bank Group, at the 71st Development Committee Meeting

Statement by Omar Kabbaj, President of the African Development Bank Group, at the 71st Development Committee Meeting (Joint Ministerial Meeting of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Resources to Developing Countries), 17 April 2005, Washington, D.C.

Introduction

On behalf of the African Development Bank Group and on my own behalf, I wish to express my appreciation for the invitation to attend the 71st Meeting of the Development Committee. The focus of the meeting on progress towards the Millennium Development Goals (MDGs) -- as well as the issue of mobilizing adequate resources to help developing countries meet the MDGs -- are obviously of special interest to all countries and, in particular, to African countries and their development partners.

Accordingly, I would like to take this opportunity to briefly review Africa’s recent economic performance and the progress that African countries are making towards achieving the MDGs. I will then discuss the financing needs of African countries, recent trends in ODA flows to Africa, as well as other policy measures -- namely debt relief and trade reforms -- that the international community could take to ensure adequate resource flows to African countries. I will conclude by reviewing the role that the African Development Bank Group plays in this global endeavor, as well as the measures it has taken to mobilize resources to finance the development programs of its regional member countries (RMCs)

Africa’s Recent Economic Performance and Progress towards the MDGs

Recent Economic Performance

Over the last decade, Africa’s economic performance has shown a steady improvement as an increasing number of countries have adopted and implemented profound economic reforms. Most African countries have made notable progress towards putting in place a stable macroeconomic framework by following prudent fiscal and monetary policies. They have also undertaken major structural reforms and adopted policies to encourage the development of the private sector. In addition, many have developed Poverty Reduction Strategies, often guided by the MDGs.

These reform programs and policies have had a positive impact on generating macroeconomic stability and on raising economic growth rates. GDP growth rates, which had declined to 1.4 percent in the first half of the 1990s, rose to an average of 4.1 percent in the last five years, that is, 2000-04. The trend towards increased macroeconomic stability is also reflected in
the decline of the Africa’s inflation rate from an average of 28.3 percent in the first half of the 1990s to 10.2 percent in the 2000-04 period. Fiscal deficits have similarly declined from 5.3 percent in the first half of the 1990s to 1.4 percent in the 2000-04 period.

Africa’s economic performance in 2004 has been particularly noteworthy. Its GDP is estimated to have grown by 5.1 percent in 2004 – the highest since 1996 -- resulting in a per capita income growth of 2.8 percent. The high growth rate, in large part accounted for by a favorable external environment, was however also accompanied by a strengthening of macroeconomic fundamentals. The region, overall, experienced a fiscal balance for the first time in decades, and monetary growth slowed considerably. These factors contributed to Africa recording an average inflation rate of 7.7 percent, the lowest in over two decades. The current account also improved significantly, recording a surplus of over $5 billion.

As was the case in the past, growth in 2004 exhibited a considerable variation across individual countries. Some 20 countries achieved GDP growth rates of above 5 percent and 14 others recorded growth rate of between 3 and 5 percent, with only three countries witnessing negative growth rates, compared with six in the preceding year. In addition, it is encouraging to note that the leading reforming countries on the continent such as Burkina Faso, Ghana, and Mali in West Africa, Mozambique, Tanzania and Uganda, in East and Southern Africa, and Tunisia and Morocco in North Africa continued to perform well, despite the heavy pressure that rising oil prices placed on the external accounts of some of these countries.

Achieving the MDGs

Although the economic performance of African countries has improved in the last decade, meeting the MDGs will continue to be a major challenge for most. Indeed, recent reports on the progress of African countries, including the recent United Nations Report "Global Plan to Achieve the Millennium Development Goals" – led by Professor Jeffrey Sachs -- make clear, that on current trends, with the exception of North Africa and possibly a few counties in Southern Africa, the rest are unlikely to meet the goal of reducing the number of people living in poverty by half by 2015. Some countries may, however, achieve some of the MDGs related to education and health.

Progress towards the MDGs will therefore require concerted action by African countries and strong support from their development partners. Domestically, particular attention would need to be given to the following:

- First, maintaining peaceful and stable conditions: Much has been achieved on the Continent in the recent past to bring to an end long-running conflicts; others have, however, erupted in some regions and efforts will necessarily have to be made to resolve them.
Second, deepening economic reforms to reduce the high incidence of poverty: Halving the number of people living in poverty by 2015 would, require that more countries continue to raise their growth rates and reach the level of 6-8 percent required to achieve the MDGs. Towards this end, African countries would need to sustain the prudent macroeconomic policies they have implemented in recent years and deepen their reform programs. In particular, much attention would need to be given to financial sector and governance reforms, as well as strengthening regional cooperation and integration arrangements, particularly in the context of the NEPAD initiative.

Third, continued efforts to fight the relentless surge of the HIV/AIDS pandemic by designing and implementing appropriate medium to long-term programs.

Africa’s Financing Requirements for Attaining the MDGs

As is well known, a major constraint facing most African countries in seeking to achieve the MDGs is inadequate level of resources to finance the required investment in key sectors, such as agriculture, education, health, and infrastructure. In most African countries the levels of incomes and savings are extremely low, limiting the possibilities for increased domestic resource mobilization. Indeed, despite the improvement in Africa’s economic performance in recent years, savings rates, which averaged 17.5 percent in the first half of the 1990s, increased to only an average of 19 percent in the post-2000 period.

Mobilizing the resources required for attaining the MDGs would require a number of complementary actions. Domestically, there is a need to deepen financial and banking sector reforms to enhance domestic resource mobilization. In addition, more attractive conditions for the private sector would need to be put in place to encourage greater private investment from both domestic and external investors. In particular, as Africa’s share of global foreign direct investment (FDI) remains very low, much would obviously be gained by pursuing appropriate policies and creating the domestic environment to attract larger volumes of FDI to augment domestic savings and investment.

Such efforts will require the support of the international community, if African countries are to make progress towards the MDGs. Support is critical in three areas: increased ODA flows to Africa; further debt reduction; and improved access for Africa’s exports.

With respect to ODA, there is a general increase that it would need to be scaled-up considerably. The Commission for Africa has, for example, called for an immediate doubling of ODA to Africa to $50 billion a year. In addition, it has called for 100 percent debt cancellation and urges rich nations to drop trade barriers and remove agricultural subsidies that hurt poor countries. These have been echoed by the World Bank and the IMF, with these two institutions also arguing that an increasing number of countries have improved their absorptive capacity to use such resources effectively. The Bank’s own estimate indicates that for the 30 or so African countries in need of additional external
assistance, and judged to be in a position to use aid effectively, the requisite increase in assistance is in the order of $20-25 billion per annum.

After declining for much of the 1990s, ODA to Africa has risen substantially over the last three years, although much of the increase is accounted by debt relief. This positive trend will need to be maintained, with the goal of doubling of ODA current levels in the next five years. Towards this end, more attention should be given to recent proposals to find innovative ways of scaling up and front-loading ODA. Two important proposals have been tabled in this regard: the first is the proposal of the French Government to consider various forms of global taxation; the second is the International Finance Facility (IFF) proposed by the United Kingdom and supported by France.

More efforts should also be made to improve the efficiency and effectiveness of ODA. At the March 2005 Paris High Level Forum on Aid Effectiveness a number of proposals were adopted to strengthen country ownership and to harmonize donor policies and align them with systems in place in developing countries. The donor community – in close cooperation with developing countries – would need to take urgent action to implement these proposals.

As well as increase ODA and enhance its effectiveness, there is also a need to reduce further Africa’s external debt burden. Much progress has been made in recent years in part due to the HIPC initiative. Of the 32 African countries that were expected to qualify for HIPC debt relief, 23 have so far become eligible and two – Burundi and Congo are expected to qualify in 2005. It is also noteworthy that six countries -- Ethiopia, Ghana, Madagascar, Niger, Senegal, and Zambia -- reached their completion point in the last two years bringing the total to 13. As most of the remaining seven countries are either in conflict or emerging out of conflict, we urge the international community to assist them re-establish peaceful conditions, as well as help them clear their arrears and commence their reconstruction efforts.

With regards to further debt relief measures, we are encouraged by the initiative taken by the United Kingdom to provide additional debt relief on the debts owed by post-completion HIPC countries to the international financial institutions. We urge other countries to support this initiative, as it would release considerable resources for investments aimed at reducing poverty in the low-income countries. In addition, we welcome the decision of the donor community to base future ODA financing terms on an in-depth analysis of debt sustainability to reduce the risk of debt distress in the future. This is expected to result in a considerable increase in the level of grant financing by the international financial institutions.

With respect to external trade, African counties continue to face major impediments in the form of heavy domestic support and export subsidies for agricultural products provided by the industrial countries to their farmers. These have the effect of reducing considerably the export earnings of
African countries. In addition, non-tariff barriers are often imposed and African countries face tariff escalation on the exports of processed and manufactured exports, although the AGOA initiative of the United States and the *Everything but Arms* (EBA) initiative of the European Union have eased some of these obstacles. We are also gratified by the progress made in the WTO July 2004 Framework, which sets out modalities for the elimination of protectionist measures. In this regard, we urge the industrial countries to throw their weight behind the ‘July Framework’ to expedite the speedy fulfilment of the Doha Development Agenda.

**The African Development Bank Group and Africa’s Financing Needs**

*The Strategic Vision of the Bank Group*

Since its establishment some forty years back, the African Development Bank’s principal mission has been to mobilize resources to support the development efforts of its regional member countries. Towards this end, it has adopted poverty reduction and achieving sustainable economic growth as its over-arching objectives, as laid out in its 1999 Vision Statement and its 2002 Strategic Plan. The Bank views the Millennium Development Goals (MDGs) as essential benchmarks to assess the economic and social progress of its regional member countries, as well as its own contribution. And given the varied stage of development across the region and countries, the Bank has adapted its Strategic Vision to the development challenges facing the different groups of countries.

For middle-income countries that have access to its ‘hard’ ADB window, its vision is to assist these countries improve the competitiveness of their economies by helping them implement key reform programs, upgrade their infrastructure, and strengthen their private sectors. For the low-income countries that have access to only the concessional resources of the African Development Fund (ADF) and the Nigeria Trust Fund (NTF), the focus remains on poverty reduction and promoting sustainable economic growth. The priority areas of intervention have therefore been agriculture, education, health, governance reforms, private sector development, sustainable management of natural resources, and gender equality. In post-conflict countries, the Bank places high priority on arrears clearance, capacity building, and the rehabilitation of basic social and physical infrastructure. And in all countries, the Bank Group gives high priority to its support for regional cooperation and integration efforts.

Since its establishment, the Bank Group has approved a large number of loans, grants, and debt relief operations to its regional member countries. This has been made possible by resources mobilized from the capital markets through its ADB window and from donors through the ADF and NTF windows. In addition, the Bank Group has established a number of special-purpose facilities. Over the last decade alone, the Bank Group has mobilized a total of $25 billion to support the development efforts of its regional member countries.
Lending, Grant and Debt Relief Operations

As of the end of 2004, the Bank Group has approved loans, grants, and debt relief of close to $52 billion to its regional member countries, of which $30 billion was from the ADB window, $21 billion from the ADF, and over $400 million from the NTF. The approvals include debt relief amounting to $4 billion in nominal terms.

The year 2004 for the Bank was particularly noteworthy, as the Bank Group’s approvals reached the highest level since its establishment, with lending, grant, and debt relief operations reaching $4.3 billion. Of this amount, $2.4 billion was in support of non-concessional operations through the ADB window, including private sector operations amounting to $260 million. The balance of nearly $2 billion was accounted for by concessional operations in the low-income countries. In addition to its own lending and grant operations, the Bank Group, through its co-financing operations, succeeded in mobilizing additional resources, which stood at $3.1 billion. Thus, the total amount of resources generated for its regional member countries -- including the Bank’s own resources -- stood at $7.4 billion in 2004 compared to $6.3 billion in 2003.

Resource Mobilization for Debt Relief

In response to the debt crises of most low-income African countries, the Bank Group has been active in the HIPC initiative from the very start. As I noted earlier, it has to date approved $4 billion of debt relief to the 23 African countries that have qualified. Over 80 percent of the resources required to finance the Bank Group’s involvement in HIPC has been financed by ADF donors. Beneficiary countries have used the resources freed by debt relief to finance important poverty-reduction interventions, particularly in the health and education sectors.

Resource Mobilization for the African Development Fund

The year 2004 was particularly important for the Bank Group in terms of mobilizing new concessional resources through its ADF window. State Participants in the ADF agreed on an ADF-X (2005-2007) replenishment level of approximately $5.4 billion. This represents an increase of 43 percent over the actual resources mobilized under ADF-IX and represents the highest replenishment in the history of the Fund.

The framework for Fund operations under ADF-X also incorporates a number of significant new features: first, the level of grant resources has more than doubled from 21 percent under AFD-IX to about 44 percent, with 26 countries, or two-thirds of the eligible countries, now receiving assistance solely in the form of grants; second, the special allocation for multinational projects has been increased from 10 to 15 percent of total ADF resources to allow the Fund to provide additional financing for such projects, particularly in the context of the NEPAD initiative; third, the increased envelop of resources will allow low-income countries to allocate more resources to water supply and
sanitation, in line with the Bank’s Rural Water Supply and Sanitation Initiative; and fourth an initial allocation of approximately $150 million has been made to support the Bank’s Post-Conflict Country Facility, with a commitment to increase this amount if required.

The Post-Conflict Countries Facility (PCCF)

In addition to its regular lending and grant operations, the Bank Group has established a Post-Conflict Countries Facility (PCCF) to help such countries clear their arrears with the Bank Group and help them re-engage with the international community. As I noted earlier, the Facility has been established with an allocation of approximately $150 million over three years from the net income of the Bank, and an additional $150 million from the African Development Fund. Efforts will be made to mobilize more funds from bilateral and multilateral sources. The resources of the facility will be used on a case-by-case basis to assist post-conflict countries that meet specific criteria. Two countries – Burundi and Congo – have already benefited from the facility and the Bank Group has started its regular operations in these countries.

The NEPAD Infrastructure Projects Preparation Facility

At I noted earlier, the Bank Group gives high priority to promoting regional cooperation and integration to enable the many small countries of Africa to gain from economies of scale and the benefits of larger markets. Its efforts have been boosted in recent years by the leadership role that it has assumed for regional infrastructure and banking and financial standards at the request of the NEPAD Heads of State Implementation Committee. The Bank has developed a framework for such standards and this has been incorporated into the African Peer Review Mechanism.

In infrastructure, the Bank has drawn up a NEPAD Infrastructure Short Term Action Plan (STAP), which outlines priority investment projects and programs for the period 2002-2007 in the energy, transport, water and sanitation and Information and Communications Technology (ICT) sectors. The estimated total investment cost of the projects included in the short-term action plan is approximately $8 billion, of which half is envisaged to be financed by the private sector. The Bank has already approved $520 million to finance projects identified in the plan, and has mobilized a further $1.6 billion from other sources to co-finance these projects. Work has also started on the preparation of a medium to long-term action plan, in close collaboration with the regional economic communities and in cooperation with the World Bank and the European Union. A special NEPAD multi-donor infrastructure facility to assist regional economic communities and countries in the preparation of bankable infrastructure projects has been established. The fund was seeded with a grant of C$10 million from the Canadian government.

The Rural Water Supply and Sanitation Initiative
Another major initiative that the Bank has launched is its Rural Water Supply and Sanitation Initiative (RWSSI). The immediate goal of the Initiative is to accelerate access to sustainable safe water supply and basic sanitation in rural Africa, with the objective of reaching a coverage of 80 percent by 2015 – in line with MDG goal for this sector. Its fundamental conception is, *first*, to mobilize the international community around a common framework, with African governments assuming leadership and, *second* to help raise the required financial resources to achieve the MDG for water supply and sanitation.

Preliminary estimates of the total investment requirements indicate that it would be in the order of $14.2 billion. The resources requirement for attaining the intermediate targets set for 2007 is $4.6 billion -- or about $1.5 billion per year for the next three years. Current resource flows to rural water supply and sanitation would cover around 40 percent of the cost – including country contributions of around 20 percent. The Bank Group has committed to provide up to 30 percent of the total financing requirements from both its concessional and non-concessional windows – the ADF and ADB. The balance of the resource needs therefore stands at about $460 million per year up to the end of 2007.

The Initiative was discussed at the International Conference on Rural Water Supply and Sanitation in Africa on 1 April in Paris, organized by the Bank and co-hosted by the French Government. African governments strongly supported the Initiative and the donor community also indicated its intention to provide additional financing, with some countries making actual pledges.

**Concluding Remarks**

In conclusion, I believe that we would all agree that while most African countries – and particularly Sub-Saharan countries -- face daunting challenges in meeting the MDGs, notable progress are, nonetheless, being made by many. Their success in the future will, however, depend, on the one hand, on African countries continuing to deepen their reforms, and, on the other, on the international community significantly increasing ODA flows to Africa, providing further debt reduction, and improving access for Africa’s exports. Promising starts have been made on all these fronts and we call on the donor community to re-dedicate itself to honoring the pledges it made at Monterrey and other fora.

The African Development Bank, on its part, has, in the last decade, succeeded in mobilizing considerable resources -- with $25 billion over the last ten years -- to support the development efforts of its regional member countries. In the future, it will strive not only to scale-up its support but also to enhance the development effectiveness of its operations by working closely with its regional member countries and with all its other development partners.