“Promoting Investment in Africa: The Role of the African Development Bank”

Statement by Omar Kabbaj,
President of the African Development Bank Group
at the Organization for Economic Cooperation and Development (OECD)

4 April 2003
Paris
Introduction

Your Excellency President Joachim Chissano,

Mr. J. Braga de Macedo, President of the OECD Development Center

Representatives of OECD Member States,

Ladies and Gentlemen,

Let me begin by expressing my appreciation to the OECD and, in particular to Mr. J. Braga de Macedo, the President of the OECD Development Center, for organizing this gathering today and for inviting me to take part. It is indeed a great honor to participate in this seminar with H.E. President Chissano of Mozambique, now universally recognized as one of Africa’s leading statesman.

We are very grateful to President Chissano for taking time to share with us his views on private investment, partnership and progress in Africa, as well as on a number of topics critical to the development of our region. Permit me also to say a few words on some of these topics. I will base my remarks on the recent findings of the *African Economic Outlook*, our joint publication with the OECD Development Center -- as well as on our own annual *African Development Report*. I wish also to take this opportunity to discuss briefly the role of the African Development Bank in boosting private investment in our region and more broadly its support to the development efforts of our regional member countries such as Mozambique, and regional organizations such as SADC.

Africa’s Recent Economic Performance and the Important Role of Private Investment

Mr. Chairman,

Ladies and Gentlemen,

As many of you are aware, Africa’s economic performance since the mid-1990s has on the whole improved, with GDP growth rates averaging 3.5 percent per year since 1995. Although considerably below the 6-8 percent growth range required to make a significant headway towards meeting the Millennium Development Goals (MDGs), this performance was, nonetheless, higher in relation to the stagnation and decline that African countries had faced in the early 1990s when GDP growth averaged only 1.3 percent annually.
It is also important to recall that we have begun to witness considerable variations in the performance of African countries. For example, countries such as Mozambique have witnessed average growth rates exceeding 5 percent over the last five years. At the other end, countries mired in conflict or those that have failed to sustain the required policy reforms or improve their systems of governance have experienced sluggish or negative growth rates.

On the whole, Africa’s performance since 1995, while improved, remains a source of concern. And of particular concern is the relatively weak performance of the African economy in 2002. Current estimates indicate that for the first time since 1995, the region’s economic growth rate fell below 3 percent to 2.8 percent, down from 3.5 percent in 2001. As in previous years, growth in 2002 was unevenly distributed. The number of countries with growth rates in excess of 5 percent declined from 21 in 2001 to 14 in 2002. Concurrently, countries with growth rates in the region of 3-5 percent increased from 8 to 14. Only five countries registers negative growth rates – the same number as last year.

A number of factors account for the relatively poor performance of the African economy in 2002. In the first instance, the adverse external environment -- marked in particular by sluggish growth in Europe and lowered tourist receipts -- affected exports proceeds. Drought conditions also affected agricultural production in East and Southern Africa. Finally, continued conflicts in a number of countries, particularly in Central and West Africa, also contributed to the lower output.

I should note that in spite of the strong external pressures faced by a number of countries, the overall macroeconomic stance of the region remained quite stable. The improved fiscal policy regime of most countries continued, with the overall fiscal deficit as percentage of GDP remaining below 3 percent in 2002. Moreover, most countries continued to follow prudent monetary policies such that the region’s average inflation rate declined to 10 percent in 2002 compared with 13 percent in 2001.

A reflection -- as well as one of the key causes -- of Africa’s low average growth rate is low investment rates. These have ranged from 16 to 22 percent of GDP, and have only shown marginal growth. These levels are obviously considerably below the levels required to raise GDP growth rates to the desired levels of 6-8 percent.
While domestic investment levels are constrained by low incomes and low savings, most African countries have yet to succeed in attracting large amounts of foreign capital to compensate for the shortfall. Indeed, it is evident that Africa has largely been bypassed by the sharp increase in private capital flows to the developing world in the last decade. Furthermore, foreign direct investment to Africa - averaging less than $10 billion a year during the last five years -- has largely been concentrated in a few countries and in a few sectors. And while a few capital markets in the continent have attracted portfolio investment from abroad, the overall level is relatively miniscule in relation to the remarkable growth in this type of investment in other regions.

There are two major factors that explain the low levels of private investment as well as foreign private capital flows to Africa.

- **First**, despite the considerable reforms that many African countries have implemented in the past decade, the actual investment climate for both domestic and foreign investment still needs further improvement. In particular, the poor state of physical infrastructure, the relatively unskilled labor force, the weak regulatory environment, and the inefficiency of government bodies all increase the cost of doing business in Africa, thus deterring investments.

- **Second**, with respect to foreign investment, the perception of risk regarding investments in the continent is often heightened by the negative image that is often portrayed of the continent by the international media. Too often, the whole region is associated with civil unrest and political instability. It is unfortunate that such a negative image of the continent masks the considerable reforms and improvements registered in a significant number of countries and recognized by such monitoring bodies as the Economic Intelligence Unit, the Wall Street Journal, and the Heritage Foundation.

Mr. Chairman,

Ladies and Gentlemen,

Increasing the levels of domestic investments and attracting larger volumes of foreign capital investment would require that African countries take action on several fronts. These would include:
• deepening the reforms of the last decade, as maintaining a prudent macroeconomic stance and avoiding policy reversals are critical for preserving the stability and predictability of the investment climate and for building investor confidence;

• continuing to give high priority to improving governance systems; a particular concern of the private sector in this regards is the need to improve the legal, judicial, and regulatory frameworks;

• improving the efficiency of public institutions to enable them to become effective partners to the private sector;

• deepening financial sector reforms to promote increased mobilization of resources with particular attention being paid to the development of domestic/regional capital markets;

• enhancing the efforts aimed at making African economies more competitive – a critical step in this regard is improvement in the physical infrastructure that is best achieved through public private partnerships;

• providing adequate investments to promote human capital formation, as an educated labor force is a key factor in attracting private investment; and

• continuing to promote and strengthen regional cooperation and integration efforts to create larger markets that have the potential of being more attractive to foreign capital.

Such domestic and regional efforts will need to be complemented by support from Africa’s development partners. This should be undertaken in the context of the new partnership proposed under NEPAD, as well as in the context of the pledges made by the donor community at Monterrey, Kananaskis, and Johannesburg. As I have noted on several occasions, such support should focus on three critical areas: increasing the flow of ODA to Africa; reducing debt to sustainable levels; and improving Africa’s market access and competitiveness.

With respect to ODA, there is obviously a need to reverse the declining trend of the last decade and increase its volume. In this regard, the pledge by the donor community at Monterrey to enter into a new partnership with developing countries and to increase annual official development assistance (ODA) by $12 billion by 2006 -- of which half is expected to be allocated to Africa -- is a welcome development.
In the area of debt relief, the Heavily Indebted Poor Countries (HIPC) initiative - in which the Bank Group is a major player - has begun to reduce substantially the debt burden of some 22 African countries that have so far qualified. And the recent pledge by the donor community to fully finance HIPC is also most welcome. However, given the recent adverse developments in the price of primary commodities, it is essential that the amount of debt relief extended to poor countries is continuously reviewed and adjusted to ensure that debt levels are indeed reduced to sustainable levels.

With respect to improving market access and the removal of trade subsidies that inhibit the exports of African countries, it is our hope that the pledge to work towards the objective of duty-free and quota-free access for all products emanating from the least developed countries will indeed be realized as soon as possible. In this regard, the trade liberalizing initiatives of the European Union and the USA hold much promise. However, we urge the donor community to take the necessary action for the successful conclusion of the WTO Doha Development Agenda, particularly with respect to the reduction of farm subsidies.

**The Role of the African Development Bank in Promoting Investment in Africa**

Mr. Chairman,

Ladies and Gentlemen,

Before concluding, permit me to say a few words on the role that the African Development Bank has played in mobilizing resources for its regional member countries, such as Mozambique, in addition to its role as a catalyst for promoting both domestic and foreign investment.

Since its establishment, the Bank has approved close to $45 billion to finance projects and programs in its regional member countries, of which $27 billion is from the ADB window, and the balance of $18 billion from the highly concessional African Development Fund and the Nigeria Trust Fund. In the last two years, the average level of financing operations has been in the order of approximately US$3 billion annually - the highest level in 10 years. To augment its own resources, the Bank has over the past two years also mobilized about $3.4 billion annually from external resources for a total resource mobilization of $6.4 billion each year. It has also approved $2.2 billion of debt relief to the 22 countries that have qualified under the HIPC initiative.
In addition to complementing national investment resources by financing specific projects and programs in such priority areas as agricultural and rural development and human capital development, the Bank has also financed a wide array of reform measures to improve the overall investment climate for both domestic and foreign capital. These reforms are in line with the call made by NEPAD to improve systems of governance in our countries.

Further, through its private sector window, the Bank provides direct financial assistance, as well as advisory services, to entrepreneurs in its regional member countries. A wide array of instruments is used for this purpose, including term loans to private enterprises; equity participation; quasi-equity investments; guarantees; syndication and underwriting. The Bank also extends lines of credit to private financial institutions for on lending to small and medium size enterprises. The Bank's private sector activities have expanded in the recent past and are now well established. In 2002, approvals reached close to $270 million, a 12 percent increase over 2001. Cumulative private sector approvals have now exceeded $1 billion dollars and this is estimated to have helped mobilize a further $5 billion, indicating the important catalytic role the Bank has played.

**Bank Support to Mozambique and SADC**

The Bank’s support to its regional member countries is best illustrated by its support to Mozambique and other countries in SADC. In the course of the last few years, the Bank has allocated an increasing share of its concessional resources to countries such as Mozambique which have put in place sound policy frameworks and which have, moreover, instituted far-reaching reforms.

The Bank Group’s portfolio in Mozambique now stands at $1.2 billion. Priority areas of investment have included agriculture and rural development, health and education, and rural infrastructure -- including rural roads, water supplies and electrification. Mozambique has also been one of the first beneficiaries of the HIPC initiative and the Bank has to date approved over $155 million in debt relief. Further, the Bank is also considering financing a number of private sector initiatives in the mining and gas sectors.

In addition to supporting individual countries, the Bank has also provided assistance to regional economic communities such as SADC. For the Bank Group, the SADC region is one of its more important development partners in Africa, with cumulative commitments reaching a level of $9.4 billion as of the end of 2002. As in Mozambique, the strategy of the
Bank Group has aimed at providing support to the poverty reduction efforts of SADC countries, with a particular focus on such areas as agriculture and rural development - including rural infrastructure - health, and education.

The Bank has also provided direct technical assistance to the SADC secretariat in the transport sector to improve road safety and to reduce the transmission of HIV/AIDS along transport corridors. We are also in the process of developing a regional integration assistance strategy encompassing the whole of SADC. And in the context of the Bank’s work for NEPAD in the area of infrastructure – entrusted to it by the Heads of State Implementing Committee of which President Chissano is a leading member -- we have finalized a short-term action plan for the infrastructure sector for the SADC region and will soon initiate discussions with the SADC Secretariat on its implementation.

Concluding Remarks

Mr. Chairman,
Ladies and Gentlemen,

Permit me to conclude by noting once again that despite the improvements in the African economy in the past several years, and the impressive performance of some countries such as Mozambique, the overall performance of the African economy still needs to be improved. The trend growth of 3 to 3.5 percent, with GDP growth rate dipping below 3 percent in 2002, is evidently well below the level required for Africa to make headway towards meeting the MDGs.

African countries will therefore have to continue to deepen their reform efforts and improve their investment climates to be able to stimulate both domestic investment and attract higher levels of foreign investment. The case of Mozambique, as President Chissano has ably demonstrated to us today, clearly shows that with steadfast commitment and determination this can indeed be achieved. We are confident that with the full support of their development partners, an increasing number of African countries will indeed replicate this type of performance in the coming years. On its part, the African Development Bank stands ready to provide the required financial and technical support.

I thank you for your kind attention.