Address by Mr. Omar Kabbaj, President of the African Development Bank, to Ambassadors and Heads of International Organizations Accredited to Côte d'Ivoire (Abidjan, Côte d'Ivoire, 17 January 2002)

Introduction

Your Excellencies the Ambassadors and Chargés d'affaires, Distinguished Representatives of International Organisations, Ladies and Gentlemen,

It is my singular honour and privilege to address once again this distinguished community of diplomats representing member countries of the ADB in Abidjan. On my own behalf and on behalf of the African Development Bank Group, I thank you all for accepting our invitation and for providing me an occasion to address you on the progress and achievements made by the Bank Group. This gathering, at the beginning of each year, also provides us an opportunity to review Africa's economic performance in the preceding year and to exchange views on Africa's progress and medium term prospects.

In my statement today, permit me to begin with a brief overview of the recent performance of the African economy and its prospects. I will then present to you the main features of Bank Group activities during 2001.

Africa's Economic Performance and Prospects

Your Excellencies,
Ladies and Gentlemen.

Preliminary estimates indicate that the African economy continued to grow moderately in 2001, with real GDP growth estimated to average 3.4 percent as compared to 3.1 percent in 2000, yielding a small gain in per capita income. The average outcome for the continent depicts the growth pattern of the large economies of Algeria, Egypt, Nigeria and South Africa, which together account for about 50 percent of Africa's GDP. Despite the modest performance of the African economy as a whole, it is gratifying to note that fourteen African countries achieved rates of growth in excess of 5 percent, with nineteen other countries registering growth rates of between 3 and 5 percent. The number of countries recording negative growth also declined from nine to seven.

The factors responsible for the modest growth in 2001 are, in large part, due to the global economic slowdown, which was exacerbated by the September 11 events. Deteriorating
global demand has led to the collapse of most primary commodity exports, both in terms of volume and prices. Consequently, African countries with very high concentrations in non-oil primary commodity exports experienced high losses. Furthermore, countries such as Egypt, Morocco, Tunisia, Kenya, Uganda, and Tanzania, where tourism is a significant source of foreign exchange, have also been seriously affected. In the case of Egypt, for instance, foreign exchange earnings from tourism are estimated to have decreased by about US $2 billion.

And despite the recent progress with conflict resolution and political reforms, the continent's growth performance is still constrained by civil wars and social conflicts related, in large part, to bad economic and political governance. Another factor constraining the development of the continent is the increased exposure of our people to illness and diseases including malaria and HIV/AIDS. By hampering productive activities and diverting resources from essential programs, such constraints retard growth and increase poverty.

Notwithstanding the weakening external environment, it is gratifying to note that macroeconomic management in much of the region continued to strengthen in 2001. This reflects the strong commitment on the part of many African countries to prudent fiscal, monetary and exchange rate policies. Remarkably, in the face of deteriorating external accounts, the growth of money supply declined, the rate of inflation subsided, while the overall fiscal balance remained largely unchanged. Moreover, the investment to GDP ratio has increased slightly while the ratio of debt service to exports fell marginally. Evidently, economic policy in Africa today is in sharp contrast to conditions during the last two decades where the domestic policy stance was often compromised by the deterioration in external accounts.

The growth prospects for Africa for 2002 are likely to continue to be affected by the lingering slowdown in economic activity at the global level. This is expected to hold back the expansion of Africa's economy to between 3 and 3.5 percent. Looking beyond 2002, however, the medium term outlook for the region is favorable, with average GDP growth projected between 4 and 5 percent per annum. This projection is based on current international forecasts for global economic activity and on the policy stance in African countries. Underpinning these, are continued economic reforms in our countries, the expected recovery of world export prices of primary commodities, as well as the resumption of growth in leading world economies, particularly Africa's main trading partners in the European Union.

Although the region's present and projected rates of growth represent improvements over Africa's aggregate performance in the last two decades, they are still quite insufficient to enable most of our countries to attain the Millennium Development Goal of reducing poverty by half by 2015. A recent assessment conducted by our Development Research Department, for example, reveals that on present trends most African countries would not be able to meet this goal. Indeed, it may take them several decades to reduce poverty by half. The importance of urgent and concerted action to fighting poverty on the part of African leaders and their development partners cannot therefore be overstated.
As I have noted on several occasions, meeting the challenge of poverty reduction in Africa will not only require the further deepening of recent economic reforms but the concerted support of the international donor community. It is therefore our hope that donor countries will in the coming year intensify their support to African countries by providing not only increased concessional resources and debt relief but also improved access for African exports to their markets. As recent events have tragically made plain, the fate of all nations is now inseparably intertwined. Poverty in Africa can no longer be seen as Africa's problem alone, but as a global problem that commands the attention and efforts of the international community.

For a large number of African countries concessional resources will continue to be needed to help them capitalize their economies, given the clear limits to effective domestic resource mobilization. Regrettably, international development assistance to Africa has declined in recent years. We hope that the donor community will reverse this decline and honor its commitment to helping African countries make substantial progress towards achieving the Millennium Development Goals. In this regard, we are encouraged by recent calls to double official development assistance (ODA). Regrettably, ODA flows are presently at low levels, accounting for some 0.22 percent of GNP in donor countries. Doubling ODA flows should be considered as the first step towards fulfilling the commitment made by the international community to reach 0.75 percent of GNP.

In the area of debt relief, it is encouraging to note that Africa's debt burden has begun to stabilize, although a number of African countries continue to have unsustainable high debt levels that hinder their development. With 20 African countries having now become eligible for debt relief under the enhanced HIPC Initiative and a number of others expected to qualify in 2002, the prospects for these countries has improved considerably. Nonetheless, it is essential for the international community to continue to mobilize resources to fully finance the HIPC Initiative and also to consider ways and means of helping medium income countries, particularly in the light of the adverse global economic environment.

In the area of trade, it is essential that the developed countries provide support by removing tariff and, more importantly, non-tariff trade barriers on export products from Africa. It is evident that without substantial export expansion African countries would not have the capacity to import increased volumes of capital goods required for accelerating the rate of growth. In this regard, we welcome the recent Doha agreement to resume WTO negotiations which are expected to focus more on development issues. The decision by the United States Government to designate 35 Sub-Saharan countries as eligible for tariff preferences under the African Growth and Opportunity Act is also most encouraging. Equally heartening is the European Union's recent decision to open its market completely to Least Developed Countries through the groundbreaking "Everything but Arms" initiative.
New Partnership for Africa's Development (NEPAD)

Your Excellencies,
Ladies and Gentlemen,

The year 2001 was significant for Africa as it witnessed the re-launching of Africa's collective development efforts through the adoption of the New Partnership for Africa's Development (NEPAD) by African Heads of State at the Lusaka OAU Summit. In the face of the many challenges facing African countries, NEPAD represents a vision and a set of strategies for addressing them. It calls on African leaders to take responsibility for promoting accelerated economic growth, and poverty reduction, by strengthening governance, implementing sound macroeconomic policies and boosting the mobilization of domestic resources. NEPAD also stresses the cardinal importance of committing ourselves to peace, security and good governance. While calling on African countries to assume the ownership of the development process, NEPAD also recognizes that Africa's development challenges can only be addressed successfully in partnership with the international community. It therefore calls on a new compact for development, based on shared principles and mutual accountability.

The Implementing Committee of the Heads of State in charge of NEPAD has requested the Bank, together with the ECA, to provide intellectual and technical leadership in the implementation of NEPAD. The Bank has also been designated as a lead agency in the areas of infrastructure and banking and financial standards, and -- in cooperation with the ECA -- in governance. We are fully committed to providing the requested support, particularly as NEPAD for us is a reaffirmation of the Vision that we adopted in 1999. We accordingly hosted the 4th meeting of the NEPAD Steering Committee in November of last year and we have mobilized our human resources to provide the requested technical assistance in the various areas. The preliminary results of our work will soon be presented to a NEPAD meeting later this month in Pretoria.

Bank Group Vision and Operational Priorities

Your Excellencies,
Distinguished Ladies and Gentlemen,

Permit me now to report to you on the activities of the Bank Group in 2001. As in the recent past, the Bank has continued to sharpen its focus on poverty reduction by giving priority to those sectors and activities identified in its Vision Statement as critical for economic growth and poverty reduction. Accordingly, we focused on agriculture and rural development, education and health, private sector development, and good
governance. We also placed much emphasis on promoting regional integration and supporting such crosscutting issues as gender mainstreaming and environmental management. Another important area of our operations was the provision of debt relief to eligible countries under the HIPC Initiative. Increasingly, as many of our regional member countries develop fully-fledged poverty reduction strategies, Bank Group interventions are designed to support such strategies.

In terms of our overall financing operations, the year 2001 was a particularly significant one, given that it was the year in which we markedly increased our activities -- reaching an amount of US$ 3.0 billion - an increase of 20 percent over the level achieved in the previous year. The Bank's activities comprised US$ 1.2 billion from the ADB window, US $ 1.7 billion from the ADF window, and the balance of US$ 6.5 million from the Nigeria Trust Fund. An interesting feature of our activities during the year was the significant resurgence of operations through our concessional window whose resources are earmarked specifically for poverty reduction projects and programs in our low-income member countries. And equally significant was the considerable expansion in our private sector activities which increased to US$ 240 million, a four-fold increase over the levels attained in the previous year.

The level of Bank Group resource disbursements to borrowing countries also showed drastic improvement, reaching over US$ 1.0 billion in 2001 and representing an increase of 22 percent over the level of disbursements attained in the previous year. In addition to our own funds, we were also able to mobilize about US$ 4.0 billion through co-financing operations, which represents 133 percent of our own resources. In all, the Bank was able to mobilize close to US$ 7.0 billion, including co-financing resources for our borrowing countries.

But equally important, the Bank has not only expanded the volume of its lending activities, it has also continued its efforts to improve the quality and development effectiveness of its operations. This goal was pursued with deliberate stringency in 2001 particularly with regard to the strengthening of country programming to ensure that Bank assistance is fully consonant with the Bank's Vision as well as the investment priorities of our borrowers, as articulated in their Poverty Reduction Strategy Papers (PRSPs). Likewise, we have enhanced the quality-at-entry of projects through rigorous screening of all proposals to filter out those which are unlikely to succeed. We have strengthened the use of participatory techniques to enhance beneficiary ownership of projects and ensure their effective contribution in project implementation. We are also giving increased emphasis to the coordination of our assistance with other development partners, especially the Bretton Wood Institutions.

In addition, the Bank has strengthened its monitoring of project implementation by increasing the number of field supervision missions which currently stand at 1.5 per project per year. These measures were coupled with improvements in the staff skills mix in project preparation and supervision missions to take into account the cross cutting issues such as gender and environmental management. The strides made by the Bank Group in improving the quality of its portfolio have been evidenced in the Annual
Portfolio Performance Reviews which show a continuous decline in the proportion of projects-at-risk in our portfolio.

The operations we financed in the agriculture and rural sectors placed emphasis on increasing agricultural production, enhancing food security and providing income generation opportunities for people living in rural areas. Operations in the social sector comprised principally support for education, health and stand-alone poverty reduction activities aimed at developing human capital and enhancing economic and social prospects for the poor. Approvals to agriculture and rural development and the social sectors amounted to US$ 586.0 million, or 27 percent of loans and grants approved during the year.

The Bank Group also provided considerable support to the economic reform programs of our regional member countries, including projects aimed at promoting systems of good governance. A total of US$ 516 million or 23.5 percent of total Bank Group loan and grant approvals in 2001 was provided to such operations. Some of the projects we have financed include the Competitiveness Support Program for Tunisia, in the amount of US$ 192 million. The project aims to consolidate the foundation of a competitive economy and support the development of the private sector by improving its environment and financing conditions.

Aware of the critical role that the private sector must necessarily play in fostering growth and poverty reduction in the region, the Bank stepped up its operations in this sector in 2001. Total approvals stood at just over US$ 240 million as compared with US$ 51 million in 2000. A major focus was providing resources to small- and medium-scale enterprises. Accordingly the Bank extended several lines of credits to a number of private banks such as the Suez Canal Bank of Egypt, the Agribank of Namibia, Bank FSB of Nigeria, the Commercial Bank of Mauritius, and Banque Nationale Agricole of Tunisia. And to support private sector involvement in infrastructure, the Bank is not only involved in such undertakings as the AIG Infrastructure Fund but is also directly involved in financing infrastructural activities. In 2001, the Bank became a major co-financier, providing US$ 55 million to the Bujagali Hydroelectric Power Project in Uganda, along with the IFC and private investors. The project will help develop the country's abundant hydrological resources to generate electricity for rural households and boost rural productivity and incomes.

As well as providing resources to support programs and projects, the Bank Group continued to be fully engaged in the HIPC initiative to reduce the debt of African countries to sustainable levels. As of the end of 2001, 20 African countries had qualified for such debt relief and the Bank Group's total commitments to these countries stands at over US $1.2 billion. This represents a remarkable improvement over the situation at the end of 2000 when debt relief was provided for only 10 countries. In the coming year we expect to provide debt relief to a further five to six countries. In this connection, I would like, once again, to express our appreciation to the European Union and bilateral donors that have provided funds to the Bank Group to enable us to participate in this important initiative.
Another critical area of Bank Group assistance to member countries has been in training and capacity building. In addition to the technical assistance support the Bank Group provides through its lending and grant operations, the establishment of the Joint Africa Institute (JAI) with the IMF and the World Bank is providing high quality training for a large number of government officials. JAI began operations in November 1999, and within the space of a few years, has rapidly found its place among the pre-eminent centers of development training and skills formation in Africa. During 2001 the JAI organized 14 courses with some 450 participants attending these courses.

The ADF-IX Negotiations

Your Excellencies,
Ladies and Gentlemen,

The year 2001 was particularly important for the African Development Fund, as it marked the end of the ADF-VIII cycle and the start of negotiations for ADF-IX. In the course of 2001 four meetings were held with the participation, for the first time, of representatives of borrower countries and selected NGOs. The consultations have allowed State Participants to assess the progress the Fund has made under ADF-VIII and to deliberate on the total level of resources for ADF-IX. We have made a case for a significant increase in the resources of the Fund to enable it to effectively discharge its mandate of poverty reduction and sustainable economic growth. We have also argued for an enhancement of the Fund's engagements in such critical areas as assisting post-conflict countries and the fight against communicable diseases, as well as providing adequate support to NEPAD.

I am delighted to report that State Participants welcomed the progress that the Bank Group has made in discharging its mandate and, in particular, in setting its operational priorities in line with the Vision adopted in 1999 as well as the use of participatory approaches in the Fund's interventions. Indeed, there were no major policy differences between the Bank and the Deputies. We are optimistic that the ADF-IX consultations will conclude in the next few weeks. It is our ardent hope that the replenishment of ADF-IX would be at a level that is commensurate with Africa's enormous quest for accelerated growth and poverty reduction.
Corporate and Financial Management

Your Excellencies,

Turning now to corporate and financial management issues, I am pleased to report that the Bank continued to implement new financial policies and to improve its financial products and services. Several measures were taken to ensure that our financial assets and liabilities were deployed in an optimal manner and the final phase of the financial reform program was implemented to protect the Bank against adverse fluctuations in interest and currency exchange rates.

The Bank also continued strictly to implement its sanctions policy to minimize the incidence of arrears. Significant progress was made in this regard as two countries cleared their arrears and arrangements were made with two others to clear their arrears in the context of internationally supported programs. A major initiative was also launched to try to put in place a joint program for the clearance of the arrears of the Democratic Republic of Congo to international financial institutions, in the light of the notable economic and political progress being made by the country.

As a result of these improvements, the Bank Group has continued to maintain a healthy net income, a trend that has been sustained over the last four years. For 2001, the net income from the three windows of the Bank Group is expected to reach a level of US$ 195 million. For the ADB window alone, the earnings for 2001 are expected to be about US$ 159 million, representing an increase of approximately 9 percent over the earnings for 2000. These strong results are attributable to overall improved repayment performance by borrowing countries, sound financial and operational management, and the ongoing stringent expense controls. The financial reform measures that the Bank has implemented in the last few years and the favorable outcomes have also allowed it to continue enjoying excellent ratings with the international ratings agencies. During the second quarter of the year, three major international ratings agencies, namely, Moody's, the Japanese Credit Agency, and Fitch IBCA reaffirmed their triple A rating of the African Development Bank, whilst the fourth, Standard & Poors, reaffirmed its AA+ rating, and revised its outlook for the Bank from negative to stable. We are encouraged by this continued show of confidence.

As well as the reforms in the financial area, the Bank Group has also continued to strengthen its organizational structure and its human resources base. A significant development in this regard was the start up of the implementation of the new organizational framework approved by the Boards of Directors in 2001. The changes that have been put in place aim to address the major challenges faced by the Bank Group and to provide a basis for fine-tuning its organizational framework and processes. We are confident that following the full implementation of the new structure, the Bank will in the near future have the institutional capacity, the skills mix and the business processes it needs to realize its Vision, particularly in terms of alleviating poverty on the continent.
Conclusion

Your Excellencies,
Ladies and Gentlemen,

Permit me to conclude my statement by noting that 2001 was a year of major and varied developments for Africa and, indeed, the whole world. While the region was negatively affected by the slowdown in the world economy -- exacerbated by the September 11 events -- our countries, nonetheless continued to strengthen their policy fundamentals, reflecting their strong commitment to good economic governance. This commitment was bolstered by the adoption of NEPAD by African Heads of States and the setting up of mechanisms for its successful implementation. On the international effort, we are encouraged by the promise of greater engagement by the international donor community in the areas of increased concessional resource flows, debt relief, and trade.

For the Bank, 2001 also witnessed significant developments in terms of major increases in resource commitments to our regional member countries, our close association with the NEPAD initiative, as well as the start of ADF-IX negotiations. We are confident that with the full support of our shareholders, we will continue to build on these major engagements in the coming year to ensure that the Bank Group does indeed meet the lofty expectations of its members.

I thank you for your kind attention.