Address by Mr. Omar Kabbaj, President of the ADB Group, to Ambassadors and Heads of International Organizations (Abidjan, Cote d'Ivoire, 15 March 2001)

Introduction

Your Excellencies, Ambassadors and Representatives of Diplomatic Missions, Distinguished Representatives of International Organizations, Ladies and Gentlemen,

It is a pleasure for me to welcome you all to this sixth annual gathering involving the Bank, Ambassadors and representatives of diplomatic missions of the Bank’s member countries, as well as representatives of international organizations. I would like to thank you all for having accepted our invitation and for being present here today. These meetings provide us an opportunity to share with you our assessment of the performance of the African economy in the past year and to provide you information on recent Bank Group activities in our regional member countries. They are also an occasion for an exchange of views with Your Excellencies on the development challenges facing our regional member countries. Indeed, I look forward to our discussions today.

Permit me to begin my statement with a brief review of the major developments of the African economy in the year 2000. I will then proceed to discuss the salient features of Bank Group activities during the last year.

Africa's Current Economic Performance

Your Excellencies,

Ladies and Gentlemen,

Preliminary estimates of Africa’s economic performance in 2000 indicate that GDP growth averaged 3.2 percent. While this was well above the average of 1.1 percent for the period of 1990-1994, it is below the peak of 5.3 percent achieved in 1996. Although Africa’s economic performance in the past year was considerably below its potential, it is, nonetheless, encouraging to note that the positive growth in per capita income continued, with an increase of almost one percentage point each year since 1996.

A number of factors account for the relatively low growth rate in 2000. These include natural causes such as erratic rainfall patterns, drought, and floods in a number of countries. As regrettable, however, has been the resurgence of conflicts and civil wars in some sub-regions of the Continent. Indeed, because of such occurrences, the marked difference in economic performance among groups of countries has continued to deepen. Countries that have successfully pursued economic and governance reforms and which
have enjoyed stable and peaceful conditions have achieved an average growth rate of over 5 percent during 1996-2000. At the other end are countries that have continued to suffer from either conflicts or serious governance problems and whose growth rates have, as a result, contracted by an average of 0.2 percent per annum during this same period.

On the policy front, Africa’s strides towards attaining sound economic management have steadily continued in a significant number of countries. This is evidenced not only by improvements in such macroeconomic indicators as low inflation and declining government deficits, but more fundamentally, by a strong reorientation towards more efficient market economies. In this regard, it is encouraging to note that the Index of Economic Freedom prepared by the Wall Street Journal and the Heritage Foundation indicates that Africa made the second largest overall progress towards economic freedom in 2000.

On the external front, the balance on current account in 2000 remained negative, though recording marked improvements over 1999. The upsurge in the price of oil that benefited Africa’s oil exporters was one of the main forces explaining the relative improvement in Africa’s overall external balance. Other commodity prices, however, experienced mixed fortunes. Although metal prices have recovered substantially since 1999, non-oil commodity prices, such as those for cocoa and coffee, have, as a whole, remained weak.

The stock of external debt in 2000 declined marginally by about US$3 billion from its level in 1999 which stood at US$337 billion. Coupled with the improvements in the external balance, it is a welcome sign that Africa’s debt burden has started to decline, albeit at a slow rate. During the last five years, Africa’s debt burden as a proportion of GDP fell by an average of two percentage points each year from 68 percent in 1995 to 58 percent in 2000. Likewise, the amount of foreign exchange resources that Africa devotes to debt service declined from 25 percent of total export earnings in 1995 to 16 percent in 2000. And with the acceleration of debt relief under the Heavily Indebted Poor Countries (HIPC) initiative – which I will have an opportunity to discuss in some detail later – the prospects for a significant decline in Africa’s debt and debt-service burden are now better than ever.

Looking ahead, the medium-term outlook for the region is favorable with GDP projected to grow at 4.1 percent this year and increasing towards 5 percent in subsequent years. However, even if these projections are realized more would need to be done by the majority of our countries to attain the rates of growth required to bring about a significant reduction in poverty. It is estimated, for example, that Africa would need to reduce the number of poor people by 4 percent each year, in order to meet the international development goal of reducing poverty by one-half by 2015. The rates of economic growth required for achieving this target range from 5 percent per annum for countries in Southern and Northern Africa to 8 percent for low-income countries in Central, Eastern, and Western Africa.

Accelerating economic growth in the times ahead would require significant increases in investment rates and in efforts to mobilize internal and external resources. To this end,
economic reforms to enhance domestic investment would need to be complemented by measures to attract increased foreign capital. Critical in such endeavors must be efforts to improve governance. There is now near universal consensus that a key requirement for the growth of private domestic and foreign enterprise is a system of governance that is accountable and transparent, and where the rule of law prevails.

Sustainable economic development also needs increased human capital investment to enhance the health and welfare of populations and generate the skills required in a competitive global environment. As human capital formation in Africa is now being severely threatened by the HIV/AIDS pandemic, a concerted response is needed to contain and stop it.

While we in Africa must necessarily take the primary responsibility of working for the betterment of socio-economic conditions on our continent, the support of the international community will, nonetheless, remain critical for the foreseeable future. International support, in the form of concessional resources and external debt relief, is needed to strengthen the effectiveness of on-going reforms, and finance basic investments in physical and social infrastructure. Another important form of support is the removal of trade barriers, so as to allow freer access to developed country markets for products from Africa. In this regard, we welcome the recent decision by the European Community to remove tariffs on certain export commodities of the least developing countries. International support should also be intensified to help prevent and resolve conflicts and civil wars that continue to undermine the continent’s potential for economic and social development.

Bank Group Operation

Your Excellencies,
Ladies and Gentlemen,

Permit me now to review briefly Bank Group operations in 2000. As I reported to you last year, the Bank Group adopted its Vision Statement in 1999. The Vision, as you will recall, identifies the reduction of poverty and the promotion of sustainable economic growth as the fundamental goals that will guide all Bank Group operations in the future. Accordingly, considerable efforts were made in the past year to ensure that the various policies of the Bank Group, as well as its lending and technical assistance operations, conform to the broad lines and priorities set out in the Vision.

In 2000, the Bank’s Boards of Directors approved revised policies for lending and technical operations in important sectors. These included policies for: the agricultural and rural development sector; the education sector; integrated water resources management; and, economic cooperation and integration. The lending operations of the Bank Group have also continued to focus on poverty reduction and sustainable economic growth.
In year 2000, overall Bank Group approvals for loans, grants, guarantees, equity investments and debt relief totaled US$2.8 billion to 37 member countries. Non-concessional ADB resources amounted to US$1.1 billion, and concessional ADF resources amounted to US$1.6 billion, while NTF provided the balance of US$14 million. The Bank Group was also able to raise a further US$2.4 billion through co-financing operations.

In line with the Vision, priority was given to projects and programs in the agriculture and social sectors, with approvals amounting to US$520 million, or 37 percent of loan and grants in 2000. In the area of agriculture and rural development, emphasis was placed on poverty reduction through, among others, investments in rural infrastructure and the provision of microfinance that targeted women in particular. In the social sector, stress was placed on reinforcing existing social services delivery systems to make them more efficient. Priority was given to basic health care and primary education.

Approvals to the transport sector amounted to US$204 million, or 15 percent, mainly in support of feeder road construction in rural areas and for rehabilitation of existing road networks. The Bank Group also provided support to the power, water supply and sanitation sectors, amounting to US$181 million. The operations were for electricity production aimed at addressing the energy needs of the population, and, for providing safe water supplies and sanitation to help improve public health.

The Bank has also continued to provide policy-based loans to support the creation of an enabling legal and regulatory environment for private sector activities. Direct support for private sector development has been channelled through lines of credit and institutional support. Emphasis has been placed on providing assistance to small and medium scale enterprises through lines of credit to development finance institutions.

Capacity building in regional member countries has been another area of concern for the Bank. Technical assistance grants have been used for such purposes as well as components of regular projects and programs. In addition, the Bank has continued to provide training to officials of regional member countries in various disciplines. Further, the Joint Africa Institute, which was established in 1999 together with the IMF and the World Bank, had its first full year of operations and provided policy-related training to government officials and other participants.

To enhance our operations and establish closer relations with our regional member countries, the Boards had approved, in September 1999, the proposal to re-open regional and country offices. Accordingly, the Bank opened in 2000 three country offices in Egypt, Ethiopia, and Nigeria and one regional office in Gabon, in addition to a national program office in Mozambique. A regional office in South Africa is expected to be opened shortly.
Your Excellencies,
Ladies and Gentlemen,

I wish now to turn to the role of the Bank Group in providing debt relief to the heavily indebted poor African countries, under the HIPC Initiative. As you may all recall, the initiative was enhanced in 1999 to provide deeper and faster debt relief. Eligibility requirements were also changed considerably. The enhanced HIPC framework has resulted in an increase in the number of eligible African countries from 25 to 31 and its cost has also doubled to nearly US$28.6 billion. The Bank Group’s share is currently estimated at US$2.3 billion (in 1999 NPV terms).

Under the enhanced framework, our Boards of Directors approved debt reduction for sixteen countries in 2000 and the first months of 2001. Total Bank Group debt relief for these countries amounted to US$1.05 billion in NPV terms and close to US$1.4 billion in nominal terms. Debt relief is expected to be provided to an additional group of 6 African countries in 2001. By the end of this year, the total debt relief that the Bank would have extended is estimated to reach US$2.2 billion in nominal terms.

In addition to the provision of debt reduction under the HIPC Initiative, the Bank Group has also provided debt relief through its Supplementary Financing Mechanism (SFM), which became operational in July 1998. The SFM makes quick-disbursing concessional resources available to low-income African countries for meeting their interest payments due on outstanding non-concessional ADB debt. Over the 1998-2000 period, some US$154 million has been committed under the SFM to 11 eligible countries.

The enhanced HIPC framework stresses the importance of establishing a close linkage between debt relief and poverty reduction. This is to be achieved through the formulation of country-owned Poverty Reduction Strategy Papers (PRSPs) that provide the general framework for the implementation of monitorable projects and programs. During the year 2000, the Bank Group, in collaboration with the IMF and the World Bank, set up mechanisms to provide support to African countries in the preparation of their PRSPs. These strategies can be expected to provide the basic framework for relations between African countries and their development partners. They will thus have a profound impact on the way we do our business. In the case of the Bank Group, we expect that our future lending strategies will be guided by the development strategies adopted by countries through the PRSP process.

Financial and Corporate Management

Your Excellencies,
Ladies and Gentlemen,

In addition to the steps that the Bank Group took to align its operations with its Vision, it also continued to implement measures aimed at improving its financial and corporate
management. Towards this end, it implemented new financial policies and enhanced its financial products and services. Net income in 2000 for the three windows of the Bank Group – ADB, ADF, and NTF -- continued the satisfactory performance of the last few years. It stood at US$204 million compared to US$197 million in 1999. Nonetheless, I wish to stress that the build up of arrears by a number of countries could pose a threat to the financial health of the Bank in the future. It is thus imperative that all regional member countries do their utmost to meet their obligations to the Bank Group and preserve the integrity of their only continental financial institution.

In the area of human resource management, the Strategy that was approved by our Boards in 1999 was updated in 2000 to support the Bank's strategic and operational objectives.

As part of its human resources development program, the Bank Group provides a variety of training opportunities, both locally and overseas, to cater for the diverse needs of its staff and to enable them to perform their functions effectively and efficiently. In line with this goal, the Bank launched its Management Development Program in 2000 in cooperation with the Haute Etudes Commerciales (HEC) of the University of Montreal.

The Bank Group has also continued with its technology and telecommunications modernization program. This aims at contributing towards the improvement and strengthening of the quality and efficiency of Bank Group operations as well as facilitating the adaptation of the Bank to the changing business environment.

Another important initiative that the Bank undertook in 2000 concerns the study on the appropriate organizational structure of the Bank Group to ensure effective implementation of the new Vision. The study has been completed and will be presented to the Boards for their approval in the next few weeks. It is a comprehensive and pragmatic organizational review of the key challenges facing the Bank, and is intended to provide a basis for fine-tuning the organizational structure and processes to improve the efficiency of Bank Group operations. It will thus not involve a major re-structuring of the Bank but will instead focus on ensuring that the Bank has the requisite skills-mix and structure to enable it to forge ahead in the coming years.

Conclusion

Your Excellencies
Ladies and Gentlemen,

Permit me to conclude by noting that in the past year, the African Development Bank Group continued to take a number of important steps and initiatives to bring its policies and operations in line with the Vision that it articulated in 1999. Indeed, the reduction of poverty and the promotion of sustainable economic growth have now become the hallmarks of Bank Group activities in its regional member countries. In the coming years,
the Bank will enhance this orientation to enable it to provide effective and quality assistance to its regional member countries in their fight to reduce poverty.

The Bank Group will continue with its principal mission of mobilizing resources in support of the development efforts of its regional member countries. In the next few months, we will begin discussions on the ninth replenishment of the African Development Fund. The mid-term review of ADF-VIII revealed strong support for the direction that the Bank Group has taken in the last few years and the activities that it finances. We are optimistic that we will mobilize concessional resources to help support the development efforts of our regional member countries.

I wish, however, to stress that the Bank Group’s development efforts will only bear fruit in those countries and sub-regions where conditions for sustained economic development are in place. In the last few years, while Africa’s overall economic performance has shown some encouraging progress, its development prospects were, nonetheless, hampered by the resurgence of conflicts in a number of our countries. We are encouraged that some of these conflicts have now come to an end. We do hope that our countries will succeed in bringing a swift resolution to the other conflicts that are still ongoing. This is essential to enable our countries achieve a level of economic growth and development that is commensurate with the immense natural resources of our continent and the vitality of its people.

I thank you for your attention.