Message of Omar Kabbaj,
President of the African Development Bank Group,
to The Assembly of the African Union

6-8 July 2004
Addis Ababa, Ethiopia
Introduction

Your Excellencies African Heads of States and Government,
Honorable Ministers,
Ladies and Gentlemen,

On behalf of the African Development Bank and on my own behalf, permit me to first express to you how honored I feel to have been invited to attend this Assembly of the African Union. The Assembly marks a critical milestone in the progress that the Union is making and, in this respect, we are all heartened by the important measures and achievements of the Union in its few years of existence. Indeed, we, along with all Africans, look forward to the further strengthening of the Union, as the future of our Continent depends in large part on the successful achievement of the lofty goals that Your Excellencies have set for it.

We have taken note that the Assembly will, among other things, consider the Vision and Mission of the African Union, the Strategic Plan and Program of the AU Commission, as well as the progress being made under important initiatives such as the New Partnership for Africa’s Development (NEPAD).

Having carefully considered the proposed Vision and Mission of the African Union, we are delighted to note the many common elements and goals between the AU’s Vision and that of the African Development Bank that we adopted in 1999. In particular, we very much welcome the great emphasis that is being placed on advancing regional cooperation and integration as well as the great stress that has been placed on promoting economic and social development and good governance, in addition to supporting peace and human security.

In the light of the many common goals of the African Union and the African Development Bank, I would like to assure Your Excellencies that the Bank Group is ready to work closely with the African Union and strengthen our cooperation. Indeed, we
see much scope for synergy in a number of important areas and we will make every effort in the future to ensure their full realization.

Towards this end, permit me, on this occasion, to bring to the kind attention of Your Excellencies the Bank’s assessment of Africa’s recent economic performance, particularly in relation to the Millennium Development Goals (MDGs) that you, along with the other leaders of the World, endorsed in 2000. Permit me also to take this opportunity to highlight the activities of the Bank Group in support of the economic and social development efforts of its regional member countries as well as the support it gives to important regional initiatives. In particular, I would like to highlight the Bank’s support to NEPAD and two important initiatives that it has launched recently. The first aims to improve access to water supply and sanitation in the rural areas of the Continent, and second aims to assist post-conflict countries clear their arrears with the Bank Group to enable them to re-engage with the international financial community.

Africa’s Recent Economic Performance and Progress towards the MDGs

Your Excellencies,

The African Development Bank’ preliminary estimates indicate that in 2003 Africa’s GDP grew by 3.7 percent, well above the 2.8 percent recorded for 2002 and higher than the average of 3.1 percent for the previous five years. Of particular note is the growing number of countries – some 18 in 2003 -- which registered growth rates of more than 5 percent. Both internal and external factors accounted for this improved performance. Domestically, most governments continued to implement sound macroeconomic policies and persevered with the implementation of structural reforms, thereby improving the conditions for growth and investment. Such efforts were also much helped by the abatement of major national and regional conflicts, such as those in the Great Lakes region, that had beleaguered the continent for so many years.
Externally, despite the sluggish performance of the world economy in 2003, Africa enjoyed a more favorable environment as evidenced by an increase in the demand for its exports along with a rise in the prices of most primary commodities. An increasing number of countries also began to take advantage of the opportunities offered by new trade initiatives such as the US Africa Growth and Opportunity Act (AGOA) and the Everything but Arms Initiative of the European Union.

Despite the turnaround in economic performance, poverty reduction remains a major challenge for virtually all African countries. The proportion of poor people living below the international poverty line of $1 a day is today estimated at still close to half of the population in Sub-Saharan Africa, with the proportion reaching as high as 75 percent in some countries.

Our own estimates, as well as those of others, indicate that the African economy will need to grow at a rate of between 6-8 percent per year if African countries are to attain the Millennium Development Goals (MDGs). Thus, on present trends, except for South Africa and the countries of North Africa, few African countries are likely to achieve the first MDG -- that of reducing poverty by half by 2015. And while a number of countries may attain some of the other MDGs related to health and education, the continent, as a whole, is likely, on current trends, to lag considerably behind.

While the slow progress is a cause of major concern, I believe we should, at the same time, not overlook the considerable progress that a significant number of African countries are making. Over the last decade, a large number have implemented comprehensive economic reform programs, supported by international financial institutions, including the African Development Bank. And increasingly, a large number are directly attacking the roots of poverty through the adoption of effective poverty reduction strategies.

These actions are beginning to yield positive results. GDP growth rates in the leading reform countries are averaging over 5 percent and poverty levels are being
reduced significantly. Notable improvements in school enrollment and in access to other basic social services, such as potable water and health services, are also being observed. Examples of countries that are making such progress include: Benin, Burkina Faso, Ghana, and Senegal in West Africa; Uganda and Tanzania in East Africa; and Mozambique in Southern Africa.

The individual efforts of African countries have been boosted in recent years by the launch of the New Partnership for African Development (NEPAD) in 2001. In particular, NEPAD is providing a powerful stimulus to regional cooperation and integration efforts by giving the requisite political leadership. In addition, the commencement of the NEPAD African Peer Review Mechanism (APRM) -- to which 18 countries have already subscribed -- promises to be an important mechanism that will encourage countries to adopt sound policies, thus boosting progress towards the MDGs.

In brief, while much remains to be done, and while the situation in a number of countries – particularly those in conflict or emerging out of conflict – is a cause of deep concern, we believe that the conditions for stepping up development efforts are increasingly being put in place in a large number of countries. We can therefore justifiably hope that determined efforts by African countries and their development partners would indeed result in a marked decline in the number of people of living below the poverty line and in improving access to education and health services.

Policy Measures Required to Attain the MDGs

Your Excellencies,

It is evident that our countries will have to redouble their efforts and build on the achievements of the recent past in order to further advance and seize the opportunities that lie before them. They will also need to be supported more fully by their development partners.
Towards this end, we believe that particular attention would first need to be given to accelerating current rates of GDP growth. In addition, further steps need to be taken, within the context of poverty reduction strategies, to continue to build the foundations for long-term growth. Some of the specific policy measures that African countries could profitably consider include the following:

- **First**, it is now generally acknowledged that high GDP growth rates can only take place under conditions of macroeconomic stability and market-based incentive structures. African countries have achieved much in this respect – with inflation having declined in the last decade from 41 percent in 1994 to 11 percent in 2003 and the fiscal deficit from 5 percent to 3 percent. Much progress has also been made in terms of price policy and structural reforms and we would urge our countries to sustain them in the future.

- **Second**, we would recommend that current efforts to improve the investment climate be enhanced. This is necessary to encourage higher levels of investment by domestic investors and to attract larger volumes of foreign capital. Critical in such endeavors are reforms of legal and judicial systems to place property rights on clear legal grounds and to protect them. Reforms of commercial laws are also necessary to create a sound modern basis for business transactions.

- **Third**, we believe that the important governance reforms that aim at making governments at all levels – from the central government to local governments – more transparent and accountable to the people should be deepened. In this regard, the decentralization of government structure and the devolution of power to local communities are crucial actions. Indeed, the empowerment of communities is proving critical in order for broad-based economic growth to take place. In addition, increased effort needs to be directed into building the capacity of governments to play their vital facilitative role in promoting economic development.

- **Fourth**, we would advise governments to review closely and periodically the allocation of development resources to ensure that important sectors – such as education and health – which are necessary to lay the foundations of long-term development, are accorded high priority. We believe that the experience of a number
of countries, including African countries, illustrates the high pay-offs that can result from such investments.

In addition to such national policies and in line with the goals articulated by the African Union, we would encourage African countries to give much greater priority to strengthening regional cooperation and integration efforts. Removing the remaining barriers to trade and investment and harmonizing business laws and regulations, as is being done in West Africa, can contribute significantly to raising investment and growth rates in African countries. In addition, it is essential that countries strengthen their cooperation in investments in regional infrastructure projects to help create a more enabling environment for private investment.

**Support from the International Community for Africa’s Development Efforts**

Your Excellencies

As African countries continue to refine and implement their own reform programs, the international donor community should step up its assistance. Indeed, as is generally acknowledged, enhanced support is critical for Africa’s success. This is the essence of the call by African countries when they launched the NEPAD initiative in 2001. It is, in addition, the essence of the compact reached at Monterrey in 2002 wherein developing countries committed themselves to implement the required reform programs and the donor community pledged to scale-up its support. Such support is required in terms of scaling-up official development assistance (ODA), reducing external debt to sustainable levels, and improving the access of exports to the markets of the developed countries.

In the last two years, there are signs that the donor countries have begun to honor their pledges to increase official development assistance (ODA) to Africa. After falling continuously for over a decade, ODA to Africa increased significantly in 2002, although largely accounted by debt relief. It is estimated to have continued its rise in 2003.
Millennium Challenge Account of the United States Government has identified eight African countries as the initial recipients of additional assistance and several European countries have begun to increase their ODA allocations. In addition, a number of innovative approaches, such as the proposal of the United Kingdom and France to set up the International Financing Facility (IFF), with the goal of scaling up ODA, have been made. While all these developments and initiatives are welcome, we still must note, however, that the volume of ODA to Africa is still considerably below the desired levels and below the absorptive capacity of most countries.

With respect to debt relief, much has been done under the HIPC initiative to reduce the external debt of 23 African countries that have to date qualified. However, new approaches with respect to future assistance will be required to help these countries achieve long-term debt sustainability and avoid falling into new debt problems. It is also essential that HIPC debt relief is extended to the remaining nine African countries. Most of these are emerging out of conflict and have built up significant arrears. Concerted action by the international donor community, including arrears clearance schemes, will therefore be required to help these countries rehabilitate their economies and create the conditions for economic growth. In this respect, we are heartened by the decision taken by the G8 countries at their recent Summit at Sea Island to extend the HIPC sunset clause to enable these remaining countries to benefit from HIPC debt relief.

In the area of trade, the international donor community will need to address urgently the issue of increased market access as well as the problem of agricultural subsidies that hinder the exports of African countries. Some of the recent trade initiatives taken by developed countries -- such as the Everything but Arms initiative of the EU and the AGOA initiative of the US -- indicate that improved market access does lead to increased investments and exports, as foreign capital seeks to take advantage of new opportunities. The increasing volume of exports by African countries in non-traditional sectors also demonstrates that they can compete in the global market, given a level playing field. It is thus crucial that the WTO trade negotiations on the Doha Development Agenda are resumed and concluded as soon as possible.
In this regard, we are encouraged by some of the recent steps taken by European Community and other countries to re-start these negotiations. The willingness of the European Community to negotiate on the issue of export subsidies is also a welcome development. We therefore urge all countries to renew their commitment to bring to a successful conclusion the Doha Development Agenda. Solidarity among the ACP countries on these critical issues is obviously critical. We urge development countries to work together and adopt a common agenda to move the negotiations forward.

*The Activities of the African Development Bank*

Your Excellencies,

Permit me now to report to you briefly on the activities of the African Development Bank. The support that the Bank provides to its regional member countries is guided by the Vision Statement that it embraced in 1999 and the Strategic Plan that its Board of Directors approved in 2002. Within this context, poverty reduction and promoting sustainable economic growth are the strategic objectives for all Bank Group interventions. Clearly, the Vision of the Bank is very much in line with the Vision and Mission that the AU has set for itself.

To enable it to deliver on its Vision, the Bank has built up its financial base. From modest beginnings, the Bank’s capital today stands at $32.5 billion. Its concessional windows -- the African Development Fund (ADF) and the Nigerian Trust Fund (NTF) – have also grown significantly, with the subscriptions of the ADF today standing at over $18.7 billion and that of the NTF at $558 million.

The strengthening of the financial base of the Bank Group has enabled it to expand its support to its regional member countries. Since its establishment, it has extended over 2880 loans and grants amounting to approximately $48 billion. In addition, the Bank has over the years succeeded in mobilizing substantial funding through its co-
financing operations amounting to $70 billion. In addition, it has provided debt relief amounting to $4 billion to the 23 African countries that have qualified under the HIPC program.

In pursuing its strategic vision, the Bank adheres to three fundamental guiding principles, namely, *country ownership*, *participatory approaches*, and *enhanced cooperation* with all development partners. To promote country ownership, the Bank Group has provided much technical support to the efforts of low-income countries to develop their own Poverty Reduction Strategy Papers (PRSPs) and has aligned its own interventions to such strategies. In addition, the Bank is increasingly using PRSPs as the basic framework of coordination and collaboration with its development partners. The Bank promotes participatory approaches in the design and implementation of its country strategies programs, and in the preparation and implementation of individual projects.

To enhance further the development effectiveness of its interventions, the Bank has over the last two years also given much weight to becoming a results-based organization. Towards this end, it has developed a results measurement framework to enable it to assess the impact of its interventions at the project, institutional, and country levels. In addition, with a view to enhancing its field presence and to become more responsive to the needs of its clients, the Bank is pursuing a program of decentralization, involving the opening of some 25 country offices, with eight operating or expected to be operational in the near future and the remaining to be opened in the next two years.

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 with access to the ADB window, its vision is to assist these countries improve the competitiveness of their economies by helping them implement key reform programs as well as strengthen their private sectors. Towards this end, the Bank has financed economy-wide and sector reform programs as well as investments in major infrastructural projects. It has also provided lines of credits to commercial banks to help the development of small and medium scale enterprises.
In the last three years, the scale of financing provided by the ADB window -- including debt relief under the HIPC program -- has averaged $1.3 billion. Lending operations through the private sector window have, in turn, averaged over $270 million, or about 25 percent of the Bank’s lending activities.

For the low-income countries that have access to only ADF resources, the focus of the Bank Group activities remains on poverty reduction and promoting sustainable economic growth. The priority areas of intervention, at the national level, have therefore been agriculture and rural development, education and health. Of particular concern for the Bank Group in recent years has been the fight against the HIV/AIDS pandemic. In addition, the Bank has placed much emphasis on programs to improve the investment climate and systems of governance – with particular emphasis placed on reforming legal and judicial systems. It has also promoted the sustainable management of the environment while championing gender equality. In support of such interventions, approvals through the ADF window, including HIPC debt relief, have averaged $1.5 billion per year in the last three years.

In post-conflict countries, the Bank’s strategic vision is to be a key player in efforts to help these countries reengage with the international community and begin the reconstruction of their economies. In such efforts, the Bank places much emphasis on capacity building and the rehabilitation of basic social and physical infrastructure.

Support to the NEPAD Initiative

At the regional level, 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. 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 preparation of projects within the short term action plan has proceeded with the Board of Directors approving four projects in 2003 and five more are expected to be approved in 2004. Additional projects are being considered for financing by other donors. Work is also proceeding in preparing 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.

Projects and programs identified in the short-term action plan are estimated at $7 billion. Under the ADF window, some $500 million had been earmarked for multinational projects – of which close to $200 million was committed in 2003. We are using these resources to help mobilize additional funding for multinational projects. In addition, the Bank Board of Directors has approved the creation of a dedicated facility to assist regional economic communities and countries in the preparation of bankable infrastructure projects. The fund was seeded with a grant of C$10 million from the Canadian government and work is underway to make it a multi-donor facility to assist countries in infrastructure development under NEPAD. A first contribution has been received from Denmark and let me take this opportunity to thank the Governments of Canada and Denmark for their kind gesture and support.

In line with its designation as a strategic partner, the Bank expects also to provide technical assistance to the NEPAD African Peer Review Mechanism, primarily in the area of economic analysis and governance. We believe that the *African Economic Outlook* that the Bank produces annually in close collaboration with the OECD Development Center could be of great use in this respect. To enable it to undertake all these various tasks, the Bank has also created a small unit of experts, entirely funded from its administrative budget, to work solely on NEPAD-related issues.

*New Initiatives*

Mr. Chairman,
Your Excellencies,

In addition to its regular lending and grant operations, the Bank has recently launched two important new initiatives. The first is its *Rural Water Supply and Sanitation Initiative* that has as its objective accelerating access to sustainable water supply and sanitation to rural Africa by increasing coverage from the present 47 percent to 66 percent in 2010, and to 80 percent by 2015. The Initiative will operate under the broad framework of NEPAD and the Africa Water Vision and contribute towards the achievement of one of the MDGs as well as contribute to others. The investment requirement up to 2010 for the Water Initiative is estimated at around $14 billion and is expected to be raised by leveraging additional resources from multilateral, bilateral, as well as public, private and community sources. The proposal has garnered the support of a number of governments such as Canada, France and the Netherlands as well as the European Union.

A related initiative with which the Bank is involved is the African Water Facility – an initiative spearheaded by the African Ministerial Council on Water (AMCOW). The goals of the Facility are to create an enabling environment to strengthen water resources management and to attract the large amounts of investments necessary to achieve national and regional objectives. AMCOW has requested the Bank to host the Facility and work with it to implement the Initiative. A proposal to establish the African Water Facility as a Special Fund of the Bank has now been approved by the Bank’s Board of Governors at its recent Annual Meetings in Kampala. In this connection, we look forward to working closely with the ACP-EU Water Facility.

The second major initiative that the Bank has launched is the one that aims at enabling counties coming out of conflict to re-engage with the international financial community by helping them clear their arrears with the Bank Group. The Bank’s Board of Governors has approved setting aside approximately $66 million from the Bank’s net income as part of a three-year plan of setting aside approximately $147 million. This sum is expected to be matched by a contribution from the tenth replenishment of the
African Development Fund. In addition, contributions from the Nigerian Trust Fund, bilateral donors, and the European Union are also expected. The funds would be used on a case-by-case to assist post-conflict countries that meet specific criteria. These would include: an active program of reconstruction supported by the international donor community, including an internationally recognized program, The Bank Group would only be expected to engage in arrears clearance should normal operations leave a gap and where the overall financial viability of the operation is sufficiently sound.

**Concluding Remarks**

Your Excellencies,

Permit me to conclude by noting that the expanded array of services that the Bank currently provides its regional member countries, the support that it has given to major initiatives such as NEPAD, and the launch of important initiatives such as its Rural Water Supply and Sanitation Initiative and its Post-Conflict Initiative, have all been made possible by the unwavering support of its shareholders.

Indeed, with the far-reaching reforms that the Bank Group implemented in the last seven to eight years, the Bank Group has made important strides. It has built up its financial, technical, and institutional capacity to support the development efforts of its regional member countries. It has one of the largest pool of African and non-African experts and it has accumulated a deep knowledge of Africa’s development challenges. And as important, it has today joined the ranks of the major regional multilateral banks. With your support, we are confident that Bank Group will enhance its capacity to continue to support the development efforts of African countries by providing the required financial resources as well as the quality technical services that its shareholders expect of the premier development finance institution on the continent.