“International Cooperation for Financing African Development”

Statement by Omar Kabbaj,  
President of the African Development Bank Group  
At the International Colloquium on  
“International Cooperation for Peace, Stability and Prosperity in the World”  

Organized by  
The Association of Tunisian Parliamentarians  

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Introduction

Your Excellencies,
Honorable Parliamentarians,
Distinguished Participants,
Ladies and Gentlemen,

On behalf of the African Development Bank, and on my own behalf, I would like to say how honored I am to be invited to address this important forum. I would like, in particular, to thank the Honorable Kacem Bousnina, President of the Association of Tunisian Parliamentarians, as well as the organizers, for their kind invitation.

The topic chosen for the Colloquium is clearly important and timely. Today, the world is facing many critical challenges and the deepening of international cooperation to promote peace, stability, and global prosperity -- and further strengthening a rules-based global system -- is among its most critical imperatives. These have become even more crucial today in the light of the immense changes that the forces of globalization are bringing about in international relations. I would, therefore, like to commend the Association for choosing this theme and for organizing this important Conference. I am certain that it will result in important insights and proposals that will be of interest to us all.

I also welcome the opportunity to share with you my views on the topic that you have invited me to address, namely, “International Cooperation for Financing Development in Africa”. With your permission, I shall dwell briefly on the progress and continuing challenges of international cooperation in financing development in the context of recent changes in the global environment. I shall then discuss cooperation in relation to Africa’s financing
needs. Finally, I shall briefly review the role and contribution of the African Development Bank in promoting cooperation for development financing.

*International Cooperation for Financing Development*

Mr. Chairman,

Distinguished Participants

For over half of a century, the international community has cooperated quite closely in development finance and related fields. The establishment of the Bretton Woods Institutions -- the International Monetary Fund and the World Bank -- soon after the end of the Second World War was perhaps the earliest attempt to ensure global coordination in economic matters and to provide development assistance to the war-ravaged countries. This was followed by the establishment of other important institutions such as the General Agreement on Tariffs and Trade (GATT), the multilateral development banks -- including the African Development Bank which, I may add, is celebrating this year its 40th Anniversary -- as well as the creation of the various specialized agencies of the United Nations system, including the United Nations Development Program (UNDP). These institutions have become important vehicles for channeling the required finance and technical assistance to developing countries.

Building on this record of achievement, the international community has, in the last five years, taken two very important actions to further advance international cooperation in development finance. In 2000, Heads of State and Government representing nearly all the countries of the world adopted the Millennium Development Goals (MDGs). These represent the common aspirations of all nations for human betterment as they aim to reduce poverty and its social manifestations, including poor health and inadequate education opportunities.
Underpinning the MDGs is the call for a new global partnership for development based on a shared vision of interdependence, mutual interests and joint responsibility. And unlike earlier declarations, a unique characteristic of the MDGs is that they have set clear and quantifiable targets against which the world can measure the progress that developing countries are making. They have also set clear targets for the assistance that developed countries are expected to provide.

In 2002, at the International Conference on Financing for Development, the international community went a step further by adopting the Monterrey Consensus. The compact reached consists of an agreement between developing and developed countries wherein the former committed themselves to implement the required reform programs -- particularly in the areas of governance and sound economic management -- and the donor community pledged to increase its support. In line with the consensus reached, many developing countries, including a large number of African countries, have continued to deepen their reform programs. The donor countries on their part have begun taking important steps to fulfill the pledges they made at Monterrey.

**International Cooperation for Financing Development in Africa**

Mr. Chairman,
Distinguished Participants,

With this as a background, permit me now to address the more specific issue of international cooperation for financing development in Africa. Before doing so, I believe it is important to note the differing needs of groups of African countries with respect to development finance, and, consequently, the type of international cooperation required. In this regard, we believe that African countries could be usefully divided into three broad groups.
In the first are the middle-income countries of North Africa, South Africa, and a few others that are joining the ranks of emerging market economies. These countries have varied sources of financing, including access to the global capital markets. And as the recent experiences of Morocco and Tunisia have shown, several of them have the potential of raising resources on such markets at reasonable spreads. In addition, these countries have in the recent past succeeded in attracting significant amounts of foreign direct investment. As these countries deepen their reform programs and increase the competitiveness of their economies, they can be expected to enhance further their access to the international capital markets, as well as attract larger volumes of private capital flows.

The second group consists of the large number of African countries that have implemented -- albeit in varying degrees -- far-reaching economic reforms over the last decade and a half. These measures have led to higher GDP growth rates and to macroeconomic stability. While this group of countries has begun to attract increased international investor interest, it, however, continues to depend heavily on ODA for a large share of its external resource requirements. The third and final group consists of countries that are either in conflict or emerging out of protracted conflicts and whose economies, as a consequence, have been devastated. Clearly, this group of countries will, for the foreseeable future, continue to depend highly on ODA.

Although the financing needs of African countries differ, it is evident that most -- given their levels of income, domestic savings and limited foreign exchange earnings -- will continue to rely on ODA to finance a significant portion of their development programs and projects. Indeed, it is generally agreed by the international community that substantially larger amounts of ODA flows will be required for these countries to make headway towards achieving the Millennium Development Goals.
International cooperation in development finance must therefore necessarily focus, as a first step, in ensuring that African countries have access to the required levels of concessional resources. In addition, related measures, in areas such as improved market access and debt relief will also need to be considered as these also increase the resources for development. It is therefore appropriate to ask how far international cooperation has gone in these vital areas to support the development efforts of African countries.

As is well known, international cooperation to provide ODA resources to Africa have been organized within both bilateral and multilateral frameworks. During the 1990s and up to 2002, ODA flows to Africa from both sources showed a considerable decline, falling from $24.7 billion in 1990 to $15.7 billion 2001. However, in 2002 ODA flows to Africa showed a marked increase, although much of it was accounted for by debt relief. Preliminary figures from the OECD indicate that this increase was sustained in 2003, although at a slower pace.

While this turnaround in ODA flows is welcome, it needs to be pointed out, however, that they remain considerably below the level that the international community had agreed is required for the low-income countries of Africa to make major progress towards the Millennium Development Goals (MDGs). Indeed, there is broad agreement that ODA flows will need to more than double to achieve this objective. It is thus essential that donor countries fulfill the pledges they made at Monterrey in 2002 and, in the case of Africa, the pledges also made at the G8 Summit in Kananaskis in 2002. In addition, the international community should give careful consideration to innovative proposals such as the International Finance Facility (IFF) sponsored by the UK and France, as well as various proposals for global taxation. All these aim to substantially scale-up ODA in the short to medium-term.
With respect to debt relief, much has been done under the Heavily Indebted Poor Countries Initiative (HIPC) launched in 1996 and enhanced in 1999 – and in which the Bank Group is an active participant. Thirty-two African countries are eligible for assistance under the program, with debt relief to 23 countries having been granted to date. The total debt relief extended to these countries now stands at $28.4 billion in present value terms. It is, however, essential that debt relief is extended to the remaining nine countries, most of which are post-conflict countries with significant arrears. In addition, more measures would be required to avoid low-income countries falling into further debt problems.

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 actions taken by developed countries – such as the Everything but Arms initiative of the European Union and the AGOA initiative of the US -- indicate that improved market access does lead to increased investments and capital inflows as foreign capital seeks to take advantage of the new opportunities. Increasing exports by African countries in non-traditional areas also demonstrates that African countries can indeed compete in the global market given a level playing field. It is thus critical that the WTO trade talks on the Doha Development Agenda are resumed and concluded as soon as possible.

While international cooperation in the area of development assistance, debt relief, and trade will need to be intensified to assist African countries attain the MDGs, it is, however, also important to stress that African countries should continue to deepen their reform programs to ensure the effective use of the additional development resources.
Mr. Chairman,
Distinguished Participants,

Permit me now to turn to the role that the African Development Bank plays in mobilizing resources to finance development in its regional member countries. Let me start by pointing out that the Bank itself represents a unique symbol of international cooperation between African countries and their development partners. Its membership consists of all the 53 countries of Africa and 24 non-African countries, including nearly all the members of the OECD as well as other important countries such as Brazil, China, and India.

The Bank Group is also structured in such a manner as to help meet the development finance needs of the different groups of African countries. It does so by raising non-concessional resources in the global capital markets through the African Development Bank for its middle-income countries, and concessional resources from donors through the African Development Fund and the Nigerian Trust Fund for its low-income regional member countries.

The Bank’s support is underpinned by its strategic vision of assisting these countries reduce poverty and achieve sustainable economic growth. And in pursuing this vision, the Bank adheres to three fundamental principles, namely, country ownership, participatory approaches, and enhanced cooperation with all development partners.

Since the start of its operations, the Bank Group has approved over $44.2 billion – of which $26.4 was from the ADB window, $17.4 billion from highly concessional ADF window and $400 million from the Nigerian Trust Fund – to finance close to 2,800 projects and programs in its regional member countries. Of this amount, 35.4 percent has been used to finance
projects in the infrastructure sector, 18.2 percent in agricultural and rural development, 11.8 in the social sectors, and the remaining has been allocated to projects and programs in finance, industry as well as those classified as multisector.

Given the varied stage of development across the region and countries, the Bank has adapted its operations to the development challenges facing the different groups of countries. For the middle-income countries – most of which are joining the ranks of emerging market economies -- the Bank seeks to assist these countries improve the competitiveness of their economies by helping them implement key reform programs and strengthen their private sectors. 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 for on lending to small and medium scale enterprises, as well as direct financing to the private sector.

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 the concessional resources of the African Development Fund (ADF), the focus of Bank Group activities remains on poverty reduction and promoting sustainable economic growth. The priority areas of intervention 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. An important new initiative that the Bank launched in 2003 is its rural water supply and sanitation program. This has the goal of accelerating access to sustainable water supply and sanitation in rural Africa, aiming to achieve 80 percent coverage by 2015 and 100 percent by 2025. In support of the interventions of the Bank Group in low-income countries, 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 re-engage 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. I should also add that the Bank has recently launched a major initiative to enable it to play a more pro-active role in the resolution of the difficult problem caused by the build-up of arrears. The Bank is setting aside considerable sums from its net income to help it catalyze additional resources from donor countries and other multilateral organizations. The funds would be used to help clear the arrears of post-conflict countries on a case-by-case basis and in the context of internationally agreed programs.

And finally, at the regional level, the Bank Group gives high priority to promoting regional cooperation and integration to enable the many small countries of Africa 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 Heads of State Implementation Committee of the New Partnership for Africa’s Development (NEPAD).
Concluding Remarks

Mr. Chairman,
Honorable Parliamentarians,
Distinguished Participants,
Ladies and Gentlemen,

Permit me to conclude by noting that the international community has indeed strengthened its cooperation in the field of development finance over the last decades and much has indeed been achieved in this respect. Of particular note are the adoption of the Millennium Development Goals in 2000 and the Monterrey Consensus in 2002. These declarations have set clear targets for international development. They have also resulted in clear commitments being made by donor countries to significantly increase ODA to meet the financing needs of developing countries. In addition, much progress has been made in the area of debt relief. However, the lack of progress on the Doha Development Round of WTO trade negotiations as well as the slow pace, to date, in meeting the commitments made at Monterrey with respect to ODA remain major sources of concern.

In the light of these developments, we call on the international donor community to honor its pledges so that developing countries, and, in particular, African countries do indeed have the required resources to finance their development programs and make headway towards the MDGs. In all such efforts, I wish to assure you that the African Development Bank will continue to play its role as a major partner institution between African countries and the international community.

I thank you for your kind attention.