Statement by Omar Kabbaj,
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Access to International Finance

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Introduction

Your Excellency President Abdou Diouf,
Your Excellencies,
Distinguished Participants,
Ladies and Gentlemen,

It is both an honour and a pleasure for me to address this distinguished audience on a topic of such importance to the Francophonie nations and I would like, at the outset, to thank H.E. President Abdou Diouf for the kind invitation. I am pleased to note that the Francophonie intergovernmental organization is increasingly playing an important role in creating frameworks to assist its members address major issues of common concern. I would therefore like, on this occasion, to commend the organization for the many important contributions it is making.

The theme of this Symposium – access to international finance – is clearly an important issue for the members of the organization. I therefore welcome this opportunity to share with you our perspectives on the current access of African countries to external development resources and the various policy measures they could consider to enhance it. I would also like to take this opportunity to present to you the role that the African Development Bank is playing in mobilizing both concessional and non-concessional resources to support the development of its regional member countries.

Recent Economic Developments and Africa’s Access to External Resources

Mr. Chairman,

In considering the access of African countries to international finance, including the 29 Francophonie countries, I believe it is important, first, to take into account the changing economic conditions on the continent, the overall picture in terms of Africa’s access to external resources, as well as the evolving economic differentiation among African countries. All these have vital policy implications.

Since the mid-1990s, Africa’s overall economic progress has shown marked improvements, particularly when viewed against the background of the major economic crises that the region had faced in the preceding years. Since 1996, GDP growth has averaged 3.5 percent, and, the average
inflation rate has declined from a high of 41 percent in 1994 to 11 percent in 2003. Similarly, fiscal deficits have come down from 6.8 percent in 1993 to 3.0 percent in 2003, and the current account deficit has also shown considerable improvement. In addition, the ratio of external debt to GDP has declined from a high of 74 percent in 1994 to 47.6 percent in 2003.

All these indicators are the results of the implementation of major reform programs by an increasing number of countries and reflect the considerable improvements that have taken place in fiscal and monetary management. They also reflect the strong support that the international financial institutions and the donor community have provided African countries, as well as the high priority given to meeting African development challenges as evidenced by the recent G8 Summits in Kananskis and Evian.

Although Africa’s overall economic performance has improved over the last eight years, its access to international capital resources has, however, not kept pace. In the first place, only a few countries are today considered sufficiently creditworthy to have access to the global financial capital markets. And Africa’s share in other global private capital flows – including both foreign direct investment and portfolio investment – has declined, and currently accounts for less than one percent of such flows.

Similarly, ODA flows to Africa had shown a considerable decline in the last decade, 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 has been sustained in 2003, although at a slower pace. While we welcome this turnaround in ODA flows, 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).

These region-wide indicators of economic progress in Africa provide us useful indicators of Africa’s progress. Yet, it must be admitted that they also mask important emerging differences among African countries. From the perspectives of access to international development finance – as well as the policy measures that countries and their development partners could consider to enhance it – African countries could, in our view, 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 at reasonable spreads. In addition, these countries have in the recent past succeeded in attracting significant amounts of foreign direct investment. Further, as they 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. These measures have led to higher GDP growth rates -- with a considerable number sustaining growth rates of over 5 percent -- and to macroeconomic stability. This group of countries, while continuing to depend on ODA for a large share of their external resource flows, is, however, also beginning to attract increased international investor interest. They are also beginning to attract investments in non-traditional sectors, as they continue with their privatization programs and improve their investment climates.

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 heavily on ODA. They will need to restore and maintain peaceful conditions and also ensure macroeconomic stability for them to regain investor confidence and begin to have access to other sources of development finance.

Enhancing the Access of African Countries to External Resources

Mr. Chairman,

Your Excellencies,

In the light of the limited flows of international development of African countries, I believe it is essential that they consider a number of measures to improve their access. Clearly, African countries will need to substantially raise their investment rates and mobilize the required resources if they are to make headway in reducing poverty, improve social conditions, and, in general, attain the MDGs. These policy measures should aim both to strengthen the access of African countries to existing sources, while at the same time striving to develop innovative approaches.
Some of the critical policy measures that African countries could profitably consider include:

- **First**, deepening economic reform programs, particularly with respect to putting in place sound fiscal, monetary, and exchange rate policies. These are essential to maintain macroeconomic stability, improve international credit ratings, and attract larger volumes of private capital flows.

- **Second**, strengthen the financial sector by deepening reforms to enable it to mobilize resources – both domestic and foreign – to finance higher levels of investment. An important component of such efforts should be the establishment of national and regional capital markets to enable the mobilization of both domestic and foreign portfolio investment. In this regard, more countries should invite the international credit agencies to rate them – as a number of countries have already done – as these provide useful benchmarks for international investors.

- **Third**, continue to improve governance systems – particularly with respect to judicial and legal reforms, transparency in the management of public finances, and accountability of government officials – as all these are critical for improving the investment climate and for attracting private capital flows.

- **Fourth**, increase investments in such key areas as infrastructure and human capital development as improvements in these sectors are key to removing the obstacles that stand in the way of increased foreign direct investment. In infrastructure, much effort should be made to promote public private partnerships (PPPs), as these have proved effective mechanisms for mobilizing domestic and external finances.

- **Fifth**, strengthen regional economic cooperation and integration -- particularly in the context of the NEPAD initiative -- to create larger economic spaces and markets. Clearly, the small size of most African economies currently acts as a hindrance to attracting private capital inflows.

The efforts of African countries to improve their access to international development finance would need to be supported by actions from their development partners. Three critical areas of assistance in particular stand out: increased development assistance (ODA), debt relief, and trade. As you are all aware, the donor community has made important pledges in these three areas.

With respect to ODA, it is important to stress that two years after Monterrey, although ODA to Africa is beginning to rise, it has yet to match the promises made. It is thus essential that donor countries fulfill the pledges they made. In addition, as called for by the recent meeting of the Development Committee, careful consideration should be given 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 HIPC initiative -- in which the Bank Group is an active participant -- to reduce the external debt of 23 African countries that have to date qualified. Thirteen of these are Francophonie countries --. 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, additional steps will be required to avoid low-income countries falling into further debt problems. In this regard, it is worth pointing out that some of the newer analysis on debt sustainability points to the need to increase both the levels of grants and the concessionality of loans.

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.

**The Bank Group and Resource Flows to African Countries**

Mr. Chairman,

Permit me now to turn to the role that the Bank Group plays in mobilizing resources for its regional member countries. I would first like to point out that the Bank’s support is underpinned by its strategic vision of assisting its regional member countries reduce poverty and achieve sustainable economic growth. And in pursuing this vision, the Bank adheres to four fundamental principles, namely, country ownership, greater selectivity, 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, $22.7 billion has been approvals to the 29 Francophonie countries, with some 34 percent accounted for by approvals to the infrastructure sector, and 18 percent to agriculture. In addition, other sectors that have received significant amounts of financing include policy-based loans to support reforms, credit to the banking sector, and investments in the social sector.

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 helping them strengthen their private sectors. These countries have access to the ADB window and 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. 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. 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 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, a short-term action plan that focuses on priority physical investments, accompanied by policy, regulatory, and institutional measures has been developed. Projects and programs identified in the short-term action plan are estimated at $7 billion. Work has also started on the preparation of 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. 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 resources 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. To enable it to undertake these various tasks, the Bank has created a small unit of experts to work solely on NEPAD-related issues.

Another important program that we launched in 2003 is the Rural Water Supply and Sanitation Initiative. The goal of the initiative is to accelerate access to sustainable water supply and sanitation to rural Africa with the aim of achieving 80 percent coverage by 2015 and 100 percent by 2025. 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. The investment requirement up to 2010 for the Water Initiative is estimated at around $11 billion and is expected to be raised by leveraging additional resources from multilateral, bilateral, as well as public, private and community sources.
Concluding Remarks

Mr. Chairman,
Your Excellencies,
Ladies and Gentlemen,

Permit me to conclude by stressing the critical importance of enhancing the access of African countries to external development finance. Many of the low-income African countries – including many Francophonie countries – have, over the last decade, improved their macroeconomic management and implemented structural reforms to enable them to use additional resources effectively. It is therefore essential that the donor community scale-up its assistance to help ensure the success of such efforts and assist these countries make progress towards the MDGs. This will require not only increasing ODA levels but also examining more closely the various innovative proposals that have been tabled to enable a substantial scaling-up of ODA in the short to medium term. I am confident that this Symposium will make important contributions to these efforts.

I thank you for your kind attention.