“The Strategic Vision of the African Development Bank”

Statement by Omar Kabbaj,
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Introduction

Mr. James Orr, the Executive Director of the Bretton Woods Committee,
Distinguished Speakers and Participants,
Ladies and Gentlemen,

I would like to begin by expressing my deep appreciation to the Bretton Woods Committee and its Executive Director, Mr. James Orr, for organizing this conference on African Financial Management and Investment. The Committee has for a long time now been at the forefront of efforts to promote better public understanding in the United States of international finance and development issues. In this endeavor, it has sought to bring to the attention of public leaders and to the public at large, the reality of increasing globalization and interdependence, as well as the importance of managing this process within multilateral frameworks. Indeed, at a time when the world community is fighting the scourge of terrorism we have little choice but to recognize and strengthen such relations. It is, therefore, a pleasure to salute the work of the Committee and, in particular, its efforts to promote greater understanding of the development challenges facing African countries.

As most of you are aware, the United States is one of the largest shareholders of the African Development Bank Group. It is also the second largest contributor to our concessional window, the African Development Fund, but has become the largest donor in recent replenishments. In addition, the United States has provided strong support to the work of the Bank and, in particular, the wide-ranging reform programs that we implemented in recent years. I wish, therefore, to take this opportunity to express our appreciation for this steadfast support.

Today’s conference has provided us an opportunity to hear from eminent speakers and to exchange views on promoting economic growth, investment, and trade in Africa. It has also given me an occasion to share with you the Strategic Vision of the African Development Bank. Before I do so, I believe it would be useful to present to you briefly our assessment of economic conditions and recent developments on the continent.

Recent Economic Developments on the African Continent
As most of you would agree, the predominant view of the African continent today, and one that is broadly shared, stresses the increasing marginalization of the region in global economic affairs. This is based on the continued decline of Africa’s share in global output and world trade over the last two to three decades. The view is also supported by the record of Africa’s economic growth, which is well below its potential and lagging behind the performance of other developing countries, especially those in Asia.

While this global view of Africa holds much truth, it is, however, not an entirely accurate picture. It also does not do full justice to the important changes that are taking place in many parts of the region. In assessing the evolution of economic conditions in Africa, we believe it is more useful to adopt a more dis-aggregated approach and one that recognizes the specific characteristics of different groups of countries. In our view, African countries could, for this purpose, be usefully divided into four groups.

In the first are the middle-income countries of North Africa, South Africa, and a few others, such as Botswana and Mauritius, which are joining the ranks of emerging market economies. While much remains to be done, these countries have achieved reasonably stable and diversified economies. They also have access to varied sources of financing, including the global capital markets. In addition, they have succeeded in attracting significant amounts of foreign direct investment. The major challenge facing them is largely one of building on the achievements of the recent past and enhancing the competitiveness of their economies in the global economy.

Of the remaining countries, our analysis shows that developments over the last decade have resulted in the emergence of three distinct groups. In the first are some 14 countries that have implemented and sustained far-reaching political and economic reforms. These have included: the liberalization of political systems, thus helping set up the foundations for democratic governance; the adoption of sound macroeconomic policies; and the implementation of structural changes to promote private-sector led growth. These improved policy stances have led to higher GDP growth rates of over 5 percent and to lower inflation rates and fiscal deficits, as well as to significant reductions of poverty. 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 second group consists of some 13 countries that have also implemented economic and political reforms but whose policy stances and institutional reforms have yet to reach desired levels. In particular, the institutional and structural reforms necessary for promoting private sector-led growth are not yet fully in place. Nonetheless, these countries have also shown noticeable gains in the last five years in terms of stabilizing their economies and improving their growth performance, with GDP growth rates averaging between 3 to 5 percent.

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. These countries face not only the daunting challenge of economic rehabilitation and reconstruction but also rebuilding social relations and the very institutions of effective governance.

In brief, I believe that this grouping of countries provides us a more accurate picture of the complex situation that is found in Africa today. It is clear that African countries, like other developing countries, lie on a continuum of economic and political progress. And many are making determined efforts to transform their economies and advance on the path of development.

**The Strategic Vision of the African Development Bank Group**

Mr. Chairman,

Permit me now to turn to the Bank’s Strategic Vision. While positioning itself to become the premier development finance institution on the continent, the Bank has adopted poverty reduction and achieving sustainable economic growth as its over-arching objectives. These goals are laid out in the Vision Statement that the Bank Group embraced in 1999; they have also been reaffirmed in the Strategic Plan that its Board of Directors approved in 2002.

The Bank views the Millennium Development Goals (MDGs) as essential benchmarks to assess the economic and social progress of its regional member countries, as well as its own contribution. In this regard, it is important to point out that with GDP growth rates for the region averaging 3.3 percent in the last five years, most African countries, with
the exception of South Africa and the countries of North Africa, are, on present trends, unlikely to achieve the MDGs. Indeed, it is generally agreed that African countries would need to double their growth rates to between 6 to 8 percent in order to make substantial progress towards the MDGs. An important challenge facing most African countries, as well as their development partners, is therefore accelerating economic growth rates to the required levels.

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 and helping them 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. 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.

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. And in infrastructure, a short-term action plan that focuses on priority physical investments, accompanied by policy, regulatory, and institutional measures has been developed. 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.

Mr. Chairman,

In pursuing its strategic vision, the Bank adheres to four fundamental principles, namely, country ownership, greater selectivity, participatory approaches, and enhanced cooperation with all development partners. In addition, the Bank has taken a number of measures to enhance the development effectiveness of its operations.

The Bank’s own experience, as well as that of others, has shown the importance of country ownership for the success of all development efforts. Accordingly, 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 as important, it has aligned its own interventions to such strategies.
The Bank has also promoted participatory approaches in the design and implementation of its country strategies programs, and in the preparation and implementation of individual projects. It has found that these approaches not only promote ownership but also help to ensure that development objectives are indeed met.

The increasing use of PRSPs by donors as the basic framework for their interventions is, in addition, allowing for greater selectivity. The Bank’s areas of interventions are now normally restricted to 2 or 3 sectors in each country, chosen on the basis of its comparative advantage. In addition, the PRSPs have become important frameworks for promoting greater donor coordination and cooperation at the country level. For the Bank Group, strengthening cooperation with other development partners, and in particular the Bretton Woods institutions, is a fundamental cornerstone of its development strategy.

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 nine operating or expected to be operational in the near future.

The Bank Group is aware that its ability to provide effective assistance to its regional member countries and its ability to mobilize both concessional and non-concessional resources is highly dependent on its financial solidity. Although profit maximization is not a goal of the Bank per se, it has nonetheless implemented a series of financial reforms to strengthen its financial standing. In the last few years, it has consistently reported solid incomes and has built up its reserves and reduced the risk profile of its portfolio. I am pleased to note that these measures have resulted in the restoration of its triple A rating by all rating agencies.

The Role of the Donor Community in Promoting Africa’s Development

Mr. Chairman,
Before I conclude, let me say a few words on the role of the donor community in assisting African countries achieve their development goals. While African countries are increasingly assuming greater responsibility for their own development efforts, it is quite clear that they will continue to require the assistance of the international donor community. 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, donors made specific comments at the Monterrey conference in 2002 to raise the level of ODA by a minimum of $16 billion annually by 2006. Towards fulfilling this goal, European countries have made important pledges and the U.S. Government has also set up the Millennium Challenge Account. Nonetheless, it is important to point out that two years after Monterrey, increases in the level of assistance to African countries have yet to match the promises made.

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. 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, adverse terms of trade as well as other external shocks are increasingly making it clear that further steps will be required to avoid low-income countries falling into further debt problems in the future. 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. In this respect, it is worth noting the significant increases in exports that a number of African countries have achieved under the AGOA initiative. This 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.
**Concluding Remarks**

Mr. Chairman,

Let me conclude by thanking once again the Bretton Woods Committee for organizing this conference on Africa’s development prospects. On our part, we see the African continent as having enormous potential for growth and development, given its rich natural resource base and the dynamism of its people. Our optimism has been bolstered by the launch of the NEPAD initiative and the progress it has made to date.

With an increasing number of African countries adopting and sustaining sound economic policies, and with democratic forms of governance taking root in many, we expect an increasing number of African countries to play a greater role in the global economy. African countries, however, need the full support of their development partners if they are to succeed. The many reforming countries of Africa do indeed deserve such support.

I thank you for your kind attention.