Statement by Omar Kabbaj,
President of the African Development Bank Group
To Ambassadors Representing Member States of the Bank and Accredited to
Tunisia and Representatives of International Organizations

20 January 2004
Tunis, Tunisia
Introduction

Your Excellencies,
Ladies and Gentlemen,

At the outset, I would like to welcome you all to this annual gathering and to thank you for kindly accepting our invitation. It is a tradition of the Bank to invite, at the beginning of each New Year, Ambassadors representing member countries of the Bank as well as Representatives of International Institutions to such gatherings. In the past, we have held such meetings in Abidjan; and following the temporary relocation of the Bank Group, we had, as you will recall, our first such gathering in Tunis in March last year.

These meetings give us an opportunity to update Your Excellencies on the Bank Group’s activities during the previous year. It is also an occasion for us to brief you on recent economic and social developments on the African continent and to discuss with you the progress made by our regional member countries, as well as the challenges they continue to face. Accordingly, permit me, first, to provide you with an overview of the performance of the African economy in 2003. I will then discuss the highlights of Bank Group activities and operations in 2003. But before I do so, let me extend to Your Excellencies and to your families my best wishes for the New Year.

The Performance of the African Economy in 2003

Your Excellencies,
Ladies and Gentlemen,

In discussing Africa’s economic performance in the past year, let me point, first, that the data we are presenting to you today for 2003 are preliminary and are therefore likely to be adjusted in the course of the year. This has, for example, happened to some of the data for 2002 that I presented to you last year.

Preliminary indicators of the growth of Africa’s GDP in 2003 show an average growth rate of 3.6 percent, significantly higher than the 2.8 percent recorded for 2002, and the average of 3.1 percent for the previous five years. As in the recent past, there was,
however, considerable variation in the performance of individual economies, as well as sub-regions.

Countries that registered a growth rate of above 5 percent increased to 17 from 11 in 2002, whereas countries experiencing negative growth rates remained at seven. The remaining countries recorded GDP growth in the range of 1 to 5 percent. Among the different sub-regions, North and Central Africa experienced significant rebounds. In North Africa, this is, in part, explained by the good rains and improved export performance. In Central Africa better prospects for peace in the Great Lakes Region, as well as higher and steady prices for oil were the principal explanatory factors. In West Africa, growth rates improved marginally although continued conflicts in the sub-region have affected negatively its economy. In East Africa, economic performance was held back by the drought that affected some countries, although others continued to enjoy robust growth rates. And in Southern Africa, growth rates remained sluggish in part explained by the strengthening of the Rand and, in part, by continued difficulties faced by some of the larger economies of the sub-region.

The improved performance of the African economy in 2003 is explained by both internal and external factors. Domestically, most governments continued to follow prudent macroeconomic policies. This is evidenced by a lower average fiscal deficit of 3 percent in 2003 compared to 3.4 percent in 2002. Further, tighter monetary policies contributed to the achievement of an average inflation rate of 11 percent, with some 40 countries recording single digit rates. The sustained improvements in the management of economies, together with structural reforms, are helping to create the required conditions for the emergence of a more robust private sector. Indeed, both private savings and investment rates, after an extended period of stagnation, are beginning to pick up.

Africa’s improved economic performance is also in part explained by the resolution of some of the long-standing conflicts that had beleaguered some countries and sub regions. In particular, we are heartened by the progress that has been made in brining to an end conflicts in Angola, Burundi, Congo, the Democratic Republic of Congo, and, more recently, Liberia and Sudan.

Externally, the past year witnessed an increase in the demand for Africa’s exports coupled with improvements in the prices of major primary commodities. An increasing
number of countries also began to take advantage of the opportunities offered by new trade initiatives such as United States Africa Growth and Opportunity Act (AGOA). This combination of factors led to a substantial increase in both the volume and value of African exports, contributing to the higher GDP growth rate achieved. Africa’s exports in value terms increased by 17 percent, well above the average of the last five years. This, in turn, led to substantial improvements in the region’s trade and current account balances.

While we welcome the increase in Africa’s overall GDP growth rate -- and in particular the high growth rates reached by a number of countries -- we must, however, note that the rate achieved in 2003 still falls considerably short of that required to make substantial progress towards the attainment of the Millennium Development Goals (MDGs). African countries must therefore continue to accelerate their growth rates to increase incomes and reduce poverty. And in such efforts, the assistance of the international community remains critical. Three areas of support stand out in particular: first, increased official development assistance (ODA); second, reducing the debt of African countries to sustainable levels; and third, bringing about reforms to the world trading system, as envisaged in the Doha Development Round of the WTO negotiations.

Recent figures released by the OECD/DAC on official development assistance to Africa indicate a substantial rise in the volume of assistance in 2002 – the latest year for which such figures are available. ODA to Africa stood at $21.2 billion in 2002 as compared to $15.7 billion in 2001. This represents a reversal of the downward trend that had been observed for more than a decade. The increase will help recoup some of the lost ground in recent years.

As welcome as this increase is, it should however be placed in the perspective of Africa’s ODA requirements and the resources the region needs to enable it to make substantial progress towards meeting the MDGs. More generally, recent studies have indicated that current levels of ODA will need to be at least doubled to enable poor developing countries – most of them in Africa -- to make the desired progress. It is thus our hope that the recently observed increase in ODA to African countries will be sustained in the future and that the donor countries, despite their budget constraints, would indeed achieve the short and long-term targets that they have announced in various international fora, such as Monterrey.
Support from the international donor community is also required in reducing Africa’s external debt to sustainable levels. In this regard, much has been achieved in the recent past through the HIPC Initiative – in which the Bank Group is an active participant. Indeed, Africa’s debt, as a ratio to its GDP, has declined to 48 percent from a high of 74 percent in 1994. And the ratio of debt service to exports has also been halved to 15 percent from a high of 30 percent in 1991. While welcoming these developments, we should however not lose sight of the continued fragility of African economies and the ease with which external shocks can easily destabilize them. It is therefore essential that the external debt of African countries be kept under continuous review and the appropriate actions taken to ensure that it is indeed reduced to sustainable levels.

The third area in which African countries require external support is in the area of trade. The developing countries – including African countries – had put high hopes that progress on the WTO Doha Development Agenda would indeed be achieved at last year Cancun talks. We are thus deeply disappointed by the failure of the talks and it is our ardent hope that these negotiations will resume shortly. It is now generally agreed that agricultural subsidies by the developed countries distort global trade -- particularly in key commodities such as sugar, cotton and rice – and that these hold back growth in the export revenues of developing countries. Similarly, non-tariff barriers and the escalation of tariffs tend to discourage exports of processed and manufactured goods. We therefore call on industrial countries to further liberalize their trade regimes in order to improve access for Africa’s exports.

As well, we call on our regional member countries to sustain the progress they have made in the management of their economies and to deepen related structural reforms. In particular, improving the investment climate, through further governance reforms, continues to be a major priority. And the HIV/AIDS pandemic requires greater commitment and resources to halt and reverse its devastating economic and social impact. We also urge our regional member countries to redouble their efforts at regional integration. The NEPAD initiative provides an important means through which such efforts could be scaled-up. Indeed promising starts, in such areas as regional infrastructure – in which the Bank is actively involved – have been made and we encourage our countries to maintain this momentum.
Bank Group Activities in 2003

Your Excellencies,
Ladies and Gentlemen,

The Temporary Relocation of the Bank

Permit me now to turn to the activities of the Bank Group in 2003. As you will all recall, for the Bank Group the year 2003 was a particularly momentous one, as it was obliged to temporarily relocate its operations to Tunis from Abidjan. I am pleased to report to Your Excellencies that this exercise – unprecedented for any multilateral development Bank – has been implemented successfully. The Bank was able to establish its temporary offices in Tunis -- together with the required information technology -- within a space of two to three months. This has enabled it to transfer over 1,000 staff members along with close to 1,300 of their dependents. As I will indicate to you shortly, this smooth transfer has enabled the Bank Group to deliver on its 2003 lending and grants program for its regional member countries, as well as continue to provide support to such important African initiatives such as NEPAD.

I would like, in this connection, to thank the Government of Côte d’Ivoire for facilitating the relocation. I wish also to thank H.E. President Zin El Abidine Ben Ali and his government, as well as the people of Tunis, for helping make the relocation a success and for making us feel welcome. As well, let me thank the Embassies of France and the United States for their kind assistance in arranging for the schooling of the children of our staff at the French and American schools in Tunis respectively. Currently, some 400 children of staff members are enrolled in these schools.

I wish to take this opportunity to bring to the attention of Your Excellencies the decision taken by the Board of Governors of the Bank Group on the temporary relocation since our gathering last year. At its Annual Meetings in May 2003, the Board of Governors, while re-iterating that the Bank’s Headquarters remains in Abidjan, agreed that the temporary relocation should be for an initial period of two years. The Board further agreed that the Board of Directors would review developments in Côte d’Ivoire semi-annually and that the Board of Governors would, at its Annual Meetings, also review developments to determine whether conditions allowed for the return of the Bank’s activities to its Headquarters. The
Board of Governors agreed that a one-year notice would be given to the Bank should it decide on such a course of action. In this connection, I wish to take this opportunity to thank all the member countries of the Bank for their strong and steadfast support during this difficult and challenging time.

Bank Group Operations

Your Excellencies,
Ladies and Gentlemen,

Turning now to the operations of the Bank, I am pleased to report that despite the relocation of the Bank’s activities and the inevitable disruptions this caused, the total lending and grant operations of the Bank Group stood at $2.6 billion in 2003 as compared to $2.2 billion in 2002 – a 21.5 percent increase. The Bank Group was therefore able to deliver on the lending and grants program that had been approved by the Board of Directors in 2002 prior to the temporary relocation to Tunis.

Overall, total approvals, including debt relief under the HIPC program, showed a decline from the $2.8 billion registered in 2002, as the Bank Group did not approve any new debt relief under the HIPC initiative in 2003. Only one additional country -- the Democratic Republic of Congo (DRC) -- became eligible for such relief in 2003 and our Boards of Directors will decide on the Bank’s share of debt relief for the DRC in the first quarter of 2004. The matter has had to be postponed to this year to allow sufficient time for consultations between the Bank, donor countries, and the HIPC Trust Fund on arrangements for financing the Bank’s share of debt relief, as this will be the largest debt relief extended to any African country. The Bank Group’s share is currently estimated at over $1.8 billion.

With regards to lending and grant operations, the ADB window accounted for $1.1 billion – a slight decrease from 2002. The share of operations under the private sector window, however, increased from $270 million in 2002 to $306 million in 2003. The share of the African Development Fund (ADF) in 2003 stood at $1.5 billion – an increase of over 50 percent from 2002. I should add, in this regard, that in line with the new policy framework for ADF operations, the share of grants increased significantly and accounted for 17 percent of total approvals in 2003. And operations through the Nigerian Trust Fund (NTF) increased
significantly to $33.5 million from $13.5 million in the previous year, following the accord reached with the Nigerian Government on a revised protocol for the NTF.

The surge in ADF operations – our concessional window for the 39 countries that cannot at present borrow on market terms -- is explained by the resumption of full operations under this window. This followed the conclusion of the consultations for the Ninth Replenishment of the Fund (ADF-IX) in September 2002. As 2004 represents the third and final year of ADF-IX, we expect that all the resources mobilized under this replenishment will be utilized by the end of the year. And in this connection, I am pleased to report that ADF Donors have agreed to start consultations on the Tenth Replenishment of the African Development Fund (ADF-X) in mid-February 2004. In the light of the performance of the Fund under recent replenishments, the wide-ranging reforms that have been implemented by the Bank Group over the last seven to eight years, -- as well as the recent commitments to increase ODA to African countries -- we are calling on the ADF donors to increase significantly the resources of the Fund under the tenth replenishment, to enable it to meet its mandate more fully.

In addition to its own lending and grant operations, the Bank Group, through its co-financing operations, succeeded in 2003 in significantly increasing the volume of resources it mobilized for its regional member countries. The total volume of resources mobilized from other multilateral and bilateral development partners for Bank-financed projects and programs in 2003 stood at $3.7 billion – a significant increase of 26 percent from the $3 billion in 2002. Thus the total resources generated for our regional member countries -- including our own resources -- stood at $6.3 billion in 2003 as compared to $5.7 billion in 2002.

With respect to actual disbursement of resources for approved projects and programs, these stood at $1.4 billion in 2003 -- the same as in 2002. In this regard, I wish to note that disbursements for our ADF countries, which were lower in 2003 in relation to 2002, would have been much higher had it not been for the difficulties that some of our borrowing countries are facing in the timely implementation of projects and programs. In particular, the delays that some countries have faced in meeting the conditions for policy-based loans have often resulted in the deferral of the release of the second and third disbursement tranches. I
would therefore like to urge our countries to meet, in a timely manner, the conditions they have entered into for policy-based loans.

In addition to its lending and grant operations, the Bank continued to provide assistance to the NEPAD initiative. As you may recall, the NEPAD Heads of State Implementation Committee has assigned the Bank the leadership role in infrastructure and banking and financial standards. With respect to the latter, we have developed a framework for fostering such standards in our regional member countries and these have been incorporated into the design of the African Peer Review Mechanism (APRM). The Bank is also providing technical assistance towards the implementation of the APRM.

In infrastructure, the Bank has developed a short-term action plan that has received the full endorsement of the Heads of State Implementation Committee. Within this framework, the Board of Directors has approved four projects and a further five are at an advanced stage of preparation. We have also started work 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 has been earmarked for multinational projects and it is our hope that these resources can be used as a catalyst for mobilizing additional resources for NEPAD. To assist in all such work, I am pleased to report that the Board of Directors has approved the creation of a small unit of experts to work solely on NEPAD-related initiatives.

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 $10 billion and is expected to be raised by leveraging additional resources from multilateral, bilateral, as well as public, private and community sources.
Enhancing the Quality of Operations

Your Excellencies,
Ladies and Gentlemen,

The significant increase in the lending and grant operations of the Bank Group was accompanied in 2003 by further steps to increase the quality of our operations. In line with the Bank Group’s strategic plan, the basic goal of our operations has been to assist our countries make progress towards the attainment of the Millennium Development Goals (MDGs). Towards this end -- and to ensure the development effectiveness of our operations -- much attention has been given in all our operations to four important principles: first, ensuring country ownership; second, attaining greater selectivity in our interventions; third, continuing the use of participatory approaches, and fourth, working closely with our other development partners.

In all these efforts, each country’s poverty reduction strategy paper (PRSP), where available, has provided the basic organizing framework for all our interventions. Thus, the new generation of CSPs that we approved this year have been closely aligned to each country’s PRSP. Further, the Bank Group’s intervention is now normally restricted to 2-3 sectors in a given country; indeed in some countries our intervention is limited to only one sector. And increasingly, as the capacity for a transparent and accountable management of public resources is improved, the Bank’s interventions are moving towards supporting larger sector-wide programs (SWAPs).

Such an approach has been adopted following close consultations with governments and civil society organizations in our regional member countries, as well as with our other development partners. I am therefore pleased to note that PRSPs are indeed becoming the basic coordination mechanism among all donors, in the effort to ensure the efficient use of scarce development resources. In this regard, the Bank is cognizant of the importance of enhancing its field presence in its regional member countries. Accordingly, as part of its program of opening up 25 field offices, the Board has approved the opening of nine such offices -- with seven in operation or planned to be opened shortly. In addition, as part of the recommendations that Governors made at their GCC meeting in Accra last year on the
temporary relocation of the Bank, a study on the decentralization of the Bank’s operations has been launched.

I may also add that with a view to enhancing cooperation with our development partners and ensuring that our operations are focused on achieving results on the ground, the Bank, in cooperation with the World Bank, will host in Marrakech an international Roundtable on Managing for Development Results in the beginning of February 2004. The Roundtable is being co-sponsored by all the Multilateral Development Banks in close cooperation with the Development Assistance Committee of the OECD. It will involve the participation of a large number of Ministers from both developed and developing countries. The purpose of the gathering is to promote greater focus on achieving results on the ground and in putting in place effective mechanisms for measuring them. The Roundtable will also give all participants an opportunity to learn from best practices both from the donor community as well as from developing countries.

Financial Outcomes of the Bank Group in 2003

Your Excellencies,
Ladies and Gentlemen,

Permit me now to report to Your Excellencies on the financial outcomes of the Bank Group in 2003. As in previous years, the Bank Group has continued to strengthen its financial position. While profit maximization is not a primary objective, the Bank Group operates in such a manner as to ensure not only its financial viability, but also -- and more importantly -- to enhance its financial capacity to provide effective development assistance. For 2003, the Bank Group, as a whole, is expected to report earnings of around $210 million, compared to $267 million for 2002. These are provisional and unaudited. This outcome is the net result of strong positive earnings for the ADB and NTF windows and a loss, for the first time since 1996, for the ADF. The lower earnings in 2003 were due to a number of factors: first, the overall low-interest rate prevailing in the international financial markets, contributing to a lower interest income on the Bank Group’s earning assets; second, the effect of the pre-payments of certain higher-yielding loans by some of the Bank’s larger borrowers; and third, the increase in administrative costs due to the temporary relocation in 2003 of the Bank Group from Abidjan to Tunis. To mitigate the negative impact on the ADF’s ability to
provide development assistance, owing to the increased expenses of the temporary relocation, the Board of Governors in June 2003 approved an exceptional allocation of approximately $21 million from the ADB to the ADF.

I am delighted to report, however, that despite the lower income in 2003, the overall financial standing of the Bank has continued to steadily improve. The key leverage, gearing and liquidity ratios, already among the best in relation to other MDBs, have strengthened even further in 2003, albeit at a slower pace than in the prior year. And in recognition of the solid financial position of the Bank, Standard and Poor’s in July 2003 upgraded the Bank’s credit rating to “AAA” with a stable outlook, from “AA+”. As a result, the Bank now enjoys the highest possible credit ratings from all four rating agencies, Moody’s, the Japanese Credit Rating Agency, Fitch IBCA and S&P. The confidence of the capital markets was further evidenced by the Bank’s successful launch of its first $1 billion global bonds issue in 2003. I am pleased to note that the issue was well received by both institutional and private investors. I should also point out that the Bank’s bonds continue to perform exceptionally well on the secondary markets.

**Conclusion – Outlook for 2004**

Your Excellencies,

Ladies and Gentlemen,

Permit me to conclude by noting that the results of our operations in 2003 were indeed quite satisfactory, particularly when viewed in the light of the challenges faced by the temporary relocation of the Bank’s activities to Tunis. In this regard, I would like to re-iterate our deep gratitude to all our shareholders for their strong support in this difficult exercise. I wish also to note that such support was critical in the restoration and maintenance of the Bank’s high ratings in the international capital markets.

Now that the relocation has been successfully realized, we foresee for 2004 the full implementation of the entire work program of the Bank Group, including some activities that had been deferred to this year. In our future operations, we will continue to put particular stress in enhancing the quality and improving further the development effectiveness of our interventions. Towards this end, we will intensify our dialogue with our regional member
countries and strengthen our cooperation with our development partners. In particular, we will lay great stress in strengthening the PRSP process in our regional member countries and in promoting the participation of all stakeholders. I am confident that with the full support of all its shareholders, the Bank Group will, in 2004, continue to be a reliable and active partner of both the international donor community and our regional member countries.

I thank you for your kind attention.