Statement by Omar Kabbaj,
President of the African Development Bank,
at the Opening Session of the 40th Annual Meetings of the
African Development Bank Group

*Scaling-Up Support to an Emergent Africa*

Abuja, Nigeria
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Introduction

Your Excellency Chief Olusegun Obasanjo, President of the Federal Republic of Nigeria and Commander in Chief of the Armed Forces
Your Excellency, Mrs. Ngozi Okonjo-Iweala, Minister of Finance of the Federal Republic of Nigeria and Chairperson of the ADB Board of Governors,
Your Excellencies Honorable Governors of the African Development Bank,
Your Excellencies Ambassadors and Members of the Diplomatic Corps and Representatives of International Organizations,
Members of the Board of Directors of the ADB Group,
Your Excellencies,
Distinguished Representatives of Civil Society Organizations,
Ladies and Gentlemen,

It is a great honor and privilege for me to welcome you all to the Annual Meetings of the African Development Bank Group. I would like to start by thanking His Excellency Chief Olusegun Obasanjo, President of the Federal Republic of Nigeria and Commander in Chief of the Armed Forces, the Government of Nigeria, as well as the people of Abuja for kindly offering to host these Annual Meetings and for extending a warm African hospitality to all participants. It is indeed fitting that the Bank is holding its 40th Annual Meeting in this capital city of Abuja, as Nigeria is not only a founding member of the Bank but its largest shareholder as well. And over the last four decades, Nigeria has been a bulwark of support for the Bank Group and has played a key role in enabling the Bank to become what it is today -- the premier development finance institution of the continent.

His Excellency President Obasanjo, in particular, has, over the years, demonstrated his unwavering support for the Bank. I need only note that it was under his Presidency and personal guidance that the Nigerian Trust Fund (NTF) was established in 1976 within the African Development Bank, with the noble goal of sharing Nigeria’s wealth with its sister African countries. Since its inception, the NTF, established with contributions of $150 million from Nigeria, has provided over $400 million to some 30 countries.
Mr. President, on behalf of the African Development Bank and all those gathered here today, I would like to take this opportunity to express to Your Excellency our heartfelt gratitude for your personal support and that of the Federal Government of Nigeria. Let me also take this opportunity to express to you our deep appreciation for your many contributions to the advancement of our Continent. Your courageous efforts to bring about the political and economic renaissance of Nigeria are recognized and applauded by all. Your unwavering devotion to Africa’s peace and security, as the Chairman of the African Union, has also been much appreciated throughout the world. And thanks to your Chairmanship of the NEPAD Heads of State Implementation Committee, the initiative has taken root and today holds great promise as an important force for the economic and social renewal of our Continent.

Your Excellencies,

These Annual Meetings will be the last occasion that I will have to address you as President of the African Development Bank, as my second term will soon come an end. It has been my great privilege to have served Africa and the African Development Bank in this capacity, and I would like to start by thanking our Honorable Governors and the governments you represent for having given me this unique opportunity. Few people have been given such a privilege and it is an honor and an experience that I will forever cherish.

Moreover, it has been extremely gratifying that my tenure at the Bank has coincided with the remarkable turnaround in the fortunes of our Continent and I am honored to have had an opportunity to make a contribution, however modest. In my address to you today, I would like to provide our Honorable Governors with a report not only on Africa and the Bank in 2004 -- as is customary -- but also put these in the broader context of the major regional and global developments of the last decade. I would also like to take this opportunity to share with you my hopes and aspirations for the future of the Bank.

Your Excellencies,
The 40th Annual Meeting of the Bank and the 31st Annual Meeting of the African Development Fund are being held at a time when our Continent is perhaps going through one of the most remarkable periods in its recent history, marked by a confluence of favorable developments:

• **First**, conflicts have abated over much of the Continent and most of our countries are today at peace, thanks in large part to the untiring efforts of the African Union, African leaders such as President Olusegun Obasanjo and his colleagues, as well as the United Nations and regional organizations.

• **Second**, after an extended period of economic crisis, followed by deep reforms, an increasing number of African countries are beginning to register and sustain high economic growth rates and, as important, they are making headway in lifting their people out of grinding poverty. A few indicators clearly show how far our Continent has come in the last decade:
  
  o In the first half of the 1990s, Africa’s GDP growth rate stood at 1 percent implying negative per capita growth rates; by contrast in the last five years, it has risen to an average of 4 percent and to slightly over 5 percent in 2004.
  
  o Africa’s inflation rate averaged close to 20 percent in the first half of the 1990s and peaked at 42 percent in 1994; by contrast in the last five years it has averaged 10 percent, declining to less than 8 percent in 2004 -- the lowest in some three decades;
  
  o And Africa’s fiscal deficit, which averaged 5 percent in the first half of the 1990s, has declined to an average of 1.4 percent in the last five years, and became neutral in 2004, the first time in decades.

• **Third**, the NEPAD initiative has gathered momentum, re-kindling not only the spirit of regional cooperation and integration but also fostering the fundamental principles of democracy, good governance, and sound economic stewardship on which it rests. Indeed, it is gratifying to note that nearly half of the Continent’s countries have now signed on to the African Peer Review Mechanism – a potent symbol of the Continent’s determination to improve its political and economic governance.

• **Fourth**, the international community -- perhaps more than at any time in recent history -- is mobilizing itself to scale up its support to African countries. The leaders of the G8 leaders at their recent Summits, beginning with Kananaskis in
2002, have given special consideration to Africa’s concerns and the forthcoming Summit at Gleneagles, Scotland promises to strengthen this focus. Similarly, the European Union, the Nordic countries and others are all now giving high priority to Africa in their assistance programs. Most recently, the Commission for Africa, under the leadership of Prime Minister Blair, has not only undertaken a forceful analysis of Africa’s development challenges but has also made a number of visionary and pragmatic recommendations to further Africa’s development prospects; and the United Nations Summit of Heads of States in September will assess the progress that developing countries are making towards the attainment of the MDGs;

- **Fifth**, Africa has in recent years faced a favorable external environment as evidenced by high prices and demand for some of its primary commodities. Our countries should take advantage of these windfalls to accelerate their reform programs and strengthen their fight against poverty. We would also advise that the gains be used prudently -- with a sizeable share put aside for future use -- as these windfalls are likely to be temporary.

- **And sixth**, the African Development Bank, after nearly a decade of reforms, has become a strengthened and energized institution:
  - Bank Group approvals, which had declined to less than $1 billion in 1995 and 1996, have risen steadily reaching a level of $4.3 billion in 2004 – the highest level in the history of the Bank.
  - The quality of the Bank’s operations, guided by the 1999 Vision and the 2002 Strategic Plan, have seen a marked improvement due to better project preparation and design, a strengthening of portfolio management, the introduction of results-based management, and increased presence in the field.
  - The operating income of the Bank which had fallen to $80 million in 1994 has rebounded over the last decade, reaching a record of nearly $342 million in 2004, enabling the Bank to solidify its financial base and to regain its uniform triple A rating by the major rating agencies.

More broadly, I am pleased to report that the Bank’s organizational base has been strengthened and it is today attracting some of the best minds in the service of the Continent. Indeed, there can be little doubt that the Bank is now ready to meet the
high expectations of its shareholders and clients alike and assume a central role in the partnership between Africa and its development partners.

Your Excellencies,

In the light of these favorable developments, it is imperative that African countries, their development partners, and the African Development Bank seize the historic opportunity that lies before them to push through their common development agenda. It is an opportune time for African countries to redouble their efforts to lift the millions of their citizens out of abject poverty. It is an opportune time for the international community to increase its support to African countries to enable them to realize their immense development potential and thereby contribute to global wealth and prosperity. And it is an opportune time for the African Development Bank to scale-up its support to a resurgent and emergent Africa.

What then are the major development challenges facing our regional member countries today? What support should African countries reasonably expect from their development partners? And what are the challenges facing the African Development Bank as it seeks to consolidate its recent gains and enhance its operations? With your permission, I would like to share with you our thoughts on these critical issues. I will begin with a review of the African situation and the development challenges facing our regional member countries.

Africa’s Economic Performance and Development Challenges

Your Excellencies,
Ladies and Gentlemen,

As I noted earlier, the year 2004 was indeed an exceptional year for Africa in terms of its overall economic performance. Although there were variations across countries and regions, the Continent’s average GDP growth rate was the highest in eight years, confirming the positive trend of recent years. The improved performance was widespread and included both oil exporters and importers. And with a fiscal deficit that was neutral for
the first time in decades and slower monetary growth, the average inflation rate fell below ten percent -- the lowest in over two decades. In addition, major improvements in the external accounts of many countries were recorded with the Continent achieving a significant current account surplus and the ratio of debt service to exports falling to an all time low.

As Your Excellencies would appreciate, both external and internal factors contributed to the improved economic performance. Better terms of trade together with a strong demand for Africa’s primary commodities, were undoubtedly primary contributors. At the same time, however, we need to acknowledge and give due credit to improved macroeconomic management in an increasing number of our regional member countries. Indeed, our Honorable Governors gathered here today -- and who collectively share much of the responsibility for the management of the African economy -- should justifiably be proud of the improving stewardship of African economies and the notable achievements recorded in recent years.

Your Excellencies,

While welcoming the improved economic performance of many of our countries, we must, of necessity, keep our attention focused on the major development challenges that they continue to face. And in this regard, we will need to continue to measure the progress that our countries are making against the internationally--agreed benchmarks of the Millennium Development Goals (MDGs).

Recent important studies all make clear that despite the improved economic performance, Africa is falling behind other regions in its progress towards the MDGs. And in the absence of major regional and global initiatives and actions, few countries -- with the exception of those in North Africa and some countries in Southern Africa -- are likely to achieve the critical goal of reducing by half, by 2015, the number of people living in absolute poverty.

Clearly, African countries and their development partners will need to do more to tackle the major obstacles holding back the Continent’s development. With your
permission, let me highlight a few of the key policy challenges that our regional member countries face, as well as the actions required.

Underpinning all efforts for economic and social progress must necessarily be the imperative of maintaining peace, stability, and achieving social harmony. As the root causes of many conflicts in the past have been perceptions of political and economic exclusion, we are encouraged by the steps our regional member countries are taking to strengthen democratic systems of governance. It is essential that these efforts are deepened to ensure that all citizens take part in national, regional, and local political decision-making processes, and all have the potential to benefit equitably from the fruits of economic progress.

On the economic front, a central challenge for many of our countries is raising economic growth rates to higher levels and sustaining them, while at the same time ensuring that they are broad-based and benefit the poor. Macroeconomic stability is clearly a pre-requisite for high growth, and, in this regard, it is encouraging that more and more of our regional member countries are achieving it. The challenge facing our countries now is to go beyond the attainment of such stability to effectively tackle ‘second-generation’ reforms.

Critical in this regard is improving further the conditions necessary for the growth of private investment – both domestic and foreign. Despite some encouraging developments in recent years, these unfortunately still remain quite low. In particular, Africa’s share of global private capital flows has yet to show a significant rise.

Creating a more favorable environment for the private sector requires a number of actions. The first is deepening governance reforms, with a particular focus on legal and judicial reforms. In particular, reforms to clarify and protect property rights would need to be given high priority as well as improving corporate governance. In addition efforts would need to be made to streamline commercial laws and systems to ensure the timely and efficient enforcement of contractual obligations. There is also a need to intensify anti-corruption efforts, as corruption not only erodes public trust but also drives away potential investors.
The second major focus will need to be on improving the state of infrastructure in many of our countries, as this is often a major barrier for private investment. The neglect of the infrastructure sector in the past decade is now recognized by all as a major policy lapse. Making progress on the lost ground would need developing innovative strategies – and in particular new forms of public private partnerships -- and including the international financial institutions -- to mobilize the enormous investment resources required. A third focus should be on deepening financial sector reforms to encourage more efficient domestic and foreign resource mobilization.

Achieving the MDGs would also require that our countries continue to give high priority to investments in education and health, and in particular to combating the HIV/AIDS pandemic. These are required to create the long-term foundations for growth and to develop a labor force that can hold its own in an increasingly competitive world. We welcome the actions that our regional member countries have taken in recent years to increase their levels of investments in these important sectors. The challenge now is to raise the quality and efficiency of service delivery and to ensure the achievement of concrete results on the ground.

Another major challenge facing our countries is strengthening regional cooperation and integration arrangements, as these are essential for improving the global competitiveness of African economies. Although the NEPAD initiative has given much impetus to such efforts, it is clear that much more needs to be done. There is, in the first instance, a need to streamline existing regional economic communities. There is also a need to strengthen the organizations of regional economic communities to give them the capacity to undertake the many tasks expected of them. And finally, there is a need to take action on the ground to remove the many bureaucratic hurdles that still stand in the way of increasing trade and investment.

It is our hope that our regional member countries will take action on these fronts and seize the promising opportunities that lie before them. As the experience of a number of countries across the Continent has shown, there is no reason why more and more of our regional member countries could not put in place the required policy frameworks as well as build the requisite capacity to accelerate their growth rates and achieve their economic
and social goals. Indeed, we need only recall, in this regard, that the newly industrialized Asian countries, which have now reached middle-income status, were only a few decades back in the same economic circumstances that Africa finds itself today.

*International Support for Africa’s Development Efforts*

Your Excellencies,
Ladies and Gentlemen,

As African countries mobilize their human and financial resources to attain the MDGs, they will, of necessity, continue to require the sustained and increased support of their development partners. And in this regard, we are heartened by the recent actions that the donor community has begun to take to scale up its support. These include increases in Official Development Assistance (ODA), proposals put on the table to reduce further Africa’s external debt burden, and the promise of substantive trade reform in the context of the Doha Round of WTO negotiations.

After a decade of decline in the 1990s, ODA to Africa has begun to rise in the last three years. In line with the Monterrey consensus, several European countries have pledged to raise their ODA levels and the United States has established the Millennium Challenge Account to channel a significant increase in its ODA. While all these initiatives are most welcome, the current level of ODA still falls considerably short of the external resource requirements of African countries. In this regard, the Commission for Africa has called for a doubling of ODA to Africa – equivalent to an extra $25 billion a year – within the next 3-5 years. Studies by the African Development Bank and the World Bank confirm that this is indeed the level of additional resources required and, as important, that such resources would be used effectively.

We therefore call on donors to continue to raise their ODA to the levels required. We also call on them to consider a number of innovative approaches that have been proposed to finance the higher levels of ODA and to frontload it. These include the International Financing Facility (IFF) proposed by the United Kingdom, various types of
international taxations proposed by France, and the issue of SDRs and their use to finance
development.

As well as increase the volume of aid, there is also a need to improve its
effectiveness. The Second High Level Forum on Aid Effectiveness held in Paris in March
this year outlined the harmonization and alignment actions that need to be taken by donors
and developing countries alike. Accordingly, we call on Africa’s development partners to
implement the Paris Declaration and also call on regional member countries to strengthen
their national systems to make it possible.

We believe that efforts to raise ODA should be complemented by further debt
relief for African countries. Much has been achieved in this regard as a result of bilateral
actions and the HIPC initiative. Twenty-three African countries have so far qualified, with
14 having reached their completion points. And two more countries are expected to
qualify this year. More recently, the United Kingdom, the United States, and Canada have
recommended the cancellation of the debt owed to the international financial institutions,
with the United Kingdom proposing that it be financed by additional contributions from
the donor community.

We strongly support such debt relief initiatives. But as with the HIPC initiative, we
urge that due care be taken to ensure the additionality of debt relief resources and to
safeguard the financial integrity of the international financial institutions (IFIs). We would
also encourage our regional member countries to use effectively the new resources that
may be freed by additional debt relief to finance poverty reduction programs.

The third major area of donor support critical for African countries is in the area of
trade. The AGOA initiative of the United States and the Everything but Arms of the
European Trade are helping African countries boost their exports. Nonetheless, there is a
general consensus that more needs to be done to dismantle trade barriers and, as
importantly, to remove the agricultural subsidies of the industrial countries. Although the
2004 WTO ‘July Framework’ agreement had given fresh impetus to the Doha Round of
WTO negotiations, the successful conclusion of the Round by the end of the year is not yet
assured. We therefore call on all countries – both industrial and developing -- to put their weight behind the framework to assure a successful outcome.

In sum, it is essential that Africa’s development partners significantly scale up ODA, provide deeper debt relief, and improve market access for Africa's exports. There can be little doubt that Africa’s prospects for growth and development have improved considerably in recent years. Increased donor support would therefore help ensure the success of current development efforts and contribute immeasurably to improving the human condition in Africa.

**Bank Group Operations in 2004 and Future Challenges**

Your Excellencies,
Ladies and Gentlemen,

Permit me now to turn to the operations and activities of the Bank Group in 2004 as well as the challenges it faces as it prepares itself to consolidate and expand its operations to support a resurgent and emergent Africa.

I am pleased to report that, for the Bank, 2004 was indeed an exceptional year in terms of its financial approvals, disbursements, net income, and resource mobilization. In addition, the Bank Group launched four important new initiatives – the Rural Water Supply and Sanitation Initiative, the Post-Conflict Countries Facility, a new policy to govern its support to middle-income countries, and new policies and strategies to guide its private sector operations. The Bank also adopted an Action Plan -- including an Accelerated Decentralization Program -- to further improve the quality of its operations and to expand its presence in its regional member countries.

**Bank Group Operations**

In 2004, the Bank Group approvals stood at nearly $4.4 billion, the highest level of lending, grants, and debt relief operations in the Bank’s history. Of this amount, 2.4 billion was in support of non-concessional operations through the ADB window, including
private sector operations, amounting to $255 million. The balance of $2 billion was for concessional operations in our low-income countries, financed through the ADF and NTF windows. Disbursement levels, at over $2 billion, were also the highest ever, representing an increase of almost 34 percent over the previous year. In addition, through its co-financing operations, the Bank succeeded in mobilizing $3 billion, raising the total amount of resources generated for its regional member countries to $7.4 billion.

As well as provide loans and grants, the Bank Group continued to provide debt relief under the HIPC initiative. It has, to date, extended nominal debt relief of over $4 billion to 23 countries, including support to the Democratic Republic of Congo in the past year for an amount exceeding $1.8 billion. In this regard, I would like to express my appreciation to the European Community and to ADF donors who have provided resources to cover some 80 percent of the cost of the Bank Group’s HIPC debt relief.

As in previous years, Bank Group operations were guided by our country strategies that take into account the specific and different needs of our countries. In middle-income countries the emphasis continued on supporting programs to improve economic competitiveness by financing key reform programs, including upgrading of infrastructure and support to private enterprise. In low-income countries, operations focused on poverty reduction, with priority given to agricultural development, rural infrastructure, education, and health. Further, the Bank Group supported capacity building programs by offering training through its African Development Institute and the Joint Africa Institute (JAI), with close to 2,000 participants taking part.

Support to regional cooperation and integration was another major area of operation, with a particular focus on providing support to the NEPAD initiative. As Your Excellencies are aware, the Bank has assumed the leadership role in infrastructure and banking and financial standards, and it is working closely with the ECA in the area of economic and corporate governance. It has also provided grants to Regional Economic Communities to strengthen their capacity to deal with NEPAD issues. The Bank is, in

1 As is customary the operations of the Bank are given in US$ for ease of reference. The Bank’s monetary unit is the Unit of Account (UA). The UA is equivalent to the SDR.
addition, providing technical assistance to support NEPAD’s African Peer Review Mechanism.

In infrastructure, the Bank has drawn up a NEPAD Infrastructure Short Term Action Plan, which outlines priority investment projects and programs for the period 2002-2007, estimated to cost $8 billion. The Bank has already approved over $500 million to finance projects identified in the plan, and has mobilized a further $1.6 billion from other sources to co-finance these projects. It is also in the process of establishing a multi-donor infrastructure fund, with contributions from Canada and Denmark, to assist regional communities with the preparation of feasibility studies for infrastructure projects. The Facility is expected to be approved by the Board of Directors soon after the Annual Meetings. Work is also underway to prepare a medium to long-term strategic framework for regional infrastructure, in close collaboration with the NEPAD Secretariat, the regional economic communities (RECs), the World Bank and the European Union. The Plan is expected to cover all the sub-regions of the Continent as well as all infrastructure sectors.

To enhance the effectiveness of its interventions, the Bank has continued to strengthen its project preparation and design work as well as the management of its portfolio, including more frequent and focused supervisions. An important step in this regard has been putting in place a results-based management system for tracking performance indicators and measuring results. Clear and measurable indicators of expected performance outcomes are now becoming integral parts of all project and policy documents.

In addition, at the regional and global levels, the Bank is fully engaged in the harmonization and alignment agenda. In 2004 it co-hosted, with the World Bank, the Marrakech Second International Roundtable on Managing for Results as well as the African Regional Workshop on Harmonization, Alignment, and Managing for Results in Dar-es-Salaam, Tanzania. And in cooperation with partner agencies and regional member countries, the Bank is streamlining and harmonizing its own procedures to align them to systems used by our regional member countries, with the objective of reducing for recipient countries the burden of high transaction costs.

Financial Outcomes
Your Excellencies,
Ladies and Gentlemen

The significant improvements in our operations have been accompanied by similar progress in its financial management. The Bank Group continued to develop and implement financial policies designed to ensure that its financial assets and liabilities are deployed in an optimal manner. As a result, it has continued to generate a healthy level of earnings over the past decade, further solidifying the financial base for its development assistance activities. For 2004, the combined income from the three windows of the Bank Group stood at a record $352 million.

Resource Mobilization: the ADF-X Replenishment

The year 2004 was also particularly important in terms of mobilizing new concessional resources through the African Development Fund. State Participants in the ADF agreed on replenishment level of approximately US$ 5.4 billion for the ADF-X period, 2005-07. This represents an increase of 43 percent over the actual resources mobilized under ADF-IX and is the highest replenishment in the history of the Fund. The record level of replenishment signifies the continued commitment of ADF donors to support Africa’s development efforts as well as an affirmation of their confidence in the reforms undertaken by the Bank over the last ten years.

The framework for Fund operations under ADF-X incorporates a number of significant new features:

- **First**, the level of grant resources has increased from 7.5 percent under ADF VII and VIII to 18-21 percent under AFD-IX and to about 44 percent under ADF-X, with 26 countries or two-thirds of the eligible countries expected to receive ADF assistance solely in the form of grants.
- **Second**, the special allocation for multinational projects has more than doubled to over $800 million to allow the Fund to provide additional financing for such projects, particularly in the context of the NEPAD initiative;
- **Third**, the increased envelope of resources will allow our countries to allocate more resources to water supply and sanitation, in line with the Bank’s Rural Water Supply
and Sanitation Initiative. Up to 30 percent of the Initiative’s cost in the next three years – equivalent to $1.8 billion -- is expected to be covered by resources from ADF-X; and

- **Fourth**, an initial allocation of approximately $150 million -- has been made to support the Bank’s Post-Conflict Country Facility, with a commitment to increase this amount if required.

**New Initiatives**

Your Excellencies,

Ladies and Gentlemen,

In 2004, the Bank continued to respond to the emerging challenges facing its regional member countries and play a leadership role by launching four major initiatives.

- The first is its *Rural Water Supply and Sanitation Initiative*, which has the goal of accelerating access to sustainable water supply and sanitation in rural Africa and increasing coverage to 80 percent by 2015. The investment requirements up to 2015 for the Initiative is estimated at over $14 billion and is expected to be raised by leveraging additional resources from multilateral, bilateral, as well as national, private and community sources. The Initiative won the support and endorsement of African countries and their development partners at the International Conference organized by the Bank in April this year, and co-hosted by France. We are therefore confident that the required resources will be mobilized over the life span of the Initiative and we will work with our regional member countries to achieve the program’s ambitious targets.

- The second major initiative is the establishment of the Bank’s Post-Conflict Countries Facility (PCCF) with an allocation of approximately $150 million over three years from the net income of the Bank and an additional $150 million from the African Development Fund. The funds would be used on a case-by-case basis to assist post-conflict countries that meet specific criteria to clear their arrears with the Bank Group in close collaboration with other donors. Two countries – Burundi and Congo – have already benefited from the Facility. Their arrears to the Bank Group were cleared by using resources from the PCCF and by mobilizing additional funds from the European Union and bilateral donors.
The third is the new initiative for the Bank’s Operations in Middle-Income Countries. The main objective of the new initiative is to establish a new development partnership with middle-income countries that takes into account the challenges they face. Accordingly, the Board of Director has approved the following measures:

- *First*, the elimination of commitment fees on all new sovereign-guaranteed loans and the expansion of the commitment fee range for non-sovereign guaranteed loans from 0.50 to 1 percent to 0 to 1 percent;
- *Second*, the reduction of the lending spread from 50 basis points to 40 basis points on new sovereign loan as well as a simplification of the loan pricing structure; and
- *Third*, the reduction from 120 days to 60 days of the period for the publication of Environmental Impact Assessment for Category 1 private sector projects.

And earlier this year, the Board of Directors recommended to the Board of Governors that it approve a transfer to the Middle Income Country Trust Fund $23 million from the Bank’s 2004 Income. This will give the Bank the possibility to finance, in the form of grants, the technical assistance needs of these countries.

The *fourth* new initiative is the revised policy for promoting the private sector in our regional member countries. As Governors would recall, the Bank has been active in supporting the sector across the Continent. It has to date approved over $3 billion aimed at supporting small and medium enterprises (SMEs) and infrastructure. The new policy adopts a more holistic approach by providing support to the strengthening of the environment for private sector development, promoting indigenous entrepreneurship -- with a particular focus on small and medium enterprises -- and supporting public-private partnerships. The policy also envisages the mix of non-concessional and concessional resources in eligible countries to finance the public costs of such partnerships, as well as the private investments related to such partnerships.

*Meeting Future Challenges: The Action Plan to Improve Bank Group Operations*

Your Excellencies
Ladies and Gentlemen,
While the Bank Group has, in the last decade, made impressive gains in all aspects of its operations, it cannot afford to sit on its laurels. As Africa’s development efforts intensify with the support of its development partners, the Bank must continue to position itself to play a central role. This is what its shareholders expect of it and this is the role that independent groups have called on the Bank to play. Indeed, there can be little doubt that a resurgent and emergent Africa needs a strengthened and effective Bank to assure its development.

To enable it to play such a role, the Bank has adopted a three-year Action Plan to improve its operations and it has also undertaken a number of additional measures to strengthen its organizational structure. The Action Plan has the following key objectives:

- **First**, it aims to deepen the Bank’s commitment to enhancing development effectiveness by strengthening diagnostic studies and country programming, managing for results, establishing the Bank as a leading knowledge institution, and by pursuing the harmonization and alignment agenda;
- **Second**, it aims at a strategic positioning of the Bank through enhanced participation in regional and global initiatives such as NEPAD, the Rural Water Supply and Sanitation Initiative, and building and strengthening strategic partnerships;
- **Third**, it aims to build the Bank’s institutional capacity to deliver better on its key development mandate by realigning resources to corporate priorities, increasing staffing for key activities, reinforcing the control framework, and streamlining business processes; and
- **Fourth**, it aims at putting in place an accelerated decentralization program – with the opening of 16 offices in 2005 and 2006 and bringing the total to 25 -- and establishing other important structures such as the Inspection Panel, the compliance review, anti-fraud and anti-corruption mechanisms.

The Boards of Directors have endorsed the financial framework for the implementation of the Action Plan. This envisages an augmentation, over three years, of the Bank’s budget by close to $80 million, constituting an increase of approximately 40 percent over the 2004 budget. The Boards of Directors approved the first tranche of this increase in December 2004 in the framework of the 2005 budget. The implementation of
the Action Plan will enable the Bank to recruit an additional 200 staff over the next three years. Together with the recruitment of some 100 professional staff in 2004, this would lead to a 50 percent rise in the current professional staff complement. This substantial increase does not include the approximately 300 staff who will be recruited locally to assist in the operations of the field offices.

Along with the strengthening of its institutional capacity, the Bank has also taken a number of measures to further enhance the transparency of its activities and to strengthen internal safeguard mechanisms. The Boards of Directors have agreed to disclose the summary of their proceedings. In addition, the Bank has taken additional measures to ensure that its policy and project documents are made promptly available on its website. And to combat fraud in the operations that it finances as well as in its internal operations, the Boards of Directors in 2004 approved Guidelines on Preventing and Combating Fraud and Corruption in Bank Operations. It also approved the establishment of an Independent Review Mechanism to investigate cases of possible non-policy compliance in Bank financed projects. In addition, the Bank will soon establish an Anti-Corruption and Investigation Unit.

**Concluding Remarks**

*Your Excellencies,*

The many achievements of the Bank Group in 2004 represent, for us, the culmination of the reform program that we undertook over the last decade. These extensive reforms, as Honorable Governors would recall, encompassed all aspects of the Bank – its system of governance, its operations in its regional member countries, its financial management, and its organizational structure. Alongside these extensive reforms, the Bank Group was also able to undertake a successful program of resource mobilization – amounting to a total of $25 billion in the last decade.

Despite its full engagement in its reform program, I am pleased to note that the resources mobilized have been used effectively. The ADF VII, VIII, and IX resources were fully utilized during their respective operational periods to finance priority operations. These enabled the substantial rise in Bank Group approvals for our low-
income countries. Operations through the ADB window also rose considerably following the financial reforms and the introduction of new products, although in recent years the growth has slowed, as middle income countries have expanded their access to other financial sources. And some have made prepayments on their outstanding loans, totaling $2 billion over the past three years, as their financial situation improved and their reserves strengthened.

It is gratifying for me that the Bank Group has succeeded in making these substantial gains during the last decade, despite the challenging environment in which it operates and the considerable pressure that its management and staff faced. I wish to remind our Honorable Governors, in this regard, that the Bank is a relatively small institution, particularly in comparison to its sister regional development banks. Indeed, the extensive programs of reforms, the successful resource mobilization, and the substantial increase in operations have all been achieved thanks to the strong support of Governors and the Boards of Directors and the extraordinary dedication, resilience, and hard work of the staff, as evidenced by, among other things, the successful temporary relocation of the Bank’s activities.

In the coming few years, the challenge facing the Bank Group will be to build on the substantial gains of the last decade and to use effectively the considerable resources at its disposal for new lending and grant operations. These amount to nearly $14 billion -- consisting of $8.6 billion from the ADB window and $5.4 billion of ADF-X resources. In addition the Bank Group has $8 billion that will be disbursed in the coming years to finance already approved projects.

To enable the Bank to meet the challenges before it, the Boards of Directors have, as I noted earlier, approved the three-year Action Plan to chart the way ahead, to enhance the development impact of its operations, and to strengthen the Bank’s institutional capacity. The Plan represents a further stage in the development of the Bank over the last decade and is a continuation of the major reforms of the Bank, as reflected in the Vision Statement of 1999 and the Strategic Plan of 2002.

Your Excellencies,
Last year, the Bank marked its 40th Anniversary and we celebrated the milestone by noting that in its forty years of existence it had become an indispensable pillar for Africa’s development, having made available to its regional member countries close to $120 billion, of which $53 billion was from its own resources. And in this connection, let me take this opportunity to thank the Government of Cote d’Ivoire for hosting the Bank during these last four decades. It is our hope that propitious conditions will be restored in this great country allowing the Bank to return to its headquarters in Abidjan. Let me also thank the Government of Tunisia and President Zine El Abidine Ben Ali for facilitating the temporary relocation of the Bank’s activities to Tunis.

Finally, this year, the Bank is in transition, as you will elect a new President at these Annual Meetings. And in this connection, as Your Excellencies would expect me to say a few words, I wish first to assure our Honorable Governors that the Bank and management have maintained their neutrality throughout, and that all the necessary technical as well as legal actions have been taken to ensure a smooth election. And, second, let me also assure Your Excellencies that I will make my services available to facilitate a smooth transition.

And as I pass on the mantle of leadership to the new President, permit me to share with you my hopes and aspirations for the future of the Bank.

- **First**, I believe it is critical that the Bank continues to focus its operations on poverty reduction as there is no nobler goal for our institution than to help lift the millions of Africans still living in abject poverty. The Bank would therefore need to be selective and focused on this central mandate.

- **Second**, it is my hope that the Bank will maintain its high standards of professionalism and integrity in managing its human resources. It is particularly important to safeguard its transparent and merit based process for recruitment, promotion, and separation of staff. This is the cornerstone that ensures integrity and professionalism, enabling the Bank to attract high-caliber staff as well as maintain the high morale and dedication of its staff. I wish to stress, in this regard, that the staff has consistently worked at full capacity under often very trying conditions. Indeed, I am convinced that the Bank has made more than optimal use of its resources.
• Third, it is essential that the mutual understanding, cooperation, and respect that has developed over the last decade among the decision-making organs of the Bank – comprising the Boards of Governors, the Boards of Directors, and Management – is preserved. It is important to maintain the integrity of these relations and that all decisions are taken within the established framework that has adequate checks and balances.

• Fourth, it is imperative that the Bank safeguards its solid financial footing and discipline as evidenced by the build up of significant reserves and the Bank not experiencing a single budget overrun in the last ten years. In this regard, I wish to remind our Honorable Governors that there is a strong link between the ability of the Bank Group to discharge its development mandate and its financial solidity.

• Fifth, I hope the Bank will maintain the respect and reputation that it has won over the last decade among its development partners. Indeed it must preserve and build on the many partnerships that is has nurtured and strengthen its relations with both multilateral and bilateral organizations, and in particular with the Bretton Woods Institutions.

• And finally, sixth, it is critical that the Action Plan is implemented effectively and prudently to consolidate and build on the gains of recent years. This will enable the Bank to enhance its development effectiveness by strengthening its knowledge generation and dissemination capacity, improving the quality of its country strategy papers and operations, making the entire institution results-oriented, strengthening the management of its portfolio, including the fight against corruption, particularly in the procurement of goods and services under Bank-financed projects.

Your Excellencies,
Ladies and Gentlemen,

Permit me to conclude by thanking you once again for the support you have given me personally and to the Bank Group these last ten years. The support of your Governments and, in many instances, at the level of Heads of State was essential in helping us push through the program of reforms and renewal that have enabled the Bank Group to become what it is today. I wish also to express my deep appreciation to the
Boards of Directors who despite the many challenges before them succeeded in discharging their many duties admirably. Let me also thank the staff of the Bank whose hard work, diligence and sense of duty – often in the face of extraordinary challenges -- have helped rebuild our institution and assure its transformation.

Today our Continent stands at a critical crossroads. Having gone through a period of far-reaching political and economic reforms, it is now ready to consolidate its gains and make the transition to a higher development plane. In this task, it will require the sustained support of its development partners. It will also require the intellectual, operational, and financial services of a strong regional bank. I am confident that the Bank, having come so far in the last decade, will indeed fulfill the high expectations of both its African and non-regional shareholders and continue to be a central player in Africa’s development.

I thank you for your kind attention.