African Development Bank Group  
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Speech by the Interim Governor for Belgium

Mr. Franciscus GODTS

The Chairperson of the Boards of Governors  
The President of Bank,  
Honourable Governors,  
Ladies and Gentlemen,

First of all, permit me to thank the people and the authorities of Cote d’Ivoire and the city of Abidjan for warmly welcoming us.

Our meeting comes at a time when the global economy is beginning to recover following two years of severe crisis. The 2010 Economic Outlook document and the Preparatory Note on the 2011 Development Report clearly summarize the impact of the current crisis on countries of the region. The economic trend of Africa once again shows that economic performance is still overly dependent on the exploitation of natural resources and vagaries of the weather. The recession in industrialized and emerging countries has triggered a decline in demand for export commodities from the region as well as diaspora remittances resulting in a downturn in regional growth and an aggravated social situation. Similarly, it is through an increase in the demand for commodities that growth is expected to rise this year. The prevailing poverty is a daunting obstacle to economic diversification that makes our efforts more than ever necessary and our priority areas just as relevant. For now, we have to hope for an accelerated economic recovery in the more advanced countries that would lead to a palpable improvement in the general situation of the continent.

The ADB Group and its shareholders have been receptive to the problems facing regional countries. They have intensified their commitments to assist their beneficiary countries absorb the shock. Going forward, the ADF contributors have agreed to consider a replenishment of the ADF resources and the Bank’s shareholders have recently arrived at a consensus on the modalities for the impending capital increase of the Bank.

Belgium is willing to raise its equity shares by 200%, 6% of which is to be paid. We were among the first to recognize the need for the Bank to be recapitalized, but a three-fold recapitalization is highly ambitious. Indeed, most regional countries are eligible for concessional resources and only a minority is in a position to borrow from the Bank, whereas the non-sovereign borrowers, essentially the private sector and local authorities, are not likely to be able to use such a sizable volume of resources in the near future. The World Bank has estimated that low income countries’ share of private capital flows fell to virtually zero, without any hope for a recovery in the near future. Furthermore, preventive measures intended to avert debt overload hamper the
absorptive capacity of traditional borrowers. The positive aspects of the GCI include the fact that this sharp rise in the institution’s growth will enable it attain a critical size which will in turn allow it, with the sufficient resources, to carry out costly initiatives such as decentralization, an area in which past attempts have failed precisely because of lack of resources. Henceforth, this will no longer be the case.

Regarding the earlier than planned exhaustion of the ADF’s commitment capacity and the imminent agreement on the next replenishment, Belgium will contribute to ADF 12 and strive to maintain its traditional share in a difficult fiscal context that will compel it to strike a balance between various development aid priorities. Without taking into account the fiscal challenges that accounted for the fact we attained only 50% of the projected ODA in Gleneagles, it is obvious that the ADF replenishments cannot increase as significantly as recent ones and that there are limitations to net income transfers from the Bank to the Fund. It is for this reason that a political will is required in order to find innovative formulas for development aid financing, a theme which features in the agenda of the Belgian presidency of the European Union for the second half of 2010.

Belgium also regrets the fact that in the deliberations on ADF 12, the plenipotentiaries did not deem it necessary to address the issue of the use of ADF grants to subsidize interests on loans contracted for the implementation of projects and which will provide leverage on the Fund’s resources as well as enhance the impact of its interventions. This modality for the use of concessional resources and a more frequent blending of ADB-ADF resources will help justify the increased use of the Bank’s resources while reducing the scarcity of the Fund’s resources, as is the case for regional integration which remains at the same time a statutory priority and a poor relation of our assistance. Moreover, this mechanism is used in other institutions such as the EU-Africa Infrastructure Trust Fund. We can therefore only commend the revision of the debt sustainability framework to take into account the specificities of each country and the possibility of a reasonable re-engagement by the ADB, albeit in a modest manner and on a case by case basis, in Sub-Saharan Africa that will enable it to safeguard its regional outlook.

Lastly, the negotiations on the replenishment of the ADF culminated in a revision of the sharing of operational costs between the Bank and the Fund. It is welcome news that this revision helped reduce the ADF’s share of administrative expenditures. However, it is worth recalling here that firstly, this exercise must be objective, despite its limitations and secondly, the real benefits of such an operation may be questionable. Indeed, the ADB is already the most generous development bank in terms of net income transfer to its concessional window. To the extent that any increase in the Bank’s share of expenditures decreases this income, we will end up giving back with one hand what we take with the other.

Belgium has also voted in favour of the African Legal Support Facility which aims to assist indebted countries combat vulture funds. It has been able to ascertain for itself the usefulness of the facility and encourages others to do same. This brings me to an issue over which local authorities feel handicapped vis-à-vis their counterparts – the inability to obtain fair prices for the exploitation of their natural resources, often only receiving the smaller portion of the value added, be it in the mining, energy or agricultural sector. We mention the agricultural sector because nowadays, States rent their agricultural land to foreign farmers who export the entire
harvest. The Bank should be in a position to propose technical assistance to the countries that so desire, so as to enable them to evaluate the appropriate financial, economic and social price that those exploiting these resources should pay.

To conclude, Mr. Chairperson, Belgium is also reiterating its support and confidence in the institution, which, under your stewardship has managed to earn its place among international financial institutions of reference.