

The African Development Bank Group



Opening Statement by Omar Kabbaj,
President of the African Development Bank,
at the Fifth ADB-OECD International Forum on African Perspectives:
2005: What is New for Africa?

Paris, France
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Introduction

Your Excellency, Ambassador Basilio Horta, Permanent Representative of Portugal to the OECD and Chair of the OECD Development Center Governing Board,

Your Excellencies Ambassadors to the OECD,

Professor Louka Katseli, Director of the OECD Development Center,

Distinguished Participants,

Ladies and Gentlemen,

On behalf of the African Development Bank and on my own behalf, I am delighted to welcome you all to the Fifth International Forum on African Perspectives jointly organized by the Bank and the OECD Development Center. Let me, at the outset, thank the Center and, in particular, its Director, Professor Louka Katseli, for having worked with us closely in organizing this Forum. Over the last five years, our two institutions have established close collaborative working relations as evidenced not only by the broad interest that these Forums have generated but also by the quality of successive editions of our joint publication, the *African Economic Outlook*. I am pleased to note, in this regard, that the Outlook has now become a much-respected international publication on African development issues.

I would also like to express my deep appreciation to the distinguished panelists who have kindly accepted our invitation to take part in the Forum. We look forward to your interventions and your insights on the development challenges facing African countries and their development partners.

Although the staff that worked on the 2004/2005 edition of the *African Economic Outlook* will be making presentations to you on the findings of the Report, I would like to take this opportunity to share with you our assessment of the major

developments on the Continent and the policy challenges facing African countries and their development partners. I would also like to take this opportunity to highlight some of the recent activities of the African Development Bank in support of the development efforts of its regional member countries.

What is New in Africa?

Distinguished Participants,

As you are all aware, the topic for our Forum this year is *"What is New for Africa in 2005"*. The question is obviously not an innocent one as there is much that is new and positive, and of great interest for Africa this year. Indeed, as I noted at the Bank Group's Annual Meetings just two weeks back, one could make the case that the Continent is perhaps going through one of the most favorable periods in its recent history, marked by an interesting confluence of developments. Let me highlight the most important ones.

First, it is evident that conflicts have abated over much of the Continent and most African countries are today at peace. To be sure, there are continuing conflicts in some countries and there are dangers of new ones breaking out. Nonetheless, in comparison to the state of affairs just a decade back, there is little doubt that much progress has been made.

Second, considerable progress has also been made in establishing democratic institutions across much of the Continent. And although the institutions of democracy, as well as systems for good governance, need to be strengthened in many countries, I believe we would all agree that the political face of Africa has changed much -- and for the better -- in the last decade.

Third, after an extended period of economic crisis that necessitated deep reforms, an increasing number of African countries are beginning to register and sustain notable economic turnarounds. Major economic gains are being made as a result of these reforms -- I will discuss these a little later.

Fourth, the NEPAD initiative has gathered momentum, giving a boost to regional cooperation and integration arrangements and fostering democracy, good governance, and sound economic stewardship across the Continent. It is encouraging to note, in this regard, that nearly half of the Continent's countries have signed up to join the NEPAD African Peer Review Mechanism (APRM).

Fifth, the international community -- including the G8, the European Union, and the Nordic Countries -- is mobilizing itself to scale up its support to African countries. Indeed, at the forthcoming G8 Summit in Gleneagles, the major recommendations of the Commission for Africa -- such as a doubling of ODA to Africa and 100 percent debt relief -- are expected to be taken up. Also, 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.

Finally, and *sixth*, Africa has in recent years faced a favorable external environment as evidenced by high prices and demand for some of its primary commodities, notably oil and metals. This is translating into substantial windfall gains for a number of countries. In this connection, we have urged them to take advantage of these windfalls to accelerate their reform programs and strengthen their fight against poverty, with a sizeable share put aside for future use -- as some have started to do -- as these windfalls are likely to be temporary

The combination of these favorable developments is beginning to have a noticeable impact on Africa's development prospects. These are fully elaborated in this year's *African Economic Outlook*, which will be presented to you a little later. A few indicators, however, show how far the Continent has come in the last decade and a half:

- 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.
- Africa's inflation rate averaged close to 20 percent in the first half of the 1990s -- by contrast in the last five years it has averaged 10 percent.
- 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.

The year 2004 was, in particular, an exceptional one for Africa in terms of its overall economic performance. The Continent's average GDP growth rate, at slightly over 5 percent, was the highest in eight years, confirming the positive trend of recent years. Although there were variations across countries and regions, 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.

Seizing the Global and Regional Opportunities

Distinguished Participants,

While welcoming the improved economic performance, African countries, of necessity, need to keep their attention focused on their main development challenges – that of reducing poverty and improving the living standards of their populations. And in this respect, we would encourage them to make every effort to seize the opportunity created by the confluence of favorable developments to push through their development agenda. In particular, there is a need to redouble efforts to make progress towards achieving the Millennium Development Goals (MDGs).

In this regard, recent important studies – including the Report of the United Nations Millennium Project -- 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. Some key policy challenges warrant their close attention.

A central challenge for many countries is accelerating economic growth rates to higher levels and sustaining them, while at the same time ensuring that they are broad-based and benefit the poor. Critical in this regard is maintaining a stable macroeconomic framework while improving further the investment climate as well as making more resources available to key sectors. This requires a number of actions.

- The first is deepening governance reforms, with a particular focus on legal and judicial reforms. In particular, reforms to protect property rights and improving corporate governance would need to be given high priority.

- Another major focus is improving the state of infrastructure, as this is often a major barrier for private investment. This would require developing innovative strategies – and in particular new forms of public private partnerships to mobilize the enormous investment resources required.
- A third area of action is the need to deepen financial sector reforms to encourage more efficient domestic and foreign resource mobilization.
- And the fourth area of action must necessarily be on strengthening regional cooperation and integration arrangements, as these are essential for improving the global competitiveness of African economies.

Achieving the MDGs would also require that 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.

International Support for Africa's Development Efforts

Distinguished Participants,

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.

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 -- as reflected in the recent decision by 15 EU

countries to raise ODA to 0.51 percent of their GDP by 2010 -- and the United States has established the Millennium Challenge Corporation 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. 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 -- such as 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 for development -- to finance the higher levels of ODA and to frontload it.

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, a number of donor countries have recommended the cancellation of the debt owed to the international financial institutions. We strongly support such debt relief initiatives, but as with the HIPC initiative, we urge that due care is taken to ensure the additionality of debt relief resources and to safeguard the financial integrity of the international financial institutions (IFIs).

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 non-tariff 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 work together to assure a successful outcome.

The African Development Bank and Support to Africa's Development Efforts

Distinguished Participants

Before I conclude, permit me to say a few words on the support that the African Development Bank is providing its regional member countries as they seek to attain their development objectives and take advantage of the changing regional and international climate.

As participants in the Forum may be aware, the Vision Statement that the Bank Group adopted in 1999 guides the operations of the Bank. Accordingly, the overarching objectives of all Bank operations are the reduction of poverty and promoting sustainable economic development in its regional member countries. Towards this end, the Bank mobilizes both concessional and non-concessional resources to finance development programs and projects in its regional member countries, in addition to providing technical advice. Since its establishment some 40 years back, the Bank has made available close to \$120 billion to finance development programs in African countries, of which close to \$53 billion was from its own resources and with \$25 billion of these mobilized in the last decade alone.

I am pleased to note that, as with Africa, 2004 was an exceptional year for the Bank in terms of its overall activities. Bank Group approvals stood at nearly \$4.4 billion, the highest level of lending, grants, and debt relief operations in the Bank's history. In addition, through its co-financing operations, the Bank succeeded in mobilizing a further \$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.

In addition to its lending, grant, and debt relief operations, the Bank has given high priority to supporting regional cooperation and integration efforts with a particular focus on providing support to the NEPAD initiative. At the request of the NEPAD Heads of State Implementation Committee, 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 and is also providing technical assistance to support NEPAD's African Peer Review Mechanism.

And 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 in line with the MDG for this sector.
- The second is the establishment of the Bank's *Post-Conflict Countries Facility (PCCF)* to assist such countries clear their arrears with the Bank Group in close collaboration with other donors. Two countries – Burundi and Congo – have already benefited from the Facility.
- The third is the new initiative for the Bank's *Operations in Middle-Income Countries*, which aims to establish a new development partnership with middle-income countries, taking into account the challenges they face.

- The fourth is the revised policy for promoting the *private sector* in regional member countries. 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 many achievements of the Bank Group in 2004 represent, for us, the culmination of the extensive reform program that we undertook over the last decade. These reforms encompassed all aspects of the Bank – its system of governance, its operations in its regional member countries, its financial management, and its organizational structure. And while the Bank Group has, in recent years made impressive gains, it cannot afford to sit on its laurels. Accordingly, in December 2004, the Bank adopted a three-year Action Plan that aims to deepen the Bank's development effectiveness, improve its strategic positioning, build the Bank's institutional capacity -- including its research capacity -- and put in place an accelerated decentralization program to be closer to its clients.

This year, the Bank is in the midst of electing a new President and I will soon be leaving it at the end of my mandate. It has been a unique privilege to have served the African Development Bank in this capacity and it has also been extremely gratifying that my tenure at the Bank has coincided with the remarkable turnaround in the fortunes of Africa, and to have made a contribution, however modest. And in this regard, I value highly the strong relations that the Bank has established with many institutions -- such as its partnership with the OECD Development Center -- to further Africa's development prospects.

Concluding Remarks

Distinguished Participants,

Permit me to conclude by stressing once again that African countries are indeed facing propitious conditions for pursuing their development objectives. These opportunities should be seized by African countries to deepen their reform programs and accelerate their progress towards attaining the Millennium Development Goals. The international community, on its part, would need to re-dedicate itself to scaling up its support to African countries to enable them to realize their immense potential for development and improve the human condition in Africa. This year is indeed the time for such action. And in all such endeavors, I would like to assure you that the African Development Bank stands ready to do its part.

I thank you for your kind attention.