

STATEMENT AT THE ADF X MID-TERM REVIEW

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1. I am pleased to extend a warm welcome to all of you for this ADF X Mid-Term Review. My deep appreciation goes to the Government of The Netherlands for hosting us and for the warm hospitality.

2. It is now nearly 15 months since I assumed office as Bank President. These have been exciting, challenging months – to consolidate the Bank’s achievements and lay ground for a more effective institution. The internal reforms are broadly on course, even if, sometimes bumpy or in some areas, the pace slower than we would have liked. I have, over the last year, traveled extensively across Africa. I thought it was important that I visit a cross section of our RMCs, early in my tenure, to see for myself the work of the Bank on the ground and to hear from the authorities and stakeholders what they want from the institution today. I have learnt many lessons, country specific as well as those generic.

3. I have been very pleased with the overwhelming responses I have received. African leaders have made clear their high expectations, the importance which they attach to the AfDB. They regard it as their Bank, a vital force for the development of Africa. They have also shared with me their disappointments; lack of an effective field presence, a slow cumbersome bureaucracy and limited agility. They want it to be more of a channel for external assistance and a strong voice for Africa on development issues. I have listened, learned and attempted to explain – including what is not always obvious; that we, after all, rank as Africa’s 6th partner, well behind several bilaterals and other multilaterals. I have come back, convinced more than ever before, about the importance of tough decisions on selectivity; but in the context of a more effective partnership with other donors to ensure that no key domain is left unattended to. The centrality of an effective field presence for a more effective portfolio management, policy dialogue and meaningful division of labour with other partners is as urgent as ever.

4. I have also engaged with leaders of sister pan-African institutions, the AU, the ECA and NEPAD as to how best to synergize our action. I have attended two AU summits, including one dedicated to issues of Regional integration and the rationalization of Africa's regional economic communities.

5. I have responded to innumerable international and bilateral requests for visits and to speak about my vision for Africa and the role of the Bank. I attribute this to the continuing high degree of interest in Africa the desire to see more progress, more quickly and a stronger role for Africa's own institutions.

6. At a recent gathering of Economic experts in Tunis, organized under the auspices of our new Chief Economist's Office, there was a broad concurrence that today, Africa faces its best opportunity for growth in 30 years. Across much of Africa, economies are growing, replacing pessimism with greater confidence, assertiveness and optimism. Studies are showing that even outside the natural resource rich countries where the commodity boom is driving growth – eleven (11) low income, non oil-exporting countries are experiencing real growth above 5%; underpinned by peace, sound economic management, cumulative years of reform, debt cancellation, effective use of aid, an improved investment climate and in some cases positive neighborhood effects.

7. However, amidst this generally buoyant mood, concerns remain; not all countries are growing and the sustainability of those who are doing well is not always certain and vulnerability remains high. In several cases, this economic growth is dependent on special factors, in particular, temporary terms of trade windfalls. Africa is a heterogenous continent; the challenges differ from country to country. For some, the priority is to restore and sustain peace, for others, it is combating corruption and improve on management of natural resources, yet for others it is how to access development finance while sensibly managing debt. Risk of reversals, of new unsustainable debt accumulation,

of sudden violent conflicts and the high costs this imposes on the country and regional spillovers remain significant.

8. In the few months I have been in office, and from my field visits (over 15 countries), I have a strong conviction that this window of opportunity is real, unique and must be grasped. For that we must galvanize a sense of ambition – measured ambition, a sense of urgency yet of realism – given the fact that to build the capacity and the resource base will take time.

9. Over the years, across several ADF replenishing cycles, you have stuck with the Bank through bad and good times. This is highly appreciated across Africa. It is my conviction that while vigilance must be continuously reinforced especially on internal governance and fiduciary environment, the bad days are behind us. We are a stronger Bank financially and operationally. We now have the potential to fulfil our common aspirations and to make a bigger contribution to Africa – we will need your continuing support in the spirit of partnership and mutual accountability.

10. The papers before you articulate where we are and provide details on progress made to date under ADF-X. Today, in order to provide you some broader perspectives and context for your work, I want to share with you some sense of our strategic direction in this final year of ADF X and looking ahead to the next few years. We hope to share with you the progress we have made and areas where there is not enough progress and where we need to do more. First, the use of the available resources: our balance sheet remains strong, and our AAA rating deserved. As I mentioned earlier, notwithstanding the very considerable disruption caused by our move to a temporary home in Tunis, the restructuring over the past year, and the introduction of new management, the lending programme has largely met the targets set under ADF-X. This is a great credit to our staff and reflects the resilience of the institution. I can assure you that next year we will exhaust the resources available under ADF-X. Indeed we have very substantial demands that we have not been able to meet: such as the multinational projects and water. Equally, we

have seen that we are unable to respond as we should in post-conflict countries, for example in Liberia, due to lack of appropriate instruments.

11. The progress of the institutional reform agenda, informed in large part by the ADF evaluation report – is broadly satisfactory. Now that an excellent top management team is in place, and progress in recruiting middle level cadres is accelerating, I expect the pace to quicken. In the meantime:

- (i) A new structure that reflects the dynamic needs of RMCs is taking shape switching more resources to operations. About 60% of staff are now directly engaged in delivery.*
- (ii) Country Departments have been put in the driver's seat and we are enhancing the dialogue with RMCs. As I hope your Executive Directors will attest, we are already seeing results in a more focused and selective operational program for 2007.*
- (iii) An Operations Committee has been established which will be accountable for coherence, coordination and strategic selectivity. It will be the key vehicle to drive the process/accountability changes focused on addressing real problem with quality at entry.*
- (iv) We have almost met the targets to open field offices. We shall now concentrate on strengthening the fiduciary environment, ensuring they are empowered, their work is tailored to particular country needs, and that they produce results. As I think you will hear from the Governor for Ethiopia, relatively modest changes can produce quickly dramatic practical benefits.*

- (v) We are significantly increasing delegation of authority to line managers, with appropriate checks, oversight and accountability. We will enhance budget process to give managers greater responsibility, allow them to use resources more effectively, and at the same time strengthen accountability for producing results.***
- (vi) We shall enhance and upgrade the procurement, financial management function to create a core of expertise, acting both as a quality assurance and a service unit with specific commitments to reduce processing delays significantly, and track progress. We will act on the business processes, to reduce layers, streamline and build accountability.***
- (vii) The Office of the Chief Economist is in the process of taking root and laying foundations for a “knowledge bank”. It will solidify our statistical capabilities, networking, and analytical work to support the functions of economists in the Bank, including those involved in sector work.***
- (viii) We shall strengthen internal institutional integrity and deepen the role of the Anti-Corruption Office. We have agreed with the other MDBs a common approach on corruption and the investigation capability and are coming forward to the Board with proposals on how to operate in risky environments.***

- (ix) We have begun a major programme to develop strategic partnerships with bilateral donors and other international institutions, IFIs, UN agencies, ECA, AU, NEPAD intended to go beyond coordination and create synergies, collaboration, sharing, thereby making selectivity and effective division of labour possible.**
- (x) An independent inspection function is now in place and operational and will be carrying out a vigorous advocacy campaign.**

12. Underpinning these efforts is a comprehensive HR reform programme meant to ensure that we have high quality staff, with the right skills, more diverse, with a reduced age profile and in particular with a better gender balance. This will be complemented by an enhanced performance framework that will encourage initiative, develop talent and reward excellence. I am impressed by the renewed interest in the Bank evident from the extremely large numbers of applicants to join the AfDB. For instance for 17 director and manager vacancies we had thousands of applicants. To ensure we get the best people, we have undertaken a major and wholly transparent recruitment effort making use of outside expertise from which we will learn as we proceed with recruitment for lower level staff. I have set targets for completion of the recruitment process, for a thorough induction programme, and I am confident that by the middle of 2007, we will have substantially increased the human capability of the Bank and reduced the vacancies to the minimum.

13. There are a number of areas where we can, and will do better:

- (i) Effective Portfolio management; There will be a sustained effort next year to improve portfolio quality and management. Working with the sector departments, the Country Directors and new Field Offices will be fully accountable for effecting improvements**

including an extensive portfolio clean up. We will ensure adequate resources are available for these purposes. I expect this to result in the cancellation of more than 100 dormant or non-performing projects amounting to about UA240M. We want to reduce the current excessive level of undisbursed resources of 5.7 bn UA and increase disbursement steadily.

- (ii) There is a significant way to go in building clear, monitorable results, indicators into individual operations, and to achieve better quality at entry. We do not yet have a performance framework against which to monitor our progress. Our initial balanced scorecard was not adequate for the purpose. We are presenting to the Board at the beginning of next year a proposed set of Key Performance Indicators at the corporate level which will inform, and also draw on information from performance indicators for each complex.*
- (iii) Recruitment has been too slow, and we have carried too many vacancies for too long. As I have indicated, we are taking steps to accelerate the process and recruit the staff we need and to begin cultivating the next generation of Bank managers and leaders. We will set clear targets for next year.*
- (iv) Resource allocation has been opaque, narrowly incremental, and driven by the pipeline rather than future strategic objectives and priorities. We have made some changes this year but will make major improvements next year. In this year, financial management has focused largely on controls and less on delivery. We will need to strike the right balance. We will make progress in 2007.*

- (v) Borrowers legitimately have been dissatisfied with the quality and speed of Bank services. We must strip away needless steps, bureaucracy, and build an internal service delivery culture.**
- (vi) Making faster progress on the harmonization agenda in accordance with “in country” conditions.**
- (vii) At the Annual General Meetings in Ouagadougou, I emphasized the point which many of you share, that we cannot do everything and should not try to do so. I spelt out the need to selectively build excellence in certain areas and focus efforts accordingly. My experience so far shows that while we all agree on the basic principles, this will be a hard slog requiring discipline, determination, and tough choices. We cannot do so alone. There has to be acceptance by our borrowing countries, and by our donors and a self imposed discipline on the demands made on the Bank. We, of course, understand it must be a gradual process – but working better with partners, creating synergies, harmonizing actions, leveraging our resources, and ensuring no domain is left unattended to will enable us to make faster progress. I look forward to your active support as we try to find a balance and giving enough weight to building durable, meaningful partnerships with other donors, including important new players.**

14. We are setting for ourselves ambitious targets. You would be right to demand results, and we are determined that we will deliver. I am confident that we are building solid foundations and increased capacity, as well as improving our efficiency and effectiveness. This will be the basis on which I hope that we can approach our discussions next year.

15. Operational experience over this ADF-X cycle has thrown up some key lessons that need attention. Performance based allocation, a sacrosanct principle, has shown its robustness that must be consolidated, but also a need for continuous adjustment. As the background papers explain, we have faithfully followed the requirements set for ADFX. But as you will all be aware, occasionally, the implementation experience has shown how it can occasionally produce perverse results, and an unhealthy degree of volatility – as we saw with the initial results this year. I do not think that we should try here to correct the formula in the short term. But what I think we should agree upon is that it can be simplified, and that the Bank be mandated to submit a proposal to Deputies as part of the ADF-XI replenishment process. We will of course be coordinating closely with IDA and other MDBs.

16. We need to reflect as to whether the instruments available to us fully meet our needs, and whether they enable us to deal effectively with the diversity and complexity of Africa. This is the case in some smaller middle income countries which have many of the characteristics of lower income countries; how to take into account vulnerability of countries to shocks and how best to address more effectively issues of regional integration and post-conflict situations.

17. Today there is consensus that faster, closer regional integration is critical for Africa. While the AfDB is mandated by the AU to play a greater role in this area; multinational lending is limited to 15% of the total. For 2007 we have excess demands for multinational and regional projects totaling over 750mUA. I hope we can look again at this issue in light of our experience and expectations and recognizing that no single allocation system is perfect.

18. Let me touch on a couple of areas where we would like deeper conversation and hopefully a step change: Private Sector, Knowledge and Voice, Governance and Post Conflict Countries.

19. Today, across most of Africa as the investment climate improves, private sector investment is picking up. Public-private sector partnerships are growing. Part of our contribution must be to consolidate this ever improving healthier investment climate and reduce the risks and costs of doing business. We will be so by directing our resources to unlocking those bottlenecks that impede Africa's competitive position, such as energy, roads and technical skills. We would like to step up our efforts considerably over the next few years, using all types of resources including greater scope for co-financing. As you will see from the background papers, we have to determine our comparative advantage and how to balance our sectoral interventions.

20. We are determined to make progress in building capacity for "voice" and to provide quality policy advice and support to our RMCs on how best "to do things": on economic reform, on private sector development, on the management of public finances, on stewardship of natural resources etc. As the review papers indicate this has not been an area of strength to date, but it is one we are now correcting with the advent of the Office of the Chief Economist. It is not the intention of the Bank to carry out this mission in isolation. It must be at the heart of an intelligent network, drawing on the best thinking within Africa as well as outside. It is not to be an academic exercise but intended to respond to the demands for policy relevant advice, for sharing of best practice.

21. In the process of restructuring the Bank, we have put in place a wholly new Department of Governance and Economic Management. I expect it to grow in activities and play a key role. Africa, more than any other continent, has suffered from failure at governance, including its extreme form – war and conflict – which accounts largely for the disappointing performance in Africa, including trend reversals in some hitherto well performing economies. Today, there is ground for optimism: in an increasing number of countries citizens are demanding and obtaining

greater accountability and improved voice and participation. A new assertiveness and confidence is evident everywhere. Our challenge is to sustain it, to prevent reversals and to work collectively for positive change. We want to build capacity and a framework to support RMCs to tackle corruption, help build effective states that are accountable and fair to the people, and which signals to citizens and other stakeholders that there are rules of the game and they work.

22. Three issues appear to be critical and interlinked: leadership, institutions and capacity. Only Africans can provide the needed leadership. Where that leadership exists, we will direct our efforts at supporting and building up those institutions which are critical for the effective management of the economy, and for the delivery of essential services. Where the right conditions prevail, we will use budget support to underpin and sustain progress.

23. The third challenge is the management of natural resources. Today, Africa's natural resources need no longer be "a curse" and we are determined to work closely with concerned countries in this domain. Ensuring transparent utilization of natural resources and the revenues they generate is critical. I applaud many African countries, natural resource rich, who have adhered to the Extractive Industries Transparency Initiative (EITI) which the Bank has fully endorsed. It is a good start, but it is only a start. Sound management of natural resources is above all ensuring that the exploitation and use of the country's resources benefit the citizens by spreading economic opportunities widely rather than piling up future unsustainable debt or an insidious struggle for control of the state and impoverishment of the majority of the people.

24. The final area is in Post Conflict and Fragile States: our facility for clearing the arrears (PCCF) has been a much welcome innovation. We are firmly convinced that as an African development institution, this is an essential part of our mandate. We are

mindful of the risks involved, which are considerable, but believe the benefits far outweigh the risks. Countries in conflict impose human suffering and economic decline internally, but also, huge spillover penalties on the neighborhood. Some analysis suggests that half the costs may be falling on neighbors. We have not been effective – all of us – in providing commensurate support “once guns have gone silent” and “the people have spoken”. The peace dividends are too long to come. Post-conflict recovery is a long painstaking process and we need to be more imaginative during that phase of translating democracy into practical, meaningful change for the people. We are at this moment, having conversation with the Board at informal session, attempting to develop an approach as to how best to operate and support countries emerging out of conflict, based on our institutional knowledge and operational experience. We will learn as we do, and adjust accordingly, but you will not be surprised to hear that, institution and capacity building is high on our agenda, to enable those states to function and own the process of reconstruction.

25. In conclusion, let me say that the Bank is poised to move, to make a difference. I regard this process we are engaged in as a shared endeavour, it is not simply the donors calling management to account. We are, together, responsible for the success of the Bank and for the contribution it makes to Africa. We are jointly accountable for the results. It is this spirit of positive partnership that I hope will guide our deliberations over the next two days and months ahead. This unique period of opportunity for Africa is exceptional; in the extent of the consensus on what now needs to be done by Africa itself and its partners. Africa has agreed on comprehensive principles to guide its own action there are disappointing setbacks, but broadly, we are seeing real progress on the ground. The next few years will test the strength of our political commitment, resolve, and effectiveness of implementation.

26. Let me express my appreciation to all of you for being here, for your support to the Bank, to our EDs, Management and Staff, who continue to exert their energies and talent to this exalting task of positioning the AfDB to make its contribution to Africa's challenges. I am certain there will, from time to time be setbacks, which we can, together, overcome. Let us maintain the momentum. No task is greater for Africa today.