

## **MANAGING NEW THREATS TO SUSTAIN MOMENTUM**

Statement By

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at the Opening Ceremony of the 2008  
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1. It is an honour and a privilege as I join President Armando Guebuza in warmly welcoming you to the Annual Meetings and to Mozambique. I express our profound gratitude to the Government and People of this beautiful country and the city of Maputo for the generous hospitality, and to commend the Mozambican people and their leaders for their achievements. The Bank is proud to have made a modest contribution.

2. Let me in your name say how truly honoured we are, by the presence of two distinguished African Heads of States: President Armando Guebuza and President Denis Sassou Nguesso. I want also to acknowledge, the eminent persons, my distinguished predecessors, leaders of sister institutions, partners from the world of finance and invited guests who have joined us today. I know you also join me in giving a very warm welcome to the delegation of our newest member, the Republic of Turkey.

3. Allow me once again to thank, the Tunisian people and Government, who continue to offer the Bank their generous hospitality. In the same spirit I extend our best wishes to the people of Côte d'Ivoire, our host country, as they move ahead in returning the country to normalcy, national reconciliation and lasting stability.

4. This Assembly, and its organs, have a packed agenda. We have, important statutory matters to consider; beginning with a review of the Bank's operational and financial performance as well as its delivery. But this is also a privileged moment to step back, and assess the economic condition of the continent and determine what together we can do, to accelerate progress on the ground.

5. At my first Annual Meeting in Ouagadougou, May 2006, I indicated to you my intention to set up a High Level Panel of Eminent persons, to help us with an independent reflection regarding the strategic direction of the Bank long term. I gave three reasons for doing so: First, the Bank was founded 45 years ago. Second: the World around us has changed enormously since then and THIRD, the international aid architecture in which the Bank operates had become vastly more complex.

6. I am grateful to the distinguished members of the Panel for accepting to take on this task. In your name, I particularly thank the co-chairs, former Mozambican President Chissano and former Canadian Prime Minister Paul Martin, to the Panel members and the technical team ably led by Callixto Madavo. This group of distinguished men and women in the world of business, development banking, governance, politics and academia, and who share the passion for Africa have brought enormous experience and talent to the task and discharged their task admirably. They have produced a Report "Investing in Africa's future – The AfDB in the 21<sup>st</sup> Century" which has attracted a lot of attention, both within and outside Africa. I thank them profoundly. You have in front of you the Report and Management's response.

7. The Panel has set out an ambitious vision for the Bank and its shareholders. I share the optimism they have expressed for Africa, while being realistic about the obstacles she faces. We are stimulated by the view that Africa needs a strong development Bank which is more than an aid conduit. There is consensus, that it will not

happen overnight, and that the AfDB will have to “earn” that position. It will do so by demonstrating that resources at its disposal, today and tomorrow are being deployed, optimally and effectively, within a strong fiduciary framework, for the priorities of Africa of today and delivering results.

8. We are fully conscious that the Vision spelt out by the Group of eminent persons will require concerted efforts by all stakeholders, Governors, Management and Staff over time. The Panel’s strong endorsement of the Direction the Bank is already taking will be encouraging to us.

9. The Medium Term Strategy 2008-2012, spells out, where we are, where we want to be in five years, the direction and the pathways of getting there. What is at the centre of the strategy is economic growth, for MDGs, growth which is shared and sustained. The strategy attempts to locate AfDB’s role within the new international aid architecture, articulating the need to focus, attempting to identify zones of lead role and those of complementarity. It spells out the resource framework and how it strives for excellence, and results at all times.

10. This will be, a year of yet additional hurdles for the Continent. Africa’s ability to manage existing risks and overcome the new threats will be put to the test. The food crisis, the energy crisis, the accelerating impact of climate change on our farming systems, to mention a few. Not surprisingly, given where we come from, economic growth of the last decade has not as yet translated fast enough into poverty reduction, and growing inequalities have sometimes generated social tensions. The roundtable themes this week have

related to, identifying strategies for shared growth, and opportunities, for all, in the context of record internal migration and rapid urbanization. There are no quick fixes, and some of the issues around it are profound and will take time. But I am confident.

11. Even this food crisis, whose effects, whose supply demand dynamics, has been extensively analysed, can be overcome. Perhaps, for our rural farmers, if given quality support, this could turn out to be an opportunity which they have been waiting for, where farming, large and small, finally, becomes viable businesses rather than a source of scrapping a meager livelihood! But a number of things will need to happen in order to get there. I will come back to this.

12. Not long ago, we all were witnesses to thousands of people in small rickety boats, in the rough waters of the South China seas, fleeing for survival. These were Vietnamese, they were called “the boat people” and they were fleeing deprivation and famine. How things can change? Today, two decades of near double digit growth has dramatically rolled back poverty. According to the recent publication of the Economist, Vietnam now produces more rice than India, with yields of up to 10 tons/hectare. The country, 15 years ago,

a marginal producer of coffee, is now the second biggest coffee producer in the world after Brazil, and will this year, export more coffee than all African producers put together. The combined value of imports and exports is equal to 160% of GDP, from agriculture to furniture and microchips, and we are told 94% of its people have access to electricity. These are the same people who were fleeing famine not so long ago! I am optimistic that if we do the right things it can happen here.

### The Bank in 2007

13. This has been a very good year for the Bank. Despite the turbulence in the financial world, the finances of the institution remain very strong. Our risk bearing capacity remains robust. We have retained the highest ratings and all the windows of the Bank have reported strong results. Net income is up 66 percent- and so are our operational commitments by 20%. We are beginning to see encouraging results in the quality of our portfolio, such as the level of disbursements, and a decline in aging or problem operations. We are making headway in becoming more focused and selective.

14. We have maintained momentum on reforming our operational, business and budget processes to ensure greater accountability, quality and responsiveness. Only last week, our procurement rules have been extensively revamped; the first such exercise in many years, which now puts us at par in terms of responsiveness with similar international financial institutions. Enhancement of our procurement rules is something I know, many of you, have been waiting for, and will welcome.

15. The Anti-corruption Office has been strengthened. So are measures to ensure greater institutional and operational integrity, transparency, accountability and disclosure. In the continuing efforts to ensure the highest standards in the deployment of Bank/Fund resources, the Bank's procurement contracts will be published on the Bank's website. We have only this week at the Board, approved a new Governance Strategy for our operations focusing very much on the issues of Financial and Economic Governance and building institutions.

16. The Bank has adopted a new HR strategy including an e-enabled multitier system of performance evaluation. A first ever staff survey was carried out. The process of filling vacancies accelerated – and - this numerical accomplishment has come with diversity in terms of skills, gender and geographical origin. Indeed the number of women in management position has continued to rise. We are reviewing our compensation and benefits framework and carrying out a skills mix audit.

17. Our Decentralization exercise has accelerated and the process of customization is ongoing. We have reached agreement for the opening of the two remaining offices, Angola and Algeria, bringing us to the full complement of 25. Throughout my field visits, you have impressed upon me, the significance you attach to the decentralization exercise, and your wish to see them empowered to take some decisions. In countries where there are no such offices, you have urged the Bank to do so. Decentralization is a complex, costly exercise, and not without risk. This is what informs our prudence and the need for a gradual approach, learning the lessons as we go.

Next year, an independent evaluation will be commissioned to assess the experience and the way forward.

### Strategic Review of Bank's Capital Utilization

18. Last year in Shanghai, I undertook before the Governors, to carry out a strategic review of the level of utilization of the Bank's capital, including an independent, external assessment of the matter perceived as "excess capital". I decided to request two leading investment Banks, Goldman Sachs and Citi who agreed to perform this task, separately and pro bono. I am grateful to them.

In carrying out this assessment, Management requested the two Banks to bear in mind two parameters (i) our determination to remain a strong triple AAA rated Development Bank and (ii) our Medium Term Strategy which indicates strong intent to expand including non-sovereign lending.

19. The two institutions have submitted their separate reports. The findings, indeed confirm that the AfDB has significant unused risk capital, on the basis of risks currently assumed. But they were also of the view, that if the Bank wishes to increase its lending, particularly the non sovereign, then it needed that capital, it needed this cushion to expand. The two investment Banks have made two other useful proposals; these relate to certain possible changes to the capital adequacy framework as well as innovative financial instruments and techniques to manage our capital more dynamically.

20. Management is actively discussing with the Board of Directors the strategic implications of these proposals and findings. In doing so we are always guided by the sacrosanct principle that as we fulfill our mandate, the financial soundness of the Bank must be preserved at all times.

21. We are aware of your high expectations, and we agree that we should be ambitious, limited only by the imperious necessity, to remain true to rigorous sound banking principles and a financially strong African Development Bank. That is why our new Medium Term Strategic Plan proposes a graduated, but significant increase, in our volume of operations, at the same time, building the human and infrastructural capacity, inside the Bank, to properly manage the risks and ensure development effectiveness of this anticipated growth in the medium term.

#### ADF XI

22. Allow me now to make a few remarks on ADF XI. Firstly to commend the Fund Donors for a generous and record increase, which has tremendously improved our soft window's capability. This was truly an achievement for the Bank and its members and a demonstration by donors of their commitments to Gleneagles. I am particularly pleased about the agreement to allocate a significant part, seventeen and a half per cent, of all the resources, at promoting regional infrastructure and other regional public goods, which support

Africa's economic integration. A regional member country, the Republic of South Africa, doubled its contribution to the Fund and I applaud them. I look forward to other African countries in a position to do so, exploring possibilities of such a contribution in the future. In this same vein, I sincerely thank the Nigerian authorities for the agreement to extend the Nigeria Trust Fund.

### From the PCCF to the Fragile States Facility

23. Until the energy and food crisis began to hit our economies, a number of African countries were actually getting back on track for several key MDGs. The UN Secretary General Mr. Ban Ki-Moon has convened an MDG Steering Committee, to which several of us belong. Our task, is to find ways to fast track MDGs, focusing on the "bottom billion". It is evident that where the problem is close to intractable, is among countries recently in conflict or crisis. They are trapped in stagnation; absolute poverty is, in some cases, actually deepening. Some of those who recently emerged from crisis are not receiving enough support and the danger of slippage is real.

24. The Bank's post conflict clearance facility adopted five years ago was a sound innovation. It has contributed enormously to assist countries such as Burundi, the Democratic Republic of Congo, the Republic of Congo and Sierra Leone in clearing arrears. I want to thank many of the contributing countries here, both in Africa and among donors, who always responded to our call to partner generously with the Facility.

25. But recently, our experience in clearing arrears of Liberia, Central African Republic and Comoros, showed its limitations and the need to innovate. ADF XI agreement to earmark 7½% of the resources to the the Fragile States Facility is a most welcome enhancement to the PCCF. It is a robust instrument; whose design is responsive, while minimizing any perceived moral hazards. Not only does this now enable us to go beyond arrears clearance and kick start the economies but it also permits the Bank, to rebuild the much needed institutions, a major consequence of conflict and crisis which inevitably constraints absorptive capacity for international resources.

This year we will engage the process for clearing debts of countries such as Togo, Cote d'Ivoire and others to come. Our strategic aim is to help the countries, with others, rebuild and graduate to normal windows as soon as possible.

26. One of the powerful levers for multiplying the possibilities of attaining at least some of the key MDGs is to provide safe water. It cuts down infant mortality and enables girls' education. I am pleased to report the progress in the Bank's four flagship water initiatives and I thank all partner countries in the water programmes. We have doubled the staffing capacity in the Water and Sanitation Department and we will be increasing our water and sanitation delivery from this year. We will need to mobilize additional resources for the Rural Water and Sanitation Initiative and I look forward to a close engagement with the partners of both the RWSSI and AWF.

## Private Sector, Growth and the MDGs

27. Where economies are growing, progress to MDGs is solid. Where economic growth has stagnated or is too slow, countries are largely off track. We know that growth is not enough, that is not in doubt, but it is a necessary condition. No significant progress to MDGs will be possible without sustained growth, and that is unlikely without private sector and investment. That is the lesson from all countries who are on track for the MDGs. Certainly, more aid, more effective aid is needed more than ever before; but, we know, that public resources such as aid money are scarce. There is no likelihood that there will ever be enough of the critical mass required. Hence, our strong belief that aid money should be utilized to maximize the catalytic effects on private resources which is ample.

28. Our business model, at the AfDB, indeed all MDBs need to evolve faster, towards this type of what we call “smart finance”. This is the thinking guiding us. Our credo is “crowding in investment” in Africa, providing finance, advice and partnering, finding new partners to join us, focusing on growth driving sectors. Every dollar we invest does not only attract its multiple, but also attracts new actors, who trust the Bank. And this is not simply the BRICS, but the Gulf States and the diaspora who are teaming up with the Bank, in energy projects, expanding and rehabilitating the ports, the financial sector and increasingly agribusiness and health. I look forward to our African finance partnership with regional and domestic financial institutions and to deepen our local currency operations.

29. At the Bank, private sector activities continue to expand. We will continue to be rigorous in project selection, credit review, choice of partners and our internal capacity because our overall strategy is to maintain an average low to moderate risk profile. A large part of our operations, 61% are in the Middle Income Countries, but we have also expanded in low income countries. As an example, we have taken a small equity in a Bank in Liberia which services small and medium businesses, certainly a very small investment for the Bank but quite a significant one for the Liberian economy. We are looking closely at small and medium businesses all over the continent; those seen as too small for high street banks and too large for microfinance. I am glad about the agreement with USAID on guarantees for small businesses.

30. In particular we want to focus on that half of our Continent, the business women of Africa, who often show so much entrepreneurship but lack access to finance. That is what gives meaning to inclusive growth. We have contributed some of our net income to FAPA, the Japanese led initiative for the private sector and look forward to mobilize additional resources.

### Middle Income Countries

31. The Middle Income countries, a highly diverse group, are critical poles of growth in Africa. They are the locomotives. They exert powerful economic neighbourhood effects. Improving their competitive position, their private sector and efficiency of their economies must remain central to the Bank's work. It is good for Middle Income

Countries and it is good for Africa as a whole. This is how to create the virtuous cycle of growth among our 53 countries, so diverse yet so inter-linked. Some of them can access capital markets, but there is still strong demand for us at different levels; non sovereign financing, TA, or projects for regional integration. Like all MDBs, we need to find new ways of better responding. This is a domain requiring innovation; at all levels, processes, products, pricing, conditions of access and capacity. The case of small population MICs is particularly challenging. In 2005, the Bank had produced an MIC framework which was highly appreciated and useful. It must now evolve to new circumstances. We will be updating that framework and discussing with the Board our policies in this domain. In addition, I will be commissioning a study of new possible options.

32. According to “Doing Business” progress on our continent in terms of adopting policies that improve the business climate, was extremely good until 2006. This should be maintained. That is why we fully support the Investment Climate Facility, support its activities and any other similar initiatives.

33. Our commitment to all types of infrastructure has doubled in 2007 from US\$ 870 million dollars to 1.6 billion US\$. I am pleased with our cooperation with the World Bank, the EU, the EIB and the JBIC. We are encouraged by the coordination in the context of the Infrastructure Consortium in determining continental priorities, who does what, and what are the respective plans. This is why also, we are pleased with the memorandum we are negotiating with China Exim Bank and China Development Bank. Given the enormous needs we are trying to crowd in the private sector and the emerging partners in particular for energy, roads, connectivity or our dilapidated railways.

34. Given the fast pace of economic growth of the last decade, which has run ahead of energy supplies everywhere; it is unlikely each country can satisfy its energy needs locally. That is why we emphasize, where feasible, interconnection projects and energy markets.

### The Food Crisis

35. Let me now return briefly to the food crisis. In the last few months the underlying market dynamics have been adequately analysed. We roughly know the causes, we know the consequences. The response should be seen at three levels. First: To provide food to the vulnerable and emergency support to the people and countries most at risk; this is mainly the task for bilaterals and UN agencies. Second: To deal with macro economic stress, a mission for IFIs. Third: to tackle the longer term issues of food security. This is the role of the MDBs and specialized agencies.

In respect to the emergency support, I commend the swift international action that has provided food supplies to protect the poor and the vulnerable. This is most welcome, but not yet adequate, and the risks remain acute. I urge donors to be generous and provide specialized agencies with additional resources. Certainly, the world has the means to prevent starvation in the 21<sup>st</sup> century! The most vulnerable categories are known, they include the urban poor, rural families who purchase food, and people in fragile states where markets do not function well.

36. The second response is to deal with issues related to macroeconomic stress by providing budget and balance of payments. We will be, alongside other IFIs providing this kind of support where feasible. Preserving the achievements of reforms of past years is vital. Many countries whose import bills have soared had no choice but to adopt measures which are not always fiscally sustainable. The Steering Committee is proposing that Governors approve a special appropriation from the surplus account to help the countries affected. For that reason also, we are considering to restructure up to 250 million dollars of our agricultural portfolio, where appropriate, to make available resources required to accelerate agricultural production such as purchasing of fertilizers.

37. In the same spirit, we must discourage the multiplication of export bans, quotas, export taxes which are exacerbating the problem. "Beggar thy neighbour policies" will be damaging for all. There is no better way to worsen the situation than to interfere with supply chains at a delicate stage such as this. Food security is impossible anywhere without a smooth trading system; local, national, regional and global and I hope after the initial action taken by some countries the barriers can be reduced, or removed altogether.

38. Third, as we deal with vulnerability and macroeconomic stress, we have to address the issue of food security in the long term. The adage that "feed a hungry person and he/she will be hungry tomorrow" is as valid as ever. We are not dealing with a short term problem; the long term solution can only mean a different way of managing our agriculture. What is to be done about African agriculture is known; it is

spelt out in numerous policy statements including NEPAD's comprehensive agricultural policy for Africa. What is to be done internationally, in terms of providing level playing field in agriculture, and front loading the interests of developing countries in Doha also well articulated.

39. There was a time, when agriculture went into decline because of a combination of policy biases, including urban bias. But that era of implicit excessive taxation on agriculture and overvalued currencies is long gone. These were powerful disincentives: - now the incentive is there. The rising food prices provide the opportunity, the incentive. But incentives alone are not enough. Their signals have to get to the farmer. The signals are not getting to the farmer because fertilizer and transport costs have also increased. African farmers, already minimal per capita utilizers of fertilizers, and modern inputs cannot respond with fertilizer prices which have jumped from 245 US\$/ton to 1,100 US\$/ton in 4 months. This is why I am very pleased the Governors will this week consider approving our African Fertilizer Financing Scheme, to be operationalized with the Alliance for the Green Revolution in Africa. We are not, by any means, saying this is about fertilizers alone, no, it is about fertilizer, other inputs, water, all done in the right way. And the technical knowledge to do so exists. There are large gaps between current yields and possibilities and If market smart subsidies would close the gap they should be considered and we are prepared to provide such support.

40. Africa today imports close to 26 million tons of rice, half of its 50 million tons consumption. But I am told the new rice for Africa, an up-land rice can be harvested in three months and yields five tons per hectare. Equally, significant results, had been achieved in respect to some staples which are not internationally traded. From mosaic resistant cassava to drought resistant maize and weevil resistant bananas. A smallholder agricultural revolution is not impossible. But if we are to reverse agricultural decline, we will have not only to rethink its technical and resource aspects; a number of other things will have to happen.

41. FIRST: crowding in more private investment and a greater role for the State. Let me explain: We must devise ways of attracting and supporting private financing of agriculture. Private business which has been successful in growing flowers can surely grow cereals. Time for agriculture as a business, is now. Private investors can probably do their own irrigation, but they need infrastructure, input and product markets that function and research institutions that deliver and policies that are stable. Only the State is well equipped to provide the latter. But the capacity of the State to do so must begin with an agenda to building our Ministries of Agriculture and Livestock. In the years of structural adjustment it seems a lot of capacity in this sector was cut to the minimum. If we are to succeed the role of the State will be crucial, to plan, to provide the policy environment, which support a smallholder revolution and agribusiness. This is what will enable “the issue of market failure to be resolved but avoiding the one of State failure”.

42. SECOND: Complementarity action among donors. Agriculture will test the doctrine of complementarity and selectivity. Between 1980 to 2005, ODA to agriculture declined dramatically. Agricultural success stories were hard to come by, prices were falling. Interest shifted to the social sectors. Only a few institutions like IFAD and the AfDB stayed engaged. Now that a consensus has built up around the productive sector, agriculture being a large part, the question now is: How do we do it right this time? The AfDB for its part is carrying out an evaluation of what our real impact has been. We will not succeed if all donor agencies want to do the same things, in the same old ways. Our own agricultural portfolio today is equal to 3.8 billion dollars in 250 projects. We are increasing it by another 1 billion US dollars. But in order to avoid mistakes of the past, we need to find out how best to respond, who does what, who will take lead in what area. I frankly believe, we have a golden opportunity to implement workable division of labour in the vast area that is agriculture that requires several interventions at the same time, irrigation, road infrastructure, storage, farmer training, research and extension, microfinance, rural finance etc. At the AfDB, we would like to support this agricultural revolution by intensifying excellence in our domains of comparative advantage. The AfDB will be utilizing its convening power to lead reflection on this issue.

43. That is why we are looking forward to, and must prepare well for, the Accra High Level Forum. Let us do stocktaking on the Paris Agenda achievements since 2005. But let us agree, in a pragmatic way, how to proceed. Let us proactively involve all emerging partners, including Foundations. I am encouraged by our cooperation with members of the Alliance for the Green Revolution in Africa and are

prepared to participate in that process of identifying an effective complementarity.

44. THIRD: Gender. As we rethink agriculture; this is the opportunity to clearly bias policy in favour of more than half of Africa's farmers, the old women and young girls tilling the land with bare hands to scrape a living. Recovery of our agriculture, which does not front load the interest of the women majority farmers, is doomed to fail. It is the condition for success. At the Bank we will focus on the issue of access to productive assets, rural financing, and economic opportunities for women including off farm activities, in collaboration with our work in the private sector, inside the fragile states and elsewhere. The Bank would like to be at the forefront in the context of its Gender Action Plan.

#### Climate Change: Common Differentiated Responsibility

45. Finally, as we search for the best way to providing response, we will be challenged even further by accelerating impact of climate change on our farming system. The Bali conference spelt out a road map on the global issues, but resources for adaptation remain limited. We are building our internal capacity to tackle climate change related questions. We are deepening our ability to mainstream climate issues in our operations. We are coordinating our actions with sister institutions. We are in particular keen to expand our role in activities related to biological sequestration tackling unsustainable deforestation and adaptation activities. In this respect, you will be pleased to hear of the new initiative on the Congo Basin Ecosystems, an initiative housed in the Bank with generous support of the United Kingdom.

46. But I cannot over emphasize the all too crucial notion, that of giving meaning to “Common but differentiated responsibility”. Low income countries especially in Africa must be assisted with means for adaptation, and to bear the additional costs of a low carbon economy, and to develop clean sources of energy both grid and non grid. Our economies will simply be suffocated unless this happens. The whole of Africa South of the Sahara, excluding South Africa, has no more than 28 gigawatts of electricity, less than Poland! If our economies maintain the current pace of growth, I am told at the minimum we need to add an additional 4GW to our supplies per year. That can only come from massive investments into our hydropower potential, less than 4% of which is exploited so far, but also, other forms of renewable energy, especially important for the poor.

47. Mr. Chairman, Excellencies. Let me end my remarks by observing that our continent will face additional obstacles in 2008. There is no doubt. But we have come a long way and have always defied the odds. If our economies are now growing at 6%, double the 3% in 2000, it is not simply about world demand for our commodities. It is about the cumulative efforts of our people own creative efforts for peace, stability, which is creating confidence and hope, which is now attracting investment from all corners of the world. The African

Development Bank, your Bank, stands ready, as it has done over four decades to play its modest part. That is why we will spare no efforts to maintain pace of our internal reform process to always increase our response capacity. Yes, it is true we are a relatively modest player compared to many larger organizations in the world of development finance. But as the High Level Panel aptly put it, we are Africa's Bank and we understand where Africa is coming from, its hopes and aspirations. It is that knowledge, that engagement, that commitment, we will bring to bear at this time.

48. Let me thank Your Excellencies, Heads of States, Mr. Chairman, the Bank's Governors for the support. Let me say how grateful we are to our partners, sister institutions, for constructive collaboration. Let me commend our Board of Directors, Management and staff who strive everyday to make these achievements possible as we commit for an ever stronger Bank for Africa, in line with the dreams of its founding fathers; to fight deprivation and strive for the economic transformation of our continent, a battle which can be won in our lifetime.

Thank you for your attention.