Africa in 2007
The Resurgent Challenges and Opportunities for the Bank and its Partners

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It is not fortuitous that we are meeting on this continent, in China, and at this juncture. Today, across Asia, rapid economic transformation is lifting millions out of poverty and fuelling one of the longest periods of prosperity across the globe. Asia’s economic links with Africa which has a long history have increased dramatically over the last five years. Asia’s emergence as the world’s fastest growing market presents opportunities and some inspiration for Africa but also challenges. This Annual Meeting is an opportunity to exchange experiences and enhance that partnership, how have so many countries in Asia been able to graduate so early from aid dependency, recover so quickly from the 1997 financial crisis and to join the leaders in the global growth league.

You will all agree that the African Development Bank, our common institution, in which emerging economies such as China, India and South Korea play a key role, has an important place as a catalyst and a preferred conduit for this partnership.

A year ago, in Burkina Faso, I took the floor before you, for the first time as Bank President. I pledged to strive together with you, for a stronger Bank that is focused, ever seeking to build excellence, continuously adapting to the dynamic needs of Africa, the changes in the international aid architecture and the evolving global economy.

Today, I can confidently report that the African Development Bank is making progress on all fronts and the process of its repositioning on course. We have faced challenges on the way, but that was to be expected.

Bank financial performance – A stronger financial position

The first priority for the Bank, as always, has been to consolidate its financial strength in order to fulfil its fundamental mission of fighting poverty and promoting economic development. I am pleased to report that the financial position of the Bank remains strong and the medium-term outlook is robust. The key financial ratios of the Bank have strengthened further and compare favourably with those of other Multilateral Development Banks. The Bank continues to enjoy the highest possible credit ratings from all the rating agencies that reaffirmed triple AAA and AA+ rating for the Bank’s senior and subordinated debt respectively, with stable outlook.

In 2006, all three windows of the Bank Group reported strong earnings, a combined amount of 248.3 million units of account, or 372.5 million dollars. For the
ADB window alone, the income before transfers to be approved by the Board of Governors amounted to 194 million units of account, or 291 million dollars.

These results, which reflect prudent financial and operational management, have enabled the Bank to, not only consolidate its reserves, but also to contribute to other development initiatives. There is no doubt that the robust financial position and strong risk bearing capacity of the Bank, provide the cushion necessary to withstand any plausible credit shocks and other stress scenarios, as well as offer an opportunity to do more in Africa.

Bank operations in 2006

In 2006 the Bank Group substantially increased its financing activities. Financing approvals under the ADB window rose to 1.6 billion dollars, a 27% increase. This includes the Bank’s largest operation in its history of half-a-billion dollars to support Egypt’s financial sector reform. In 2007, I expect this momentum to be maintained in accordance with our intention to engage more effectively in the Middle Income Countries.

Under the concessional ADF window, ADF 10 commitments rose to 3.5 billion dollars by end December 2006. This implies that out of the 5.4 billion dollars available under the ADF 10 replenishment, nearly 70% has been committed. The remainder will be fully committed during the course of 2007. I am particularly glad about progress on multinational operations, in support of regional integration which have expanded considerably and the pipeline remains healthy.

In respect to the Nigeria Trust Fund, there were no new commitments in 2006.

However, agreement has been reached with the Nigerian Authorities to extend it for another one year to 2008, to allow the Bank and Nigeria to evaluate outcome of the study on the fund which is now completed and determine the way forward. I want in your name, to express our appreciation to Nigeria. The NTF in its 30 year old history has been a powerful symbol of African solidarity. I look forward to an early conclusion of the review and a way forward.

Progress in private sector

Let me say a word on the role of the Bank in the private sector. Our aims are to act as a catalyst, to enhance the investment climate and to respond to demand in support of the Bank’s development goals. This is achieved by rallying investors to look at opportunities in African countries differently. We believe our strong financial position allows for some increased lending without overstretching the Bank’s risk bearing capacity.
We are aware that private sector operations entail significant risks. We remain fully conscious of the need for extreme management in terms of project selection, credit review, processing procedures, choice of partners, internal capacity. Our intention is to expand operations while avoiding any adverse impact on the overall risk profile of the Bank portfolio. Again, we believe our strong financial position allows for this.

For example, as part of our borrowing strategy, the Bank has launched its program to issue bonds in local currencies with a tenor of 1 to 2 years. We have triple objectives:

- Develop and bring visibility to African currencies and bond markets;
- Develop local debt market infrastructure and international best practices;
- Address client needs by lending in local currency denominated loans. Apart from the South African Rand in which we have been active since 1998, the Bank has issued bonds in Botswana Pula, Tanzania and Kenya Shillings, Ghana Cedi and Nigeria Naira. I consider the positive response by the international investors a signal of confidence in those economies. We intend to look at more currencies and increase the tenor.

The future for Africa’s economies, like Asia before it, will be private sector driven. That is where wealth is created and poverty ultimately eradicated. We have made encouraging progress under the private sector window whose operations totalled 419.15 million dollars, up from 274.35 million dollars in the previous year. The pace is maintained in the first quarter of this year.

**The bank as a catalyst**

Over the last decade, most IFIs have experienced a contraction in their sovereign portfolio. This has been accentuated by increased prepayments against a background of a favourable interest rate in the market. The AfDB has not been an exception, but the trend seems to be slowing down or stabilizing. In contrast, the Bank’s non-sovereign portfolio is set to continue to expand. Our ability to work in partnership with others permits us to significantly leverage our resources. In effect every dollar of AfDB development assistance was matched by four dollars from other partners. In this catalytic role we are able to co-finance 34 projects to the tune of 17.8 billion dollars.

You will not be surprised to learn that in accordance with RMC, expressed priorities, as well as our attempts to be progressively more focused, infrastructure
has taken the lead. The Bank’s track record and ability to deliver in this sector is impressive.

The Bank’s excellent performance in this sector is confirmed by a recent report by our Independent External Evaluation Office after review of 20 years of Bank operations. This year alone, we have provided support for rural electrification for 335 rural towns and villages in Ethiopia and the provinces of Manica and Sofala in Mozambique, electricity inter-connection in West Africa and hydropower development in the Nile Basin. We are supporting regional and national projects in all parts of Africa including regional organizations. Early progress this year shows momentum is kept.

Overall, Governors will be pleased about the achievements in terms of the strong financial health of the Bank and the remarkable growth in its operations by different windows, achievements made in spite of the restructuring and limited staffing. However, I would be less than candid if I did not point to the enduring challenges in terms of disbursements, (which have annually fluctuated around 1.8 billion dollars for some time), project portfolio quality and broadly development effectiveness.

Member countries are still experiencing long delays in ratification procedures as well as difficulties in meeting conditions for loan effectiveness and therefore delayed disbursements. I wish to launch an appeal to RMC Governors to take up this issue which is a cause of major delays, making a special effort to speed up loan ratifications. Our own internal processes which can be bureaucratic and cumbersome affect our response capability. This is amplified by our over extension in too many areas.

I expect that our increased field presence, the refocusing and review of Bank’s internal process, the larger project size, and increased staffing capability will enable us to be more agile and responsive. There is no doubt that the search for development effectiveness; unlike financial or operational restructuring is complex. It will take time. But we are determined to succeed. That is the aim of our reform agenda.

One area in which we are well on track is decentralization and field presence. We are now present in 22 countries out of the planned 25. Many Governors have for years urged the Bank to have greater presence in the field, to be less centralized and rigid. I am glad to report the veritable leap the Bank has made in the last six months. We will steadily consolidate and strengthen our field presence while ensuring strong fiduciary checks and balances. I invite our member countries to take full advantage of this renewed presence for reinforcing our operations and our dialogue.
The state of the continent

Today, Africa is better poised for economic prosperity and better governance than it has been for decades. The last six years representing the longest period of sustained economic growth on the continent; even in countries which are not richly endowed in natural resources. Across the continent, economies are growing on average at 5.5%. The drivers of this uptrend are peace and stability, improved terms of trade, economic governance, business climate, lower debt ratios, in some cases higher ODA inflows or positive neighbourhood effects and remittances, which in some cases dwarf combined aid inflows and export earnings.

The outlook in Africa is positive, with 31 countries growing at a rate above that of population increase, half of them at above 5%. Nine countries are growing above 7%. Post-conflict nations like Liberia, Central African Republic, DRC and Burundi are slowly getting back on their feet.

Perhaps even more significantly, the five countries with the largest populations in which nearly half of Africans live, are registering growth above 5% there by providing a strong chance of faster reduction in absolute number of people living in poverty. I expect the economic growth to strengthen in 2007 above 6.5%.

Not all countries are making progress

Yet, in the middle of this remarkable resurgence, there is serious cause for concern that requires our deeper resolve.

Firstly, beyond these aggregate numbers, not all the countries or regions of Africa are making progress – millions of Africans still live in countries with economies which are stagnating, contracting or barely keeping up with population, either because of fragility, violent conflict or policy setbacks. Some of these countries have received little attention from the international community.

Secondly, even in those economies making headway, vulnerability from internal and external factors remains high, such vulnerabilities include, reversal in terms of trade, natural catastrophes sudden drop in aid inflows and major slippages in Governance. In such economies, the situation can only be described as encouraging but quite fragile.

Lastly, we come from such as low base and population is growing. This implies that even at 5.5% real GDP growth Africa is still a long way to making a dent on poverty which remains extensive and pervasive. The continent would have to sustain the “relative” good performance, for at the very least, two decades to make a palpable impact on real per capita incomes and poverty.
Sustained progress is possible

This said, Africa stands at a point today where several countries have a fair chance of following in Asia’s footsteps. The key question must be: how do we consolidate progress and how should the Bank and its partners be responding in order to nurture, faster economic growth that is MDG compatible, broad and shared, sustained and sustainable? I see several factors as critical.

Firstly, stability and peace; that is sustained Africa, in the last six years, has made enormous progress the. The number of countries and regions in conflict are at the lowest ever. But the risk perception among investors, both local and foreign remains high. They are looking for longer term stability, not simply between elections. They are not looking for stability in one country but the entire neighbourhood. As a result of this perception so far, outside the extractive industry, investment flows though at a record high, are directed mainly into the low risk areas and lower costs of entry.

Secondly, maintaining the pace of reforms and avoiding temptations of policy or governance slippage and reversals. Many of our countries are now mature stabilizers, but there is no room for complacency. There are still pockets of macro-economic instability and areas where consistency in policies is ever needed. More so, because the current phase of reforms, in the micro-economic and structural areas, is much more complex; and thus staying power is critical.

Thirdly, progress in building institutions, and capacity: institutions that can design and deliver good policies and give meaning to ownership and good governance. As an African leader has succinctly put it “Ownership without capacity is an exercise in futility and capacity without ownership is a squandered opportunity”. It is strong institutions that will ensure that rent seeking and corruption are contained, and that the level playing field for investors is in place. And it is capacity which will enable us to exercise strategic policy choices like China and many in Asia have been able to do.

Fourthly, effective Debt Management; in the wake of the unprecedented international coalition on debt cancellation, it is critical that a future crisis is avoided. A viable external position is the key to attracting investment. Under the historic MDRI initiative the Bank cancelled 8.5 billion dollars. The resources needed for the MDGs are a challenge.

Therefore, some degree of debt contraction by RMCs to finance infrastructure and provide basic services is inevitable. The challenge to us all is, that of ensuring countries are able to access resources that do not impose unsustainable debt
burden and compromise their longer term external viability. If there was ever an issue that requires close coordination among partners, this is one. I look forward to a constructive discourse on this matter during these Annual Meetings and beyond.

Fifthly, effective natural Resource Management. We all know that the current wave of growth is, to some extent, commodity driven. Many countries have benefited from windfalls from higher world market prices of oil, mineral and soft commodities. It is important that we avoid errors of the past, manage inflows and invest for the future. I am encouraged by the way many of the resource rich countries have been able to deal with macro-economic consequences associated with large inflows.

Equally, we commend the efforts by many to transparent management and the choice of investing much of the resources, not on unproductive expenditures, but on infrastructure and human development. We will support such countries to stay on this path, build capacity, move up the value chain and develop side stream linkages with the rest of the economy. We realize this is a longer term agenda.

Finally, further progress in reducing the cost of doing business. The key to the future, of our economies is trade and investment, and therefore the business climate. I applaud the palpable progress being made in the regulatory and institutional domains as well as reducing barriers among member countries. Africa has moved up the ladder in the “Doing Business League”. But we must vigorously now deal with the other set of barriers – physical – that means infrastructure.

It is crystal clear today that energy shortages, poor roads, inadequate communication between countries and regions constitutes a real impediment to the private sector and economic growth and in the case of energy shortages threatens to roll back economic achievements of the last six years.

**The Bank’s response**

What happens to Africa’s economies in the next decade will primarily depend on what Africa and Africans do. However, the International Community has an opportunity at this unique time – time for that extra special effort is now to reverse the decline in core aid levels observed in 2006, to scale up to deal more effectively with complexities due to the evolving international aid architecture. And of course an effort to find a compromise among partners in the trade negotiations.

The challenges facing Africa vastly exceed the capacity of the Bank, or any one institution. But we are Africa’s Bank. In my first and a half year in office I have travelled extensively across RMCs, to see first-hand what the Bank does, what it can do better, with you, with partners. I came back encouraged by the strong
sense of your ownership, of your Bank. The Bank for Africa and your wish for us to do more.

As we embark on our triennial discussions with our partners in the context of the ADF 11, we are determined to reposition as a preferred channel of choice for supporting this emerging African resurgence. We want to do so, concentrating our efforts and resources where we can be most effective and where we have or can create excellence.

Being selective but complementing with partners, being selective and responding to your priorities. This is what very much informs the Bank’s evolving approach to private sector strategy, infrastructure, regional integration and governance.

**Fragile states**

As Africa is on the move in large parts of the continent, there is a reality the Bank and its partners cannot ignore; countries that are in a state of fragility many of whom are emerging from years of conflict and mayhem. In 2004, the Bank created a Post Conflict Facility (PCCF). It has been relatively successful in the process of helping such nations in clearing payment arrears. This is how we were able to come to resolution on the arrears of the Central African Republic and in whose same scheme we are exploring a solution for Liberia and Cote d’Ivoire.

I take this opportunity to thank all partners, who provided generous support for CAR, a special mention going to the RMCs neighbours of CAR, members of CEMAC and the Republic of South Africa for their financial contribution. However, our ability to kick-start these economies and rebuild basic social infrastructures thereafter has been limited. Yet, our purpose is to be relevant to all parts of Africa, not simply, that part of it that is doing well. Our continent’s fragmentation, the interlinks between our RMCs, make this our common business. This is why the Bank is taking the lead in articulating a new approach for engagement with fragile states; a new operational framework for enhancing our engagement in such states, building on lessons learnt internationally.

Many of you have expressed your satisfaction with the Bank’s proposed ambitious strategy for fragile states and want us to expedite. We will work alongside other development partners but our hope is that we can take off sooner. Our scheme will be designed not to reward failure and poor performance, but to help countries pull themselves out of fragility and to quickly “graduate” to become regular borrowers from the normal Bank facilities.
We are quite conscious of moral hazard issues and risks involved; but the case for post-conflict countries like Liberia, CAR, Burundi, emerging from the abyss requires our action. I look forward to the adoption of the policy and operational framework and I wish to take this opportunity to launch an appeal to our shareholders to give us your support in the Bank’s efforts to mobilization of the resources required.

**Middle Income Countries**

As we focus our attention on fighting poverty in low income countries and address the challenges of the fragile state, we must equally redouble our efforts in the Middle Income Countries.

Sharpening our instruments, extending our menu of options and responsiveness. Over the last year, we approved major operations in Egypt, Tunisia, Morocco and Swaziland. This is a group of countries are making progress but they still have to contend with large pockets of poverty and inadequate infrastructure to cope. I am encouraged by what we have done this year and it is our intention to scale up.

The strategy adopted by the Bank in 2005 including the creation of the MIC Trust Fund some approach to pricing is beginning to bear fruit, strengthening their competitive position toward even high performance is imperative for the Bank. We need to sharpen our instruments and increase the menu of options in this category of countries key for the Bank and Africa’s regional integration. Our aim and dream of course is that as many low income countries as possible steadily graduate and those who have do not fall back.

**Climate change**

Allow now to briefly turn to a topic that I think deserves our undivided and urgent attention; Climate Change. Our ability to continue making progress will be at risk unless we address this challenge.

New research confirms that Africa is one of the most vulnerable continents to climatic imbalances; there are already tangible signs that should compel us to act quickly: floods, prolonged and recurring draughts, drying lakes and rivers, mass migration as resources are depleted and livelihood threatened. Its implications for disease, displacement, unemployment, food shortage and water crises for millions of poor people call us to action.

We are developing a clean Energy and Development Framework in collaboration with sister institutions. We seek means to reduce vulnerability and enhance
adaptive capacity of poor people, and integrate these actions in various national strategies for poverty reduction and sustainable development.

**Infrastructure consortium**

The Bank is set to be a leader on infrastructure; we have identified Regional Integration as a core area for the Bank we believe we can greatly accelerate Africa’s progress through greater market integration facilitated by better infrastructure. We have used fully the limited resources for Regional Integration available under ADF 10 for regional integration. We have a large pipeline of one billion dollars projects ready to go. We will intensify the tripartite efforts between the AU and ECA to strengthen the RECs and provide a way forward in rationalizing roles, responsibilities and minimize overlapping mandates amongst the RECs.

We have made good progress at the Infrastructure Consortium for Africa hosted by the Bank. It is helping to maintain a focus on the infrastructure challenge in Africa since it was set up in October 2005. Members of the Consortium which include the G8 and key multilateral agencies, have collectively made efforts to scale up their contribution to meeting Africa’s infrastructure needs. The recently released first annual report of the Consortium shows that commitments made to Africa for infrastructure in 2006 amounted to 7.7 billion dollars, a 10% rise on 2005.

There are two recent developments that, in my opinion, give rise to greater optimism.

The first is the launching of the Infrastructure Trust Fund for Africa by the European Commission, the EIB and nine Member States. The Trust Fund is one of the instruments of the EU-Africa Infrastructure Partnership aimed at improving infrastructure in support of regional integration in Africa.

The second is the Pan-African Infrastructure Fund (PAIDF), a private equity fund in which the Bank will contribute 50 million dollars and another one million dollars to the management of the fund. It is an initiative to mobilize domestic resources in Africa including pension funds for infrastructure development.

**Water initiatives and MDGs**

We are 7½ years to the MDGs target. We know that many African countries will not meet the MDG targets. In 2005, the Bank undertook a series of initiatives in water and sanitation. We have increased financing for water five-fold in a period of four years. Through its rural Water Supply and Sanitation Initiative, the Bank will have spent at the end of this year 767 million dollars for a total 19 programs. In Chad, thanks to these investments, we are looking to improving access to water and
sanitation in rural schools from 30 to 80% by 2010. In Tanzania an 83.83 million dollar operation targets the same objective. We want to do more.

Our target is 1.37 billion dollars. Water is priority for the Bank. This is why we established a dedicated Water and Sanitation Department since July 2006. I anticipate that we will do 50% more this year than we did last. But we must contend with countries which have enormous needs such as those emerging from conflicts but with no resource allocation or very small ones. In order to increase our chances on a number of key MDGs, I want to urge RMCs to give priority to water and I thank donors who have supported the Bank’s resource mobilization efforts and kept faith with us in this domain.

The effectiveness agenda

We will only succeed in our mission as a Development Bank if we are effective, if we produce tangible results on the ground. The Bank has over the years demonstrated a high delivery capacity. Results over last year – and already in the first quarter of 2007 – further confirm this capability. But we must not only demonstrate capacity to deliver, but to deliver more, and to deliver excellence, not just commitments and approvals of loans and grants, but actual results.

This is the purpose of the current reform program. The new organizational structure is in place. The Board, only last week approved the Human Resources Strategy. I am convinced the Bank is set to assert its leadership role in some domains, infrastructure, water, regional integration and Governance. We want to improve on our Human Resource environment to be more transparent merit based and an eye for performance.

We are reviewing how we transact business. The aim being a more responsive, less rigid, but agile institution. We are putting in place a Performance Accountability Framework, built around a set of key performance indicators. I realize this is a longer term agenda and much more complex but I am confident we are at a good beginning. I must observe here intensified activities in the areas of statistics.

For us to be effective we must be able to measure and monitor results. I am pleased to report that in collaboration with the ECA, we are making headway, building the Bank’s and your capability in statistics which are reliable.

The Bank’s leadership role in Africa must not only be a financier but also of knowledge. In November, the office of our new Chief Economist organized the first get together of Africa’s leading economists and think tanks. They aim to create a
network to generate and disseminate our own perspectives on Africa, development challenges and knowledge products for our countries. We aim to become a point of reference on Africa.

At the institutional level, we are determined to ensure as always that the projects and programs we finance achieve their objectives and the resources are optimally used in accordance with the highest fiduciary standards and compliance with our own policies. It is in this spirit that we have finally operationalized the Anti-Corruption Office and as well as the Compliance Review and Mediation Unit mechanisms. The two offices will be given support to ensure that corruption in our institution and our operations is curtailed, that in our activities the Bank complies with its own policies and ensure that citizens who are negatively affected by our operations in one way or another can seek redress.

**ADF 11 replenishment**

Let me conclude by what happens to Africa’s economies in the future depends primarily on what Africa itself does. However, the international community has an opportunity to assist and make a difference at this unique time. Following the ADF 10 Mid-Term Review last December, replenishment negotiations have started for ADF 11.

I am grateful for the expressed support by the State Participants for the direction of the reform package and the operational priorities. You have urged to speed up implementation and to demonstrate the delivery of results on the ground. I hope I have conveyed my management’s, determination to do just that. I am confident that we are laying the foundation for a Bank which has increasing capacity, is becoming more effective every day, and which will deliver what you, our shareholders, want and what the ordinary People of Africa deserve. I look forward to a successful ADF 11 replenishment, which can respond to the pressing needs in Africa its optimistic outlook and will reflect the commitments that donors themselves have made to Africa. It is in this respect that I am pleased to inform you that the Republic of Turkey has formally communicated to us its request to become the 25th State Participant of the Fund and the 78th Member of the Bank.

We have begun the process of drawing up a Medium Term Strategy for the next three years, 2008-10 which the Board will consider in the autumn. This will articulate ambitions and realistic deliverables, set out priorities and provide the strategic framework for the Bank Group as a whole.

You will recall that at our last Annual Meetings, I indicated my intention to put in place a Panel of Eminent Persons to advice on Bank’s strategic role in a changing
Africa. I am glad to inform you that we were honoured to have two distinguished former statesmen agree to co-chair the Panel. Former President Chissano of Mozambique and Prime Minister Paul Martin of Canada. They are joined by other eminent persons in the development world and highly knowledgeable on Africa.

The co-chairs and some members are here in Shanghai and will hold conversation with Governors over lunch. I expect the report in September. In addition to making recommendations, the panel will play an advocacy role by building a consensus for a vision and a long term strategy for its realization.

I believe we are at a turning point for the Bank and for Africa. The progress registered to date by the Bank could not have been possible without the strong support of shareholders. The support for the Bank has never been stronger. For this, I wish to express my gratitude to the Governors and our Board of Directors. I would also like to thank our bilateral partners, the Bretton Woods Institutions, other multilateral agencies for our close cooperation.

In addition, I wish to commend our staff for their dedication. We have to keep our eye on the bigger picture, drive forward towards our longer term goals. I am confident that, with your support and encouragement, we can get full value of the unique opportunity opening up for the African continent and its people.

Thank you.