



AFRICAN DEVELOPMENT BANK GROUP

# Address to the Opening Session of the AfDB Annual Meetings 2011

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This has been another momentous year in the life of the Bank. I am pleased to report that, with your support, we continued to strive to fulfill our mandate as a flexible, responsive institution. The various reports and documentation before you aptly describe our condition: robust financial health; solid performance despite the turbulence in the months leading to – and the aftermath of the Tunisian Revolution. Proof, if any was needed, of the underlying strength of our institution; able, to deliver results as good as the peers despite the events in North Africa and the uncertainty caused by the temporary condition under which the Bank has operated for now eight years.

There are very few institutions of international significance, if any, which have gone through our experience – the prolonged crisis in Côte d'Ivoire, the eight years of operating in temporary location, the revolution in Tunisia – and yet has preserved its financial robustness and continued to provide first class services to its clients.

I would like to pay homage here to our Board of Directors, management and staff, for their commitment and resilience, managing the consequences of this turmoil and uncertainty.

### **Our agenda**

During the last three years we have proved our mettle, demonstrating a reactive capability – responding quickly, innovatively to successive crises, in particular, providing an effective counter-cyclical response to the financial crisis and remaining financially strong.

Now, as we gradually wind down that counter-cyclical response, reverting to our traditional mission, new challenges arise on the horizon. I refer to the eruption of socio-political discontent in North Africa and, of late, parts of Sub-Saharan Africa – a volatile mix of youth unemployment, social and economic exclusion, lack of genuine democracy – in short, governance deficits. A situation now complicated by skyrocketing food prices which today are higher by 2% compared to the peak of the global food crisis in 2008.

In the world we live in – the world of the Internet, Twitter and Facebook – the people, especially the young, are all too aware of opportunities closed, of freedoms denied and aspirations thwarted by elites who are tempted to promote their own interests over the general good.

From Avenue Bourguiba to Tahrir Square, like Eastern Europe in 1989, the people are against political systems that leave limited legitimate avenues for expressing

discontent; but to take grievances onto the streets as they cry “*Dégage...Get out of the way*”.

Put it another way: if the lack of economic opportunity provided the explosive material, it is failures in political governance that provided the trigger. You will agree with me, therefore, that the overriding agenda for our discussion at this meeting is necessarily that of inclusive growth: how the Bank can enhance its role at the forefront of that agenda.

### **Growth and inequality**

During the past decade Africa witnessed its fastest period of growth in the past 50 years. Several independent reports attest to the new economic momentum on the continent. We bounced back from the global financial crisis bruised but fitter. Of course, the buffers and cushions that enabled many countries in Africa to weather the financial crisis are diminished, but skyrocketing food prices have added a layer of vulnerability. Of course, risks and uncertainties abound. Uncertainties in the global economy hover on the horizon.

The latest statistics, whether it is unemployment, the financial sector, debt, or consumer confidence, show that the global economy is still reeling from the aftershocks of the financial crisis, not only in the OECD area, but also in some BRIC countries.

There are also risks internally, mainly socio-political, food prices adding to the long-standing structural issues, in particular lack of adequate affordable energy. Nonetheless, provided the international environment does not worsen and remains benign, socio-political crises can be contained and the energy bottleneck is steadily overcome, going forward growth prospects remain reasonably strong.

Some African countries are beginning to break through the critical threshold; real GDP growth of 7%; a few even expect double-digit growth this year. Events in North Africa have, as we could expect, led to what are inevitably temporary disruptions in economic activity in that region. The famous “J” curve.

But fundamentals in that region remain favourable in the medium term. As for the rest of Africa, this year economy will grow at between 5.6 and 6%. However, as we are witnessing in real time, in North Africa and parts of Sub-Saharan Africa, succumbing to the winds of change and social discontent, are some of Africa’s fastest growing economies.

Clearly, below the surface serious problems are brewing. The people are looking for more than impressive headline statistics; they expect their fair share of the expanding opportunities and, above all, the right to be heard.

There can be no doubt: millions of people in Africa over the past decade have been lifted out of poverty. There have been gains on many social indicators in many countries. But we could have done better.

So what are the lessons? What is it that we must now get right?

### **Growth is a necessary condition**

The very first thing we must do is to maintain that growth momentum: sustained, strong growth remains absolutely necessary. Given Africa's demographic dynamics, 7% GDP growth is the bare minimum. There can be no lasting social gains without growth, perhaps for a decade and more.

We must continue, therefore, to identify growth drivers, steadily eliminate growth bottlenecks and other infrastructure impediments – such as transport, connectivity and the large energy deficit – that stand in the way of faster growth and economic integration.

The past five years has seen a significant surge in the focus on infrastructure in Africa, reaching 55 billion dollars in new investments last year alone. I am proud to say that the African Development Bank has been leading the way, financing more than 150 new infrastructure projects over these past five years. We also feel proud that AU has entrusted us with the mandate to bring Africa's infrastructure to a whole new level.

### **But growth is not sufficient**

Secondly – and this is neither new nor controversial – growth on its own is not enough. Evidence worldwide from rich OECD countries to the BRICs to the emerging economic powers is overwhelming: economic growth that is not equitable, that is not broad based, that does not create sustainable jobs, that creates few opportunities for women and the young, has no resilience.

This is not to underestimate the good progress that has been made in the past 30 years on gender equality, on access to basic education, often under challenging conditions. But we must admit inequalities have worsened. Research by Bank staff show that Africa remains the second most unequal region in the world after Latin America.

## **Youth – educated, unemployed**

And where that hurts is especially among the young, the young graduates. With more than two-thirds of its population under 25, Africa is the youngest region of the world. And the youth bulge is growing. Youth unemployment in many parts of Africa is as high as 35%. The situation for young women is particularly difficult. A quarter of the young are barely literate and thereby excluded from the labour market.

The rate of migration to urban areas has increased dramatically, compounding the problems of unemployment at a time when traditional family or community support is eroded. Yet, it is this young population to which we look for as a source of energy and creativity for Africa.

So how do we tap this resource, provide our young people with entry points into the formal economy and thereby with the dignity and self-reliance that come from gainful employment?

## **Educated unemployed**

Sub-Saharan Africa is now producing around five million new university graduates a year. The numbers are much higher in North Africa, but the gap between the expectations created through education and the economic opportunities it actually delivers is dangerously high. Unemployment among university graduates is three times higher than among those with lower levels of education. And compounding the problem is the approach to tertiary education.

Last Thursday, I visited the town and region of El Kef, one of the poorest regions of Tunisia, where I met with civil society, including those representing unemployed graduates. I learnt that while university graduates were having difficulties entering the labour market, those from vocational training centres have a better chance.

These are not simple issues; these are complex questions for which there are no straightforward answers. This afternoon, at the Governor Dialogue to which I very much look forward, we will explore the broader context of these issues and the implications for our work at the Bank. We are excited to hear from you. Your guidance, as we begin to craft our long term vision, is crucial. But, in anticipation of that dialogue, let me put some thoughts on the table.

The young people rioting in the streets are, without any doubt, protesting about lack of jobs and opportunities, certainly. But it would be simplistic to reduce their struggle to just bread and butter issues. Their struggle is broader. It is also about

freedoms and opportunities. African people are demanding a say in how they are governed – the ability to hold governments accountable. They are no longer satisfied with impressive headline statistics, elections every five years – while space is closed in the interlude!

All nations the world over, at this time, face economic and social challenges. They vary in nature and proportion. The People of Africa, its youth, fully understand that. They know that unemployment cannot be eliminated easily. They fully understand economic problems have no magic wand. What they are questioning is the quality of the leadership and institutions charged with managing those issues. Because they know that only a democratic and accountable system of government has any prospect of managing such complex issues. Because they know that only such institution has capacities to mobilize public resources, deliver effective services, combat abuse of office, credibly communicate with the people they serve, explain the difficulties. In short, a democratic, accountable dispensation has a large trust premium – so essential in difficult times.

Clearly that must be the starting point on the agenda of inclusive growth: strong, accountable institutions. For the rest, we roughly know some of the key ingredients of an inclusive agenda, among them:

- Boosting agricultural productivity for small farmers, the majority of whom are women;
- Supporting SMEs, the real creators of wealth, including the informal sector;
- Expanding access to quality education;
- Providing access to water and sanitation. Here I want to thank our partners in RWWSI and other water initiatives which are making a real difference, including our good friend Michel Camdessus who is with us today. In the same spirit, I wish to acknowledge the strong cooperation with the Bill and Melinda Gates Foundation for contributing to the African Water Facility with a grant of 12 million dollars;
- Gender equality moving from equality on paper to equality in accessing opportunities and voice;
- A minimum of safety nets for families to deal with shocks, such as the deadly combination of rising food, oil prices and breakdown of family or community networks;

- Getting governments closer to the people. Ensuring effective decentralization and empowering local communities;
- Strengthening anti-corruption which is, all said, a tax on development and an obscene tax on the poor;
- How to make finance work for the poor. A study we have just completed with the World Bank confirms the role migrant transfers – nearly 40 billion dollars a year – can play in this regard;
- And – critical for a commodity dependent continent – dealing with the Dutch Disease, the natural resource curse which generates impressive growth side-by-side with massive poverty levels.

### **Implications for the Bank**

These are domains in which the Bank is engaged and has significant experience. In particular, it is our work on energy access, energy for the poor, rural electrification and access to water which make a big difference.

Nonetheless, it is germane now to ask: what is it that we will do more of, or that we will do differently? To promote more inclusive growth, but which is also strong. What is it that we must now review, both in scale and scope, to ensure that the maximum number of African citizens benefit from the current growth momentum on the continent.

We are not naïve to imagine there are easy answers. There will be major policy choices and trade-offs to be made at each juncture. But, for that to happen, certain ingredients are fundamental: (a) political will and (b) determination to always think out of the box, to challenge orthodoxies, and to be ready to correct for market failures, such as financial services access by the poor.

Let me illustrate: in almost all countries on our continent the most direct and effective way to broaden economic opportunities is to support small farmers increase their productivity, especially at a time like this when food market dynamics are shifting terms of trade in favour of the farming world. That means doing a whole range of things familiar to all of us in this room.

Production subsidies the world over have a bad name...and for good reasons. But we also know that agricultural input and fertilizer subsidies that are targeted with a clear exit strategy seem to register very good results.

How do we scale up such best practices? We have the example of how mobile phone penetration has increased access by the poor to banking services, to education, to health and market information.

Last year, in Abidjan, you endorsed our current Medium Term Strategy and its strategic thrust. That strategy, updated last month, will expire in 2012. The strategic decision to focus on infrastructure, energy, broadband, water and economic integration is valid for an inclusive agenda.

How else can we have inclusive growth unless the small businesses can access reliable, affordable energy? Get their produce to the market; reduce post-harvest losses, which in some regions and products are as high as 40%.

This is what People of El Kef told me last week. They want access to electricity, to water, to passable roads in all seasons, to vocational training, access to financial services.

The same is valid for our focus on fragile states – a perfect example of inclusion in Liberia, in Burundi, in DRC, in RCA, and Zimbabwe. There cannot be inclusion until we can bring back millions of people trapped in poverty and conflict-affected areas into the mainstream of the economy. We will not make progress on inclusion until we can provide the needed support to small businesses, especially those owned by women, and the informal economy, the ultimate safety net.

As Graça Machel put it to us at the last World Economic Forum in Cape Town: “We must now go beyond the rhetoric and platitudes and make finance work for women; go beyond high-sounding texts and laws to actual practice.” But we must also be ready to deal with new forms of poverty.

A recent study by staff of the Bank shows that many people who live above two dollars a day – technically out of the poverty category – easily fall back. The floating poor, so to speak: all it takes is a shock event, such as sudden price rise or a job loss. As urbanization has accelerated, and traditional family, community-based solidarity frameworks, have broken up, new forms of poverty and exclusion have emerged.

We are taking a careful look at experiences such as *borsa familiar* in Brazil, experiences of other regional banks in Asia and Latin America. One of the most important roles is that we scale up through our budget support a more robust dialogue and engagement to improve the integrity of government, sound public financial management, so critical to improving broad based services delivery.

Through our policy-based loans we will seek more effective ways to support sub-national level programs in the provinces, municipalities, closer to the people. In this context, I want to commend the Tunisian Transitional Government, with whom we have just together drawn up such an all-inclusive program, alongside civil society organizations, anchored around voice and accountability, disenfranchised regions, job creation and institution building.

A 500 million dollar budget support loan was approved by our Board last week – the first by any international organization to support and accompany the Tunisian transition.

### **Stay focused**

We are an African institution based on the continent, wholly focused on Africa, with local knowledge; I know you want us to use that position effectively. We have shown in the past our ability to adapt, to innovate, to respond to changing client needs. But the Bank cannot do everything, cannot embrace every new problem, however meritorious. We intend to stay focused in the areas we can show excellence, and seek to address emerging challenges, within our areas of focus, resisting strategic drift.

In 2005, in Ouagadougou, we committed before you to avoid mission creep. This is what we have attempted to do. I reaffirm here that we will stay true to that strategy – focus on comparative advantage, while partnering with sister institutions in their domains of strength.

We will, of course, exercise flexibility, leveraging synergies between the different Bank windows, adapting the ways we work, developing new approaches, learning from best practices – best practices from Africa, and elsewhere, but we will not waiver on our strategic choices.

### **An institution that can deliver**

An organization such as ours will always face challenges old and new, internal and external. Only a strong, flexible, responsive institution can deliver in such a dynamic environment. The African Development Bank has come a long way. We know the complexity of the remaining ground yet to cover. Our robust performance notwithstanding, the difficulties and uncertainties of the last eight years attests to the Bank's rock solidity.

We continue to attract highly skilled and committed staff, including our Young Professionals programme which has been a stunning success.

When we met in Abidjan last year, you unanimously approved a 200% increase for the Sixth GCI: a historic decision at a delicate time when your national finances were under stress, exemplifying strong shareholder support. A few months after, ADF state participants approved a generous replenishment. We understood fully the tough circumstances under which those decisions were made. In turn, we committed to constantly strive to strengthen the Bank as an institution.

In recent years, we have accomplished many important corporate reforms. More are underway – reforms designed to fulfill those commitments we made to you on both ADF 12 and the Sixth General Capital Increase. I take the opportunity to reaffirm that, overall, we are largely on track. Let me pick out a few.

#### 1. Disclosure policy

In accordance with commitments to enhance openness and accountability, we have revised our disclosure policy. The relevant policy proposals are now on our website – a practical equivalent of the freedom of information Act. Our objective is to provide an opportunity for civil society and others to make inputs into the process.

In the same spirit, at the last Annual Meetings, I made a commitment to a regular corporate accountability exercise by conducting a client survey and a second staff survey. You will be pleased to hear that the staff survey has been completed and the client survey is underway, implemented by some of the leading authorities, on issues of global governance.

I am pleased also to report that, in order to strengthen further our HR capabilities, we are asking a world class firm that has helped sister institutions in HR matters to take a look at the implementation of the 2008 HR Strategy, to determine how best to move forward and to propose additional best practices, including those in the corporate world, that could enhance our capabilities.

#### 2. Decentralization

We committed to bring forward an enhanced roadmap for decentralization. That, too, is underway. More operations will now be managed from the field. Before year end we will be opening four additional offices in Bangui, Bujumbura, Lomé and Monrovia as well as two Regional Resource Centres on a pilot basis. That will bring us to a total of 30 offices across the five African regions. In addition, you will be pleased to hear that our roadmap provides for other forms of representation in

countries where we do not, as yet, have permanent offices, thereby ensuring universal presence.

A full-time, dedicated team is in place to roll out our enhanced roadmap and ensure a sequenced, measured, calibrated implementation. I am confident we are on the right way to a truly important institutional reengineering. We are fully aware of the risks, but also the potential of decentralization. Our roadmap is designed to take account of both.

### 3. Income model

We made another commitment to revise our income model. Such a new model is now in place. I believe that, alongside our new risk management framework, it will serve to ensure the Bank's long-term financial sustainability and its resilience to unforeseen stresses.

### 4. Doing more in LICs and fragile states

Throughout the discussions leading to the Sixth GCI, all shareholders insisted on the need for scaling up delivery in low income countries by the ADB window; essentially increased private sector activities, including in the fragile states. I know many ADF-window dependent countries are anxious to see this commitment realized.

You will appreciate that, before doing so, we had to revisit our risk appetite and ensure the safeguards that you can expect are in place. I confirm that we will be able to securely scale up our activity in LICs and always consistent with sound banking principles. We will enhance our work in the development of capital markets, domestic savings mobilization and making markets work for all.

### **Climate change and food security**

Later this year COP17 will convene in Durban. I cannot stress enough how important it is that Africa's voice comes through loudly and clearly in the negotiations. I look forward to African Finance Ministers staying engaged in these debates. I believe the Durban meeting will be an opportune moment for Africa to ensure that Africa's specific challenges are articulated. For an energy-poor continent suffering already the impact of climate change on our agriculture, our food security and our forests, Durban is a landmark.

We are working closely with the Government of South Africa, the African Union Commission and African negotiators to support such an effective African voice and

a harmonized position in the negotiations. We hope that Durban would make additional progress towards the long-awaited agreement on emissions targets and a new commitment period.

We look forward to agreement on setting up the Green Climate Fund agreed upon in Cancun. The UN High Level Advisory Group on Climate Change, on which I had the honour to serve, concluded that raising 100 billion dollars per annum, as pledged at Copenhagen, is feasible if the political will is there.

The Bank is contributing its expertise in the design of funding mechanisms, including by seconding a staff member to the UN Climate Change Secretariat in Bonn. As you will know, a special interest of the African negotiators as a whole is ensuring that a mechanism in the Green Fund is found that addresses Africa's specific problems, especially adaptation, clean energy, fragile states and small island economies.

We understand the reticence among some the concerns about proliferation of funds and mechanisms. Let me say at the outset that we always share those concerns about proliferation whether it is vertical funds and special initiatives. But, at the same time, we should also acknowledge that Africa has been rather poorly served by existing climate financing mechanisms. In the last four years Africa has been able to access only 12% of all global climate funds disbursed.

The idea of an Africa Green Fund is not about proliferation, or another vertical fund. It is, among other things, about a mechanism within a global framework that cements the link between African development priorities and climate action, addressing the undeniable Africa-specific priorities through a governance structure located on the continent which secures the African voice. That is the spirit of the Africa Fund.

Let me end where I began. The last three years have been momentous ones for the African Development Bank. Since 2008 and 2009 the Bank has risen to the occasion, swiftly responding to the food and financial crisis and now to the revolutions in North Africa. In line with the Deauville G8 Summit partnership, we will coalesce with partners around a common vision for North Africa in support to the transition in Tunisia, in Egypt and the economic recovery of Libya when time comes. We are already taking initiative on the private sector, with the AfDB leading the efforts in a joint submission by IFIs to the G8 Summit in Deauville. And we will continue to coordinate with other IFI private sector windows in this regard.

We look forward to welcoming our newest member, South Sudan, to the community of nations and as a member of the African Development Bank. We

stand ready to play our part in the reconstruction and development program for South Sudan and to support recovery in Northern Sudan. That is why the implementation of the CPA and the peaceful cooperation by the two countries is in the interest of all. But we should all work together to get it right in Southern Sudan to ensure the successful birth of the new nation. The starting point is minimizing burden, likely to be imposed by numerous donors, agencies and NGOs, on the Sudanese at a time when their capacity will be under stress. Donor coordination, strong and flexible, is capital. But we must go beyond rhetoric. The successful take-off of Africa's newest state is in the interest of us all.

I welcome those of you who would like to work with us or through us on this effort. I invite you to take a look at how well the fragile state facility has functioned and leverage that powerful vehicle in rebuilding Sudan. Like everyone in this room, we continue to express the hope that soon Somalia's 20-year agony can end. The Somali tragedy has gone on for too long. At this point, lack of progress continues to impede our ability to provide financial support except the emergency type. While unable to do much at this moment, we are strengthening our internal preparedness for the time when the Somalis can begin the long march to reconstruction.

For us at the Bank and for us Africans and friends of Africa, these are, at once, exciting and promising times. We make no claim to have all the answers, but I believe we are doing our best to ask the right questions. We are determined to pursue, relentlessly, the course which together we have charted to ensure our continent can gain from the emerging opportunities and navigate the risks in the new global economic landscape. To be able to respond effectively, the Bank, after eight years in temporary conditions, requires clarity on its presence in Tunis and the uncertainty surrounding our return to Abidjan.

Today you will be considering the resolution adopted by the GCC meeting in Washington in April. That resolution reaffirms our headquarters is in Abidjan, allows for an orderly return to the Ivory Coast once conditions and facilities are in place and, finally, provides for improved working conditions for Bank staff in Tunis. As you consider that recommendation of the GCC, please bear in mind that clarity on this matter will go a long way to improve staff morale. It will provide a clearer planning horizon for our activities in Tunis and Abidjan, especially on HR related issues.

For a President of the AfDB, it is a tremendous honour to lead this great institution, to lead talented men and women in the management team and staff of the Bank. I thank you, Mr. Chairman, the Bureau, Governors and the Governments you represent, for your constant support, our Board of Directors, management and staff for their dedication.

I thank eminent persons who joined us today, my predecessors, sister institutions, partners in the business world, and civil society for our mutually beneficial collaboration. It is an enormous honour and pleasure to work with you all.

Together we are a force for good.

Thank you.