

THE FUTURE OF THE AFRICAN DEVELOPMENT BANK:

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The African Development Bank (AfDB) was established in 1963 by 23 African Governments with an initial capital of \$250 million and a staff compliment of about 10 at the commencement of operations in Abidjan in 1966. From these modest beginnings, the Bank became and continues to be the Sub-Saharan African region's preeminent development funding institution, operating alongside the three other regional development banks - the Asian Development Bank (AsDB), the Inter-American Development Bank (IDB), and, more recently, the European Bank for Reconstruction and Development (EBRD). In December 1982, with the admission to membership of the so-called non-regional states, the bank's authorized capital rose to \$US6.3 billion from \$US2.9 billion.

The African Development Fund (ADF), the AfDB's concessional window, was established in 1972 and, in turn, commenced operations in 1974 with an initial capital subscription of \$US244. Its membership is made up of the AfDB and about 25 non-African states including the United States.

The third institution in the group, the Nigerian Trust Fund, was established in 1976 by the Nigerian Government, taking advantage of its tremendous oil resources, to augment development financing resources to the less privileged countries of the region.

From its initial almost exclusive reliance on project lending in the first decade of operation, the Bank Group now employs a variety of lending instruments much like the World Bank's. They include traditional Project loans, sector investment loans, credit lines, so-called policy-based loans – sector adjustment and structural adjustment loans, as well as technical assistance operations.

At the end of 1997, the Bank Group's total lending stood at just over \$US33 billion, most of it from the ADB (US\$20billion), followed by the ADF (US\$11billion). For the Group as a whole, the sectoral distribution of lending is dominated by agriculture and infrastructure (transport and public utilities). At the end of 1997, agriculture accounted for about 23.5% of the Group lending while infrastructure accounted for about 36%.

Disbursements stood at the end of 1997 at a total of about US\$222billion, with the bulk of it (\$14.2billion) coming from the ADB, followed by the ADF (US\$7.6billion), and the Nigerian Trust Fund (about US\$205million). While this is relatively small compared to the World Bank and even to the other regional banks, it nevertheless makes the AfDB Group an important regional funding source.

For about a decade following the admission of the non-regionals to membership of the ADB, a fairly harmonious climate prevailed among the African and non-African membership. But the strains began with the onset of the nineties and came to a head with the publication of the findings of a major study in 1994, the Knox Report (named after its chairman, David Knox). The report drew attention to a number of weaknesses and problems and set the stage for a long period of internal discussion, reviews, attempts at reform and quite a bit of recrimination in the dialogue between the regional and non-regional members of the bank. Among other things, the Report raised the issue of the poor quality of lending generally and stressed three main areas that needed urgent attention. It is important to reiterate these here because they do have, to some extent, a rather current ring to them. The three areas were (i) the Bank's focus—the Report noted that the Bank was “pulled in all directions by the conflicting goals and attitudes of its shareholders,” (ii) lending policies and procedures compared to practice, and (iii) the Bank's largely unrealized asset as an African institution in which the African shareholders especially reposed a great deal of trust. The crisis generated by the Report came to a head when the donors suspended funding for the ADF leading to a sharp fall in lending operations.

Where is the Bank Now?

There can be no question that under the Bank's current president the Bank has moved resolutely to address the issues of management and governance that plagued the Bank and led to the bitter recriminations between the African and non-African members of the Bank. There has been a remarkable improvement in project quality and management. Moody's has acknowledged the improved regime of sanctions lending and monitoring procedures. The Bank has a new Vision Statement which was promulgated in 1999. A recent study, in which I had the privilege to participate, noted that the institutional problems that plagued the Bank for so long have to a large extent been alleviated. Thus, unquestionably, the Bank has been quite successful in addressing the management problems identified in the mid-nineties.

The Role of the AfDB compared to the IMF and the World Bank in fostering economic development in the African region

The Bank's potential in this area remains largely unrealized. This is mainly a resource problem. The World Bank and the IMF between them simply deploy more funds than the AfDB. But this is only part of

the story. The other part has to do with the AfDB's focus based on its real or potential comparative advantage and the acknowledgement of this advantage by the partner institutions and donors.

The issue of grants versus loans is to some extent a non-issue. A combination of grants and long-term concessional loans with a large grant element should be sustainable. I will provide further elaboration of this point.

For me, the debate over infrastructure or poverty alleviation is also a confusing one. Poverty alleviation is the ultimate goal that all development activity must strive to achieve. It is the ultimate benchmark against which all economic reform efforts must be judged. This requires investments and a sound macroeconomic policy framework in which the goals on poverty alleviation are explicitly recognized. An important part of the poverty alleviating reform effort must include significant investments in infrastructure, especially rural infrastructure, as well as regional infrastructure, both areas in which the AfDB ought to be prominent.

The AfDB and Market reforms, debt relief and the fight against HIV/Aids

The AfDB's role in this area has been marginal at best. Clearly, this is again partly a resource problem and also a problem of management vision and initiative. I will elaborate.

The Future of the Bank

The Bank is clearly well positioned to become a leading source of knowledge and development financing for the African region. The internal management problems that caused the Bank a loss of market and donor confidence have largely been resolved even if at the cost, at least initially, of lowered staff moral. In spite of much talk of strategic partnership especially with the World Bank, the AfDB still remains and is perceived as a caricature of the World Bank. Its resource base will need to be strengthened and its focus sharpened to enable it to fully exploit its potential as a credible African development institution. I see three areas in which the Bank can develop its niche:

- I. Governance issues in Africa
- II. Regional Public Goods including support for regional public health interventions
- III. Promotion of regional integration initiatives.