

**Preliminary Observations of  
the African Development Bank  
High Level Panel**

**Background Paper**

ADF-11 Replenishment: Second Consultation Meeting  
June 2007  
Tunis, Tunisia



**AFRICAN DEVELOPMENT FUND**

## **PRELIMINARY OBSERVATIONS OF THE AFRICAN DEVELOPMENT BANK HIGH LEVEL PANEL**

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### **1. Introduction**

- 1.1 This summary provides a brief covering note to the attached presentation used by the High Level Panel (HLP) Co-chairs to backstop their presentation to Governors at the Annual Meetings. It outlines the process and the essential lines of thinking thus far within the HLP.

### **2. Process**

- 2.1 The Panel had a preliminary meeting last year and then met in January in Paris and in March in Tunis. Three Regional consultations have also been held. On the basis of these discussions, and on emailed exchanges between Members, the Co-chairs made a presentation to Governors during the Annual Meeting in Shanghai. The Co-chairs also met separately with a number of delegations in Shanghai.
- 2.2 The purpose of the meetings in Shanghai was for the Co-chairs to hear the views of Governors and of shareholders. Further regional consultations are expected to be held over the next few months. On the basis of discussions within the Panel thus far, feedback from delegations at the Annual Meetings, and ongoing regional consultations, a draft report is being drawn up for review and detailed discussion by the Panel at its next meeting on 20/21 July 2007.
- 2.3 The Panel will consider also what further consultations will take place, but it is likely that they will want to discuss the draft report with shareholders and indeed to act as advocates for their report. The final report is expected to be delivered in the autumn to the President.

### **3. Substance**

- 3.1 The following power point presentation, and accompanying notes, formed the basis for the co-chairs presentations. The key elements were:
- Whilst it is still lagging on progress towards the MDGs, much of Africa is making sustained economic progress.
  - Given commitments made by Africa and by the international community there is an unprecedented opportunity to make progress.
  - To do so requires concerted effort, a common driving vision, and sustained support behind African leadership.
  - The vision must be of an integrated continent (more populous and younger than both China and India by 2050) taking its rightful place in the world.
  - If it is to do so, Africa must overcome a number of challenges and respond effectively to new opportunities.
  - The African Development Bank will be pivotal and must be at the heart of this process: as Africa's Bank and a voice for Africa.
  - It cannot have therefore any other ambition but to be the premier development institution on the continent.

- It is not that now, and will not be tomorrow. A structured sequence of steps must be taken; the ADB must earn that position through results.
- The Bank's mission must be centered on poverty reduction through growth, and it must be relevant to all its Regional Members.
- A fundamental cross-cutting objective is regional and pan-African integration.
- It should operate as a single Bank leveraging its various instruments and windows, including private sector lending.
- It should become a "knowledge" Bank, by building networks and capacity in Africa, serving as an interface between knowledge and application, becoming a point of reference for advice on Africa.
- But it should not try to do everything. It will have to be selective, to make choices, to demonstrate excellence and deliver results.
- The immediate, and interconnected, areas of focus for the Bank should be: infrastructure; regional integration; fragile states; private sector; governance; and human capital.
- Within these the Bank should respond to country priorities, to client demand.
- The Bank should not operate alone. The Bank should leverage its unique position in Africa, its experience and knowledge, by working more and more effectively with others.
- The Bank can and should do much more: using better its own resources; being more efficient and effective as the channel of choice for donors and recipients in Africa; and through an enlarged ADF.

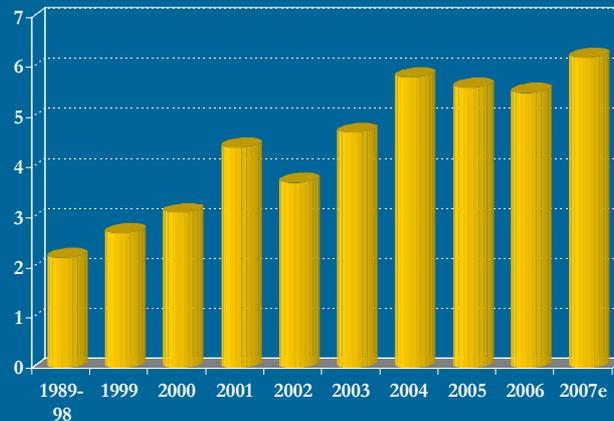
# Preliminary Observations of the African Development Bank High Level Panel

President Joachim Chissano  
The Right Honorable Paul Martin

*African Development Bank Annual Meetings  
Shanghai, People's Republic of China  
May 16, 2007*

## Africa has a unique opportunity to take a major step forward in its development

### Real GDP Growth



Source: IMF World Economic Outlook April 2007

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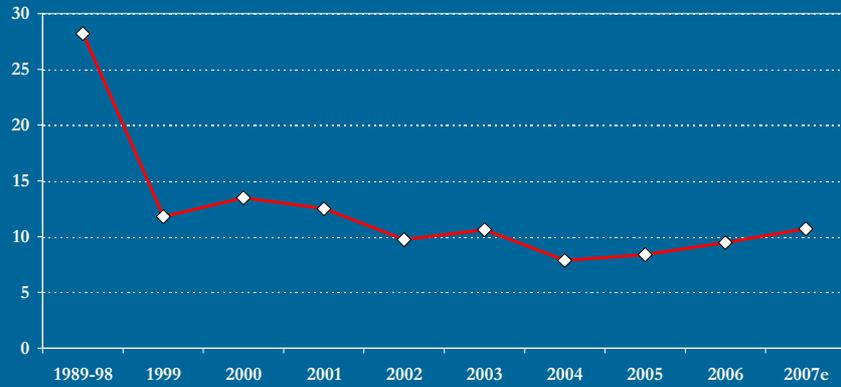
The High Level Panel (HLP) is undertaking its reflection with a tremendous sense of optimism, and against a backdrop of broadly positive economic indicators for Africa. A favorable global economic context, characterized by strong demand for many of Africa's primary commodities, allied to progress by Africa on macroeconomic policy reform and governance are the main drivers behind the Continent's strong performance of the past several years.

Africa's recent progress is striking when compared to the 1990s:

- Real GDP growth is forecast to exceed 6% in 2007 compared to less than 3%.
- Inflation has fallen from nearly 30% to stabilize in the 10% range.
- Following macro-economic reforms, many African countries have benefited from debt relief, which is reflected in significantly lower external debt-to-GDP ratios.
- While Africa had a fiscal deficit of 3.5% of GDP in 1999, the continent has produced fiscal surpluses since 2004.

## Africa has a unique opportunity to take a major step forward in its development

*Inflation (CPI % Change)*

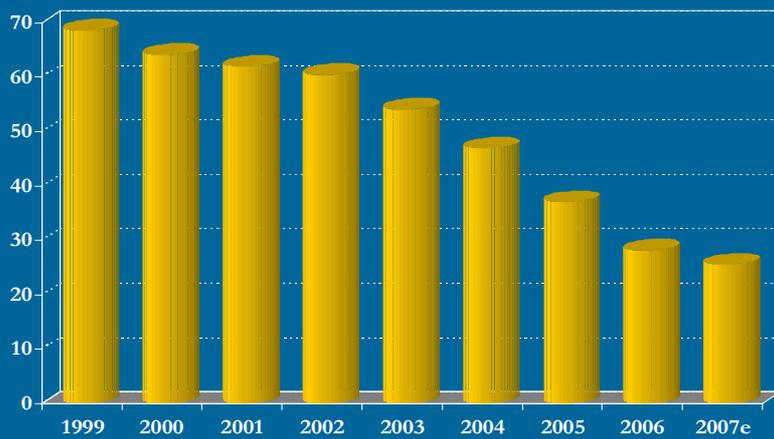


Source: IMF World Economic Outlook April 2007

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## Africa has a unique opportunity to take a major step forward in its development

*External Debt (% of GDP)*

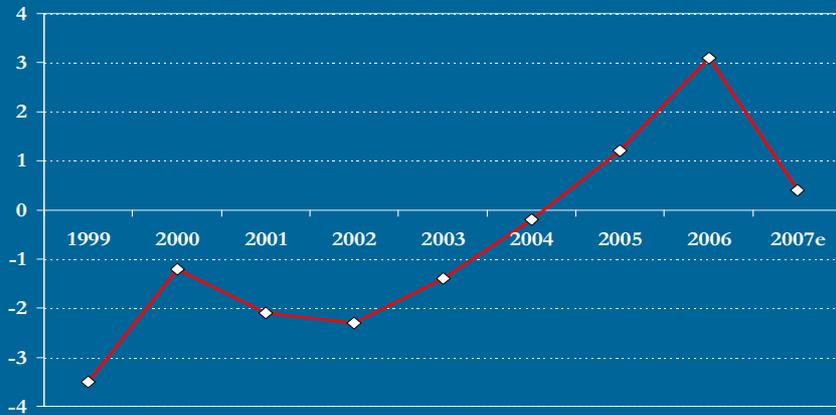


Source: IMF World Economic Outlook April 2007

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## Africa has a unique opportunity to take a major step forward in its development

*Fiscal Balance (% GDP)*

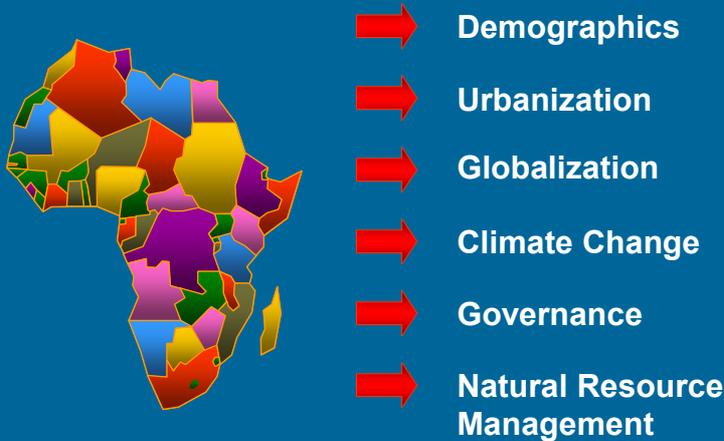


Source: IMF World Economic Outlook April 2007

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Of course these aggregates disguise a range of performance; progress has not been uniform nor in every country. Nonetheless the HLP believes that there is now a unique window of opportunity for Africa. These improvements provide a solid platform for a step change in Africa's development. Taking advantage of this opportunity will require concerted efforts from all parties, a common driving vision, and a willingness to implement the commitments each has made. Africa will need to give a lead, to consolidate and sustain progress on economic management and governance, and address issues of conflict. The international community must deliver on its promises to provide more and better quality assistance to Africa. If we miss now this window of opportunity it will close for some time to come.

## The Panel envisions Africa overcoming key challenges and realizing its potential



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The HLP's vision for Africa in 20 years is one of an integrated continent of 1.4 billion people, having overcome mass poverty, taking its rightful place in the world economic system, fully integrated also in global trade and investment flows. For this to happen, Africa will overcome a number of challenges and take advantage of its opportunities over the medium term:

**Demographics:** According to the UN, the population of Africa will reach 1.4 billion by 2025, on par with both China and India. By 2050, Africa's population will reach 2 billion, surpassing both China and India. Furthermore, in 2025, more than half of Africa's population will be under the age of 25. Population growth in Africa is both a challenge and an opportunity. It will give Africa greater weight in the global economy but will put tremendous pressure on Africa's social systems. Strong economic growth will be needed to create jobs to absorb new labor. Africa's growing population must be healthy and well trained to compete in the global economy.

**Urbanization:** In 2025, the majority of Africa's population will live in urban centers compared to less than 40% today. This will mark a transition from a primarily agrarian, rural continent to an urban one. Significant investments will be needed in urban infrastructure and in basic services to meet their needs. Jobs must be created to absorb the flow of new workers migrating to urban centers; electricity, water, sanitation, health and education services will have to expand rapidly, and in ways which will be sustainable.

**Globalization:** With its natural resource endowments and human capital potential, Africa should be a major beneficiary of globalization. However to date Africa is merely a marginal player in global trade and investment flows. It is largely a continent of small markets with limited productive and purchasing power, often uncompetitive internationally. Greater regional integration to connect fragmented markets and overcome physical handicaps accompanied by strong private sector development will be needed. Improvements in the climate for both foreign and domestic investment are necessary if Africa is to compete.

**Climate Change:** Africa's lakes and forest contribute to the common good. However recent environmental assessments, such as the Stern Report, have confirmed that Africa will face adverse consequences, and will bear some the costs of climate change – not of its own making. Adaptation and environmental risk mitigation strategies will be necessary.

**Governance:** The importance of a capable state and effective institutions is evident. Despite progress on political and economic governance, Africa needs to consolidate and deepen governance reforms. African institutions will need to build significant capacity to cope with these challenges.

**Natural Resource Management:** The challenge is twofold: managing land and water resources in the face of demographic growth and climate change; and managing primary commodity resources for maximum economic impact. Revenues from commodity sales must be used wisely to promote economic diversification and cushion future terms-of-trade shocks.

This vision must be created with a sense of urgency, and it will not happen in the absence of African leadership.

## The ADB should be pivotal



- ➔ Premier African Institution
- ➔ Poverty Reduction through Growth
- ➔ Relevant to all RMCs
- ➔ Single Bank
- ➔ Regional and Pan-African Integration
- ➔ Financial and Knowledge Services

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The Panel firmly believes that the ADB must be at the heart of efforts by Africa to realize this vision.

**Premier African Institution:** The ADB is and must be Africa's Bank. It is the only multilateral institution focused exclusively on the African continent. Its President is elected; its shareholders and staff are predominantly African. The Panel's view is that the ADB can have only one ambition: to be a premier development bank for Africa. It can only do so by demonstrating excellence and delivering results.

**Poverty Reduction through Growth:** The Bank's mission must be centered on reducing poverty by promoting broad-based growth.

**Relevant to all RMCs:** The Bank has to remain engaged in all its regional member countries, and must respond to a diverse range of RMC needs. The Bank must therefore be relevant to MICs, LICs and fragile states.

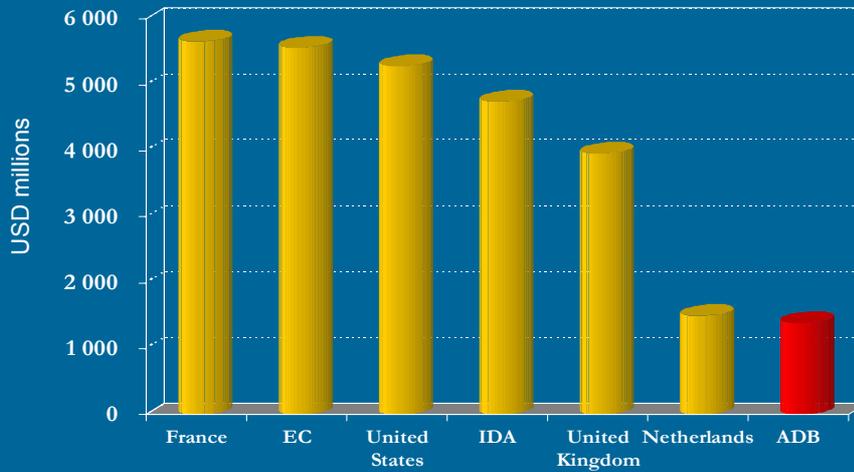
**Single Bank:** The ADB should be a single Bank, promoting regional integration, bringing together its concessional and non-concessional, sovereign and non-sovereign windows, its private sector operations into a coherent whole.

**Regional and Pan-African Integration:** A fundamental cross-cutting objective should be facilitating regional and pan-African integration. An integrated Africa will be more capable of addressing common challenges and taking its rightful place in the global economy. The Bank must deliver strong support to continental initiatives where it has been asked to play a leadership role.

**Financial and Knowledge Services:** The Bank must increasingly complement financial services with knowledge services including analytical and policy work. It should be a voice for Africa on development issues, and a point of reference within Africa.

## But the Bank cannot do everything and must focus its efforts

*Total ODA to Africa (Approvals, 2005)*



Source: OECD DAC Database

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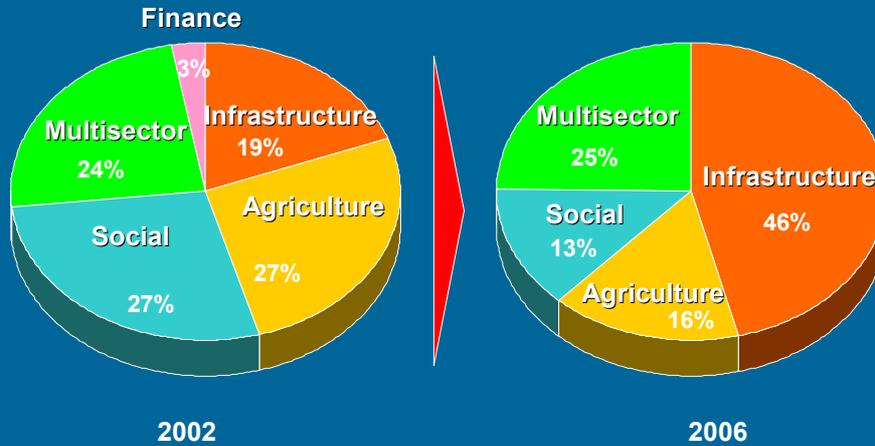
While this is the HLP's vision for the Bank, it is clear that this is a longer term goal. The Bank is not there now, nor will it be next year. As an illustrative example of where the Bank is today, statistics on donor assistance to Africa indicate that the ADB is only the 7th largest source of development finance for Africa. While financial resources are not the only indicator of the strength of an institution, this clearly indicates that the Bank must do more to become the channel of choice for development finance in Africa.

Therefore the Panel is looking at how to attain this goal and what Bank must do to get there. It will require a well-articulated, sequenced plan; the Bank will need to earn its place as a premier institution by delivering concrete results.

Consequently the Panel believes that in the near term, the ADB must focus its limited resources on certain core areas to demonstrate excellence and deliver results. Choices on areas of focus must be country-driven to respond to client needs. Because it cannot do everything itself, the Bank must work purposefully to develop strategic partnerships with others to ensure that the essential needs of Africa are addressed in a coordinated manner, which makes the best use of respective competencies.

This is not completely new, the Bank already has a degree of focus

ADF Approvals by Sector



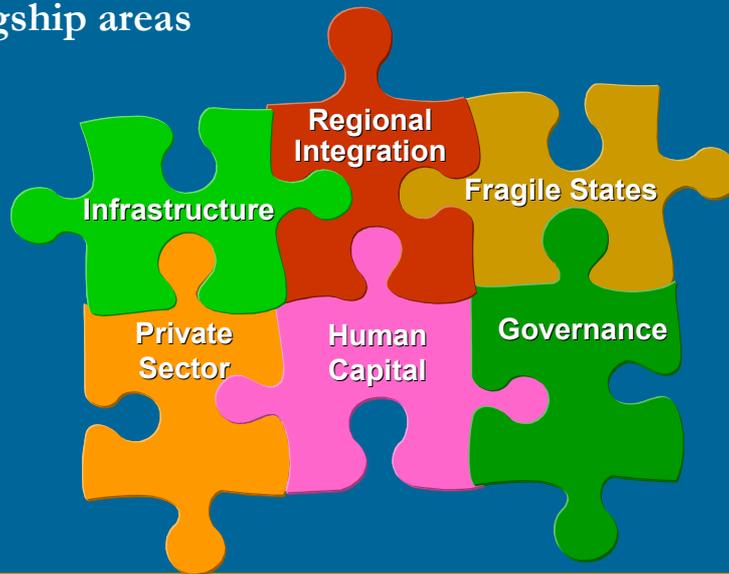
Source: ADB Annual Report 2006

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The Bank is already moving in the direction of greater operational selectivity with a growing focus on infrastructure operations. Infrastructure, including transportation, water and energy, accounted for approximately 46% of approvals in 2006 compared to 19% in 2002. This growing focus on infrastructure is clearly aligned with the Bank's role on continental infrastructure initiatives.

While greater focus will be important initially, and the Bank may want to phase out or play a support role in certain areas where other partners are taking the lead, the HLP believes that talk of wholesale abandonment of sectors is misplaced. Indeed, the Panel's longer-term vision for the Bank is that of a fuller-service institution.

## The Bank can add the most value in a few key flagship areas



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The Panel's initial discussions suggest the Bank should focus on several key thematic areas where it can make a strong contribution:

**Regional Integration:** As an African institution, the Bank is well-positioned to lead in regional integration. It is a key means for the Bank to support the NEPAD initiative and complements its focus in infrastructure. The Panel believes that there should be positive incentives for regional integration; that integration projects should be regarded more as a regional public good, as a stimulus to improved performance, not hostage to the worst performer.

**Infrastructure:** As previously mentioned, this is an area of growing focus for the Bank where it has been asked to play a leadership role. The sector is also underserved by bilateral donors. Specifically, the Bank should be active in transportation, energy, water and ICT to help improve economic competitiveness and access to basic services. Support to regional infrastructure projects should be given high priority.

**Fragile States:** Post-conflict and other fragile states represent a significant challenge in Africa and the Bank must have a role. Beyond domestic costs, conflict and fragility generate negative spillover effects for neighboring countries and hamper regional integration efforts. The Bank's goal in this area should be to provide significant multi-year support to help countries transition to "normal" status as quickly as possible. Discussions on the implementation modalities are ongoing within the Panel but due to the unique circumstances of each country, the Bank's support should be defined flexibly on a country-by-country basis. Dialogue on the Bank's support to fragile states in the context of ADF-11 negotiations will be an important input.

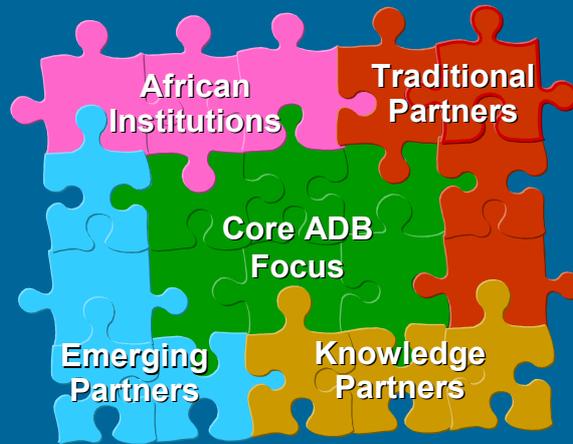
**Private Sector:** The private sector will be the engine of future growth, job creation and economic insertion for Africa. The Bank can support private sector development through support for the enabling environment and direct support to private sector operators. The Bank should fully utilize a broad spectrum of instruments including loans, guarantees, equity investments (including in emerging equity funds targeting Africa) and lines of credit. Small- and medium-sized enterprises (SMEs) represent an important vector for growth and job creation but are difficult for the Bank to serve directly for reasons of scale and capacity. The Bank should develop a network of intermediaries (local banks, funds, rural credit cooperatives) to ensure that SMEs have access to finance for growth. Extractive industries are another sector where the Bank can help RMCs to make the most of their natural resources by negotiating fair concessions and using revenues wisely.

**Human Capital:** While physical capital is important for growth, so is human capital. The Panel is looking at how the ADB can best help Africa to develop the higher level of skills and knowledge necessary to be productive and competitive in the global economy. Given the current donor focus on primary and secondary education, the Bank's efforts could focus on higher education and vocational training.

**Governance:** The Bank's work in governance would leverage its standing as an African institution and would be linked to its support for the African Peer Review Mechanism (APRM). Discussions are ongoing on how the Bank can add the most value in governance.

There must necessarily be sequencing to the Bank's efforts to build capacity and excellence in these different areas over time. In each case, an assessment must be made of the Bank's current capacity compared to requirements with a plan to fill any gaps. Because of the linkages between these areas, this does not mean simply addressing one area after the other but will require a practical approach to tackling key problems that may cut across several themes. For example, the Bank may want to give immediate attention to delivering on regional infrastructure projects identified under the NEPAD initiative, implying delivery on both infrastructure and regional integration. Capacity in other areas such as support for higher education and vocational training may take more time to build.

## Effective partnership is the key to ensuring all of Africa's needs are met



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The international aid architecture is changing rapidly and the Bank must adapt with it. There are more donors than ever, a proliferation of multinational, national, non-governmental, and not-for-profit organizations. There must be more harmonization and coordination, a greater focus on results, working together rather than in competition. In some cases the Bank should lead, in others it can provide indirect support. That means a new way of looking at partnerships, and of responding in deed as well as word to country ownership.

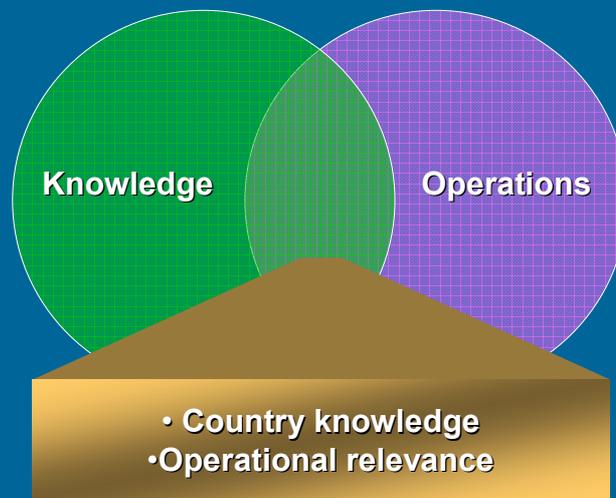
**Continental and regional African institutions:** Effective partnership with African and regional institutions will be a first-order priority, particularly with the AU and related initiatives (NEPAD, APRM). The AU's vision for the Bank in light of initiatives to create other African financial institutions must be taken into consideration. Partnership with RECs will be important in the context of regional integration as will greater partnerships with sub-regional development banks (i.e., BOAD, EADB, DBSA).

**Traditional Partners:** Relations with traditional multilateral and bilateral partners must be maintained and strengthened. In particular, the Bank needs a restructured partnership with the World Bank that will provide a clearer division of labor, leaving the ADB with space to grow.

**Emerging Partners:** The emergence of non-DAC bilateral donors, of major foundations, and of vertical funds has changed the aid landscape. The Bank can play a role in structuring Africa's partnerships with emerging donors such as China and can also partner with foundations and vertical funds to avoid duplication of efforts.

**Knowledge Institutions:** Enhancing the Bank's research, analytical and policy-dialogue capacity can be accomplished in large part through partnerships. By linking with strong knowledge institutions in Africa or elsewhere (ECA, AERC, African and non-African universities or think centers), the Bank can scale up its knowledge activities faster and more effectively than building exclusively in house. By leveraging African institutions and researchers, the Bank can ensure that a distinctly African voice is heard.

## The Bank's ambitions must be grounded in greater analytical and policy capacity

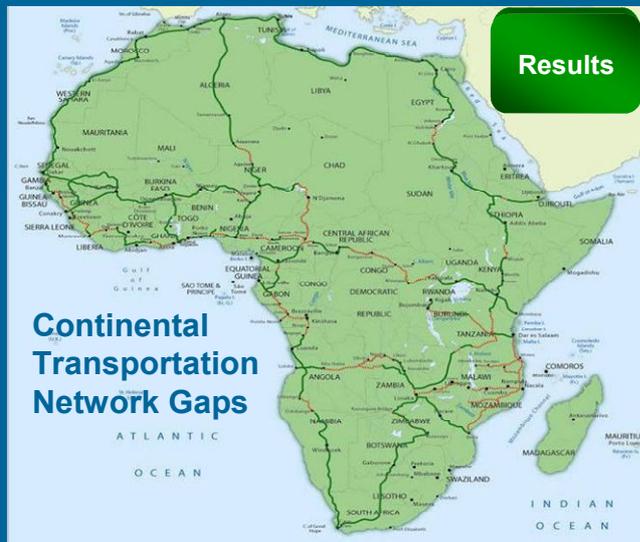


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To be a premier player, the Bank must have greater analytical/policy capacity. The Bank's knowledge work must be directly relevant to the Bank's operational focus, serving as an interface between knowledge and development application. The Bank can add value by being a voice for Africa in international fora on development issues highlighting African views and concerns.

To be relevant to all of its clients and leverage its African character, the Bank must have better knowledge of its RMCs. This can be accomplished in part through greater decentralization, staffing field offices with substantive staff for dialogue. Developing this capacity will require investment and an adequate budget, comparable to that in the other Multilateral Development Banks. However, this does not imply that the Bank will focus primarily on building capacity in-house. Rather, the primary focus should be on building capacity and networks in Africa that will provide material. The Bank's primary role would be to synthesize and distill this material and ensure sharing of lessons learned and practical application to the Bank's operations.

## To achieve its ambition, the Bank's case for more resources must be built on results



Results

Resources

- Enlarged ADF
- Dedicated Funds
- Human Resources

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The case for expanding the Bank's human and financial resource base must be grounded achieving better results as demonstrated by stronger project implementation within a framework of greater institutional efficiency. Filling Africa's major continental infrastructure gaps would be an example of significant results.

The Bank has capacity to do more. Its balance sheet is extremely solid and the ADF window has significant risk-bearing capacity to expand lending to MICs and non-sovereign entities. Demand for private sector financing is very strong.

The ADF window, however, is unable to satisfy even existing demand from LICs. Donors should be ready to scale up ADF resources significantly at the same time as the Bank implements institutional reforms and demonstrates greater efficiency and effectiveness. It must have the flexibility and the instruments it needs. Scarce resources will continue to be allocated on the basis of performance but it cannot be a single club player. For instance, the Panel believes that dedicated funds are needed to provide greater support for regional integration and fragile states.

When comparing the Bank to sister institutions, the ADB appears to be understaffed. Based on data for 2005, the Bank's total staff-to-project ratio was approximately eight compared to 20 and 26 for the Inter-American Development Bank (IADB) and Asian Development Bank (AsDB) respectively. However, comparing loan disbursement volume-to-staff ratios suggests that the Bank could better leverage current staff by focusing on implementing fewer, larger projects and improving implementation efficiency.

The Panel believes that a Management and shareholders should establish a "strategic compact" whereby shareholders agree to provide incremental resources based Management implementation of ongoing reforms.

## Annexes

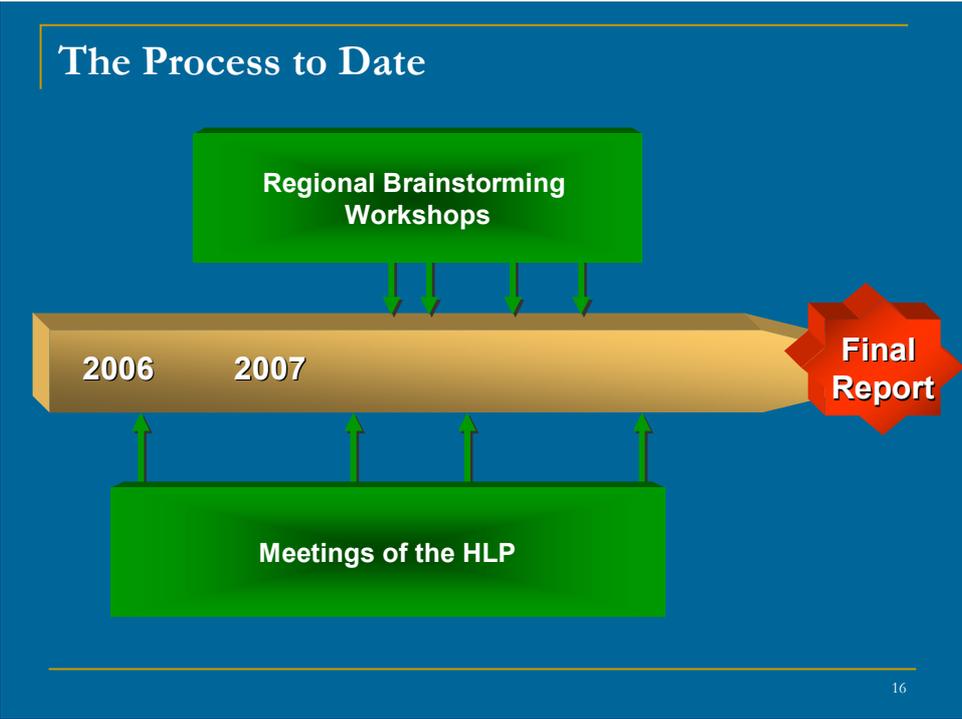
### The members of the High Level Panel

- Co-chairs:

- President Joachim Chissano, Mozambique
- Right Honorable Paul Martin, Canada

- Members:

- Jean Michel Severino, France
- Emanuel Mutebile, Uganda
- Joseph Stiglitz, USA
- Soumaila Cisse, Mali
- Judith Rodin, USA
- Wiseman Nkuhlu, South Africa
- François de Donnea, Belgium
- Morisho Yuma, DRC
- Sir Timothy Lankester, UK
- Ndi Onyiuke Okereke, Nigeria
- Poul Nielson, Denmark



Since holding initial consultations between the Co-chairs and ADB Management in October 2006, the HLP has held three meetings, and a final meeting is expected to be held before the Panel finishes its work. The report of the Panel is expected to be completed by fall 2007.

In parallel, members of the Panel have been convening brainstorming workshops at the sub-regional level to seek views and insights of African stakeholders with intimate knowledge of the Bank on the most pertinent issues on the Panel's agenda. The presentation of the preliminary findings of the Panel at the Bank's Annual Meetings in Shanghai was yet another opportunity to capture the views of key African stakeholders on the ADB's future.

At the conclusion of its work, the Panel will present its recommendations to the President. It will be up to the President to submit proposals to the Board of Directors and the Board of Governors on how to carry forward the recommendations. The Panel will also play an advocacy role, building a consensus of support for the vision and for a long-term strategy for its realization.