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Statement by

Mr. Suleiman J. Al-Herbish
Director-General of the OPEC Fund

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**Development Committee
75th Meeting**

Africa at a Turning Point: Challenges and Opportunities

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The second item featuring on the Agenda of this 75th Meeting of the Development Committee - *Accelerating Development Outcomes in Africa - Progress and Change in the Africa Action Plan (AAP)* - underscores the perennial challenge of accelerating pro-poor growth in Africa. The OPEC Fund for International Development (OFID) welcomes the renewed international focus on the continent - home of 30% of the world's poor - which has been the centrepiece of our institution's poverty reduction and related efforts for more than thirty years.

The year 2007 presents both challenges and opportunities for Africa, which seems to have reached an important turning point. African leadership has allowed for important headway towards macro-economic stability and transparency, institutional and policy reform, social progress, and regional integration in recent years. After a protracted period of slow economic growth between 1974 and 1994, the performance of a significant number of countries improved after 1995, with average output reaching 5.3% in 2006, its highest in a decade. It is important for Africa to build on this new momentum, which is supported by improved fundamentals, more favorable external conditions, higher commodity prices, and a pick-up in investor interest.

Despite important progress and commonalities, however, the growth rates achieved so far fall below the 7% or higher annual growth rates required to put African economies on a sustainable path towards meeting the poverty reduction and related *Millennium Development Goals (MDGs)* set for 2015. Growth experiences have become increasingly diverse among African countries and sub-regions in the last decade, as the performance of many African economies continues to be crippled by weak human and institutional capacities, low savings and investments, lack of economic diversification, unsustainable external debt, rampant poverty, pandemic diseases, and violent conflict or its aftermaths.

The challenges are particularly daunting for Sub-Saharan Africa (SSA), where nearly 300 million people still live in extreme poverty. Many countries in the sub-region have experienced improvements in social and economic indicators in recent years, with average growth reaching 5.2% in 2006. These gains, however, were often not reflected in stable GDP growth rates, with several countries making remarkable progress, while others stagnate or seriously lag behind. If present trends continue, SSA's poverty rate will remain over 38% in 2015 - far above the 22.3% target, and Africa as a whole will fall short of most of the MDGs.

A number of initiatives and action plans have been launched to boost Africa's economic recovery and social development. The *World Bank Group's AAP* provides a comprehensive and results-oriented framework to expand development cooperation in order to help as many African countries as possible achieve the MDGs by targeting opportunities for more rapid and shared economic growth. Elements of the Plan, which was endorsed by the 72nd Meeting of the Development Committee in September 2005, include scaling up human and institutional capacities, strengthening public expenditure management, raising agricultural productivity and sustainability, closing the infrastructure gap, and further developing an African private sector in order to create jobs, accelerate growth, and expand exports. The Plan further aims at strengthening partnerships at the country level, building outcome-driven national development strategies, and supporting regional integration.

To eradicate poverty, Africa needs both aid and trade. Trade can be an important engine of growth, and a key pillar for helping Africa maximize its potential. Despite some encouraging trends, however, Africa has seen its total share in global exports decline to a mere 2.8% in 2005, roughly equivalent to its 1991 value and less than half the record 6% in 1980. Similarly, progress

towards implementing the *Doha Development Agenda (DDA)* has been disappointing to date. There remains a need for greater non-reciprocal tariff- and quota-free access for African countries to industrialized markets, particularly in agriculture and services, and for more aid for trade within a rules-based and equitable multilateral trading system.

African countries on their part need to address the impediments to intra-African and international trade as part of an overall strategy that could allow them to raise competitiveness, close the productivity gap with other regions, and further integrate into the global economy. This is in line with objectives of the *New Partnership for Africa's Development (NEPAD)*, a home-grown continental development strategy adopted by African leaders at the October 2001 Summit of the Organization of African Unity, Abuja, Nigeria. Some US\$64 billion will be needed annually to finance the activities proposed under the NEPAD, part of which is expected to be mobilized from increased official development assistance (ODA).

The AAP builds on the commitments made by the Group of Eight (G-8) at their July 2005 Summit in Gleneagles, Scotland. Heads of State pledged to double the level of their ODA to Africa to US\$50 billion by 2010, with a strong focus on SSA. So far, we have not seen much of the higher aid promised at Gleneagles and the 2002 United Nations (U.N.) *Financing for Development Conference*, Monterrey, Mexico. ODA levels still remain well below the U.N. target of 0.7% of the combined gross national income (GNI) of the industrialized nations. Although total ODA had risen to a record US\$106.8 billion or 0.33% of GNI in 2005, most of the increase was due to debt relief, and to a lesser extent emergency assistance. Moreover, the combination of rising shares of aid to debt relief and emergency assistance, together with donor orientation towards the social spheres, has diverted development assistance away from investments in such areas as infrastructure improvement and enhancement of productive sectors needed to reach the MDGs. Despite the commitments made in Gleneagles and Monterrey, the combined ODA of the industrialized nations fell back again by 5.1% to US\$ 103.9 billion in 2006, while aid to SSA stalled.

The development financing provided by OFID, which reached a cumulative US\$8.6 billion by end January 2007, constitutes a genuine effort to help meet the international obligation of mobilizing the resources required to meet the MDGs. For more than three decades, OFID Member Countries have made available a stable and predictable stream of financing for development for particularly the poorest African countries in an effort to enhance national competitiveness, accelerate growth, and promote broad participation in its benefits. OFID is revising its current lending program against the background of the changing landscape for development co-operation. Africa shall retain its share in the new lending program, which shall continue to emphasize impact and effectiveness as reflected in the level of assistance and concessionality offered, as part of a strong and continued commitment to work with all relevant partners in development to reach shared objectives.

The low level of ODA makes it all the more important to ensure that aid is used effectively, as correctly stressed by the AAP. OFID's preferred method of work is in partnership with the World Bank Group, the African Development Bank, U.N. Agencies, the NEPAD, and other strategic partners. Working in teamwork with our client countries and partners, the centerpiece of our efforts on aid harmonization, alignment, and effectiveness is the March 2005 *Paris Declaration on Aid Effectiveness*. OFID draws upon a number of strengths in improving the quality of aid and cutting red tape, including an inherent risk-mitigating and problem-solving capacity, and accountable delivery mechanisms.

Making aid work in countries where conditions are less favourable and the capacity for absorbing aid is low remains a challenge, although there the catalytic role of aid and its ability to harness change and accelerate growth may be greatest. While active engagement of the international community and strengthening development partnerships is crucial to making aid work effectively, African countries themselves should take the driving seat in enhancing aid effectiveness, in setting national priorities, and in ensuring the necessary national ownership and commitment to home-grown and outcome-driven national development strategies.

In delivering its assistance to Africa, OFID has taken a basic needs approach, adapting its strategies and operations to help meet the challenges facing particularly the poorest or least developed countries (LDCs). Consequently, OFID's public sector operations roughly correspond to the basic needs and priorities of the fifty LDCs, thirty-four of which are in Africa. As of end December 2006, Africa had benefited from more than half of OFID's cumulative public sector operations, more than 88% of which had been allocated to countries in SSA.

OFID's emphasis on poverty reduction is essential for halting environmental degradation, which has become an integral part of our project design and implementation. Assisted by efficient and effective rules and procedures, OFID ensures its programs and projects are environmentally-friendly and ecologically-safe, in line with the objectives of the 1992 *Earth Summit* and *Agenda 21* - a plan of action for sustainable development - and the 2002 *World Summit on Sustainable Development (WSSD)*. OFID also directly finances activities that help preserve the environment through grant support to halt de-forestation and desertification, improve sustainable environmental and ocean management, build institutional capacity, introduce new technologies, and strengthen integrated natural resource management.

OFID's public sector lending portfolio for the Africa region shows a concentration on transportation (29.3%), agriculture and agro-industry (17.7%), energy (14%), education (13.5%), water supply and sewerage (7.1%), and health (7%).

Since poverty in Africa is a predominantly rural phenomenon, OFID has made *agriculture and rural development* a key priority, collaborating closely with its partners in development in generating employment, and raising standards of living. Only 30% of SSA's rural population has access to an all-season road. OFID therefore also invested heavily in rural infrastructure, improving access to transport and infrastructure services to the poor through a broad range of projects implemented in collaboration with other DFIs. In addition, the Fund has stimulated private sector participation in particularly smaller-scale infrastructure projects through its *Private Sector Facility (PSF)*, which became fully operational in 1999.

The MGDs cannot be achieved without access to clean *energy*. OFID pays special attention to fighting energy poverty and making modern energy services available to particularly the poorest African countries by making investments in reform and development of the power sector, including rural electrification, and hydro-power.

About half of Africa's population lacks access to *water supply and sanitation*, hampering productivity and socio-economic development, particularly in rural areas and impoverished districts. By building modern sewage systems and water treatment plants, and by providing safe drinking water and sanitation systems (MDG7), OFID has helped protect underground and other natural water resources from becoming polluted while reducing people's risk of contracting waterborne illnesses, including typhoid, cholera and dysentery.

The importance of *education* in boosting Africa's competitiveness and fostering shared growth cannot be over-emphasized. OFID has invested heavily in Africa's future generations by improving the quality of education, and by helping reduce gender disparities (MDG3), and increasing primary school enrolment for particularly girls (MDG2).

In the *health* sector, OFID assistance contributed amongst others to help prevent maternal and pre-natal deaths (MDG4) in rural communities. Thousands of women received better health services, allowing them to have safe deliveries, enjoy good newborn care, and reduce child mortality (MDG5).

A vital and growing private sector is critical to reduce Africa's dependence on aid, expand public revenue, and achieve the growth rates required to meet the MDGs. Through its separate PSF, OFID has helped African countries encourage growth and employment creation in particularly small- and medium sized private enterprises, (SMEs) - either directly, or through financial intermediation - in collaboration with strategic partners. The Fund's PSF aims at assisting SMEs and micro-enterprises by investing in four broad areas. These include: (i) support in a broad range of sectors, (ii) development of the financial infrastructure and sound and efficient local capital markets, (iii) industrial and agro-industrial projects, and (iv) small-scale infrastructure projects, and utilities.

As of March 31, 2007, almost US\$200 million had been committed to 36 operations in Africa under the PSF.

To assist trade expansion and regional integration in the South, OFID's recently launched a *Trade Financing Program* as part of an ongoing effort to make trade work for the poor through innovative, integrated, and sequenced solutions.

In addition, OFID has actively participated in the *Heavily Indebted Poor Countries* (HIPC) Initiative, which marked its tenth anniversary in September 2006. OFID provided truly *additional* debt relief on a voluntary basis, even as the Initiative was broadened in 1999 to provide deeper and more rapid relief to a wider group of countries, and to increase the Initiative's links with poverty reduction, in line with the objectives of the *Poverty Reduction Strategy Programs* (PRSPs). As of end December, 2006, 28 countries had benefited from US\$241 million in OFID debt relief under the Initiative, freeing scarce resources to help jump-start the development process. However, in the absence of a conducive international trade environment, the impact of the Initiative on helping African countries meet the poverty reduction and related MDGs is bound to remain limited.

Africa also captured the lion's share of the robust financial assistance OFID channelled through the *International Fund for Agricultural Development* (IFAD), and the *Common Fund for Commodities* (CFC).

In addition, Africa received about half of our cumulative grant assistance. Grant activities in Africa have been dedicated to improving the social and human conditions of particularly the poorer segments of the population, with a concentration on health (25.1%), humanitarian aid (24.2%), and other sectors (26.1%). Almost 70% of OFID's cumulative grant assistance to Africa has been allotted to SSA, about half of which was used to finance emergency assistance (40%) and support agriculture and rural development (10%). Special Funds have also been established to help address the Food Crisis in Africa, and to help meet MDG6 of halting and

beginning to reverse the spread of the *human immuno-deficiency virus (HIV)* by supporting projects in several areas, including advocacy and awareness building, strengthening surveillance systems, upgrading prevention capacities, and enhancing access to medicine to those suffering from the *Acquired Immune Deficiency Syndrome (AIDS)*.

Particular attention has been paid to unleashing the economic potential of African women and promoting gender equity, in line with the September 1995 *Beijing Declaration and Platform for Action*, and related initiatives. OFID plays a key role in empowering African women, as evidenced by a wide range of projects and programs aimed at supporting disadvantaged groups and individuals, fostering social change, and helping meet people's basic needs. Women are at the heart of OFID's community-based programs designed to prevent the spread of HIV, provide clean water and sanitation, expand economic opportunities, protect natural resources, and enhance access to and improve the quality of basic education. These and related OFID interventions contribute to gender mainstreaming by reducing gender disparities, and ultimately, eliminating them in partnership with client countries and all other relevant stakeholders in development.

Now is a time of great opportunity for much of Africa. Converting this opportunity into higher and sustained growth and poverty reduction will require bold and decisive leadership at both the national and international levels, and both big and small investments to generate the employment, and raise standards of living. The AAP is a timely response to these new opportunities. It is hoped that the new African development strategy, together with the provision of more generous and results-oriented development aid and the establishment of a more development-friendly international trade environment will trigger Africa's economic take-off, and help countries in the continent meet the MDGs.