Statement by Omar Kabbaj,
President of the African Development Bank Group
at the Symposium Marking the 40th Anniversary of the
African Development Bank

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Tunis, Tunisia
Introduction

Your Excellency Mr. Mohamed Ghannouchi, Prime Minister of Tunisia, representing
His Excellency Mr. Zine El Abidine Ben Ali, President of the Republic of Tunisia
Your Excellency Mr. Olusegun Obasanjo, President of the Federal Republic of
Nigeria and current Chairman of the African Union,
Your Excellency Mr. Laurent Gbagbo, President of the Republic of Côte d’Ivoire,
Your Excellencies Ministers and Ambassadors,
Former Presidents, Vice Presidents, and Executive Directors of the African
Development Bank,
Members of the Boards of Directors of the African Development Bank,
Distinguished Invitees,
Ladies and Gentlemen,

On behalf of the African Development Bank Group and on my own behalf, it is a
great pleasure and honor for me to welcome you all to this Symposium organized on the
occasion of the 40th Anniversary of the establishment of our Bank. We are particularly
privileged to have in our midst President Olusegun Obasanjo of Nigeria, President Laurent
Gbagbo of Côte d’Ivoire, and Prime Minister Mohamed Ghannouchi of Tunisia.

Your Excellencies, your presence is testimony to your continued strong personal
interest in the welfare of the African Development Bank as well as the steadfast support that
your governments have provided our organization since its establishment in 1964.

I would like, on this occasion, to kindly request Prime Minister Mohamed
Ghannouchi to express, on our behalf, to His Excellency President Ben Ali, the government,
and people of Tunisia our deep appreciation for the gracious welcome they accorded us --
following our temporary relocation -- and for helping us make it a success. I should add that
Tunisia continues to be the largest borrower from the ADB window and we are indeed
delighted to be associated with its remarkable achievements.

I wish also to pay homage to President Obasanjo for his unfailing support to the
African Development Bank. It was under his leadership that Nigeria established the Nigeria
Trust Fund in 1976 to provide concessional finance to the low-income countries of our
continent. The Fund’s resources have grown since then to over $550 million. We are also delighted to have been invited by the NEPAD Heads of State Implementation Committee that President Obasanjo chairs to provide support to NEPAD and take the lead in the areas of regional infrastructure and banking and financial standards.

I would also like to take this opportunity to express our gratitude to President Gbagbo, and the government and people of Côte d’Ivoire for hosting the Bank for nearly forty years and for providing all the required support during those years. As the Boards of Governors have made clear on several occasions, Abidjan remains the Headquarters of the Bank and it is our hope that conditions will allow for the full resumption of our activities from our host country in the future.

I would like, on this occasion, to also pay tribute to the former Presidents of the Bank, two of whom, Presidents Mamoun Beheiry and Abdewahab Labidi have passed away; we pray that their souls will eternally rest in peace. The three others, Presidents Kwame Fordwuor, Wila Mugomba, and Babacar N’diaye are here with us. Each of them has, under very different and sometimes difficult circumstances, played a leading role in making our Bank what it is today. They deserve our deep gratitude and we will always be indebted to them.

I wish in addition to express our appreciation to the former Vice Presidents and Board members, many of whom are here with us, for their valued contributions to our institution. Allow me also to thank the many distinguished personalities who have honored our invitation to take part in our 40th Anniversary celebrations.

Your Excellencies,

During our Annual Meetings in Kampala last May we had organized another Symposium to mark the 40th Anniversary of the Bank and we had invited personalities who had been associated with the Bank since its establishment to provide us with a retrospective on the evolution of the Bank in its four decades of existence. I had also addressed the Kampala Symposium focusing on the achievements and transformation of the Bank during this period. Today, with your permission, I would like to focus on the changing environment
and the major challenges that African countries face, as well as the future direction that Bank Group activities are likely to take in the coming years.

**The Changing Domestic and External Environment for African Countries**

Your Excellencies,

I believe we would all agree that the last four decades of the Bank’s existence have been turbulent years for our continent from both political and economic vantage points. In terms of economic performance, after a promising start in the immediate post-independence period, African countries faced severe economic crises in the second half of the 1970s and for much of the 1980s. The first half of the 1990s was also a period of continued economic difficulties, although conditions begun to improve in the latter part, largely as a result of the reform programs that our countries had begun to put in place.

The depth of the African economic crises and the gains that our countries have begun to make in the past decade are best understood, I believe, when we compare a few key macroeconomic economic indicators for 1994 and 2003.

- In 1994, Africa’s GDP growth rate stood at 2.6 percent and its per capita income was only 0.1 percent; this compares to a GDP growth of 3.7 percent in 2003 period and a per capita income gain of 1.5 percent;
- The average inflation in 1994 stood at 41 percent; in 2003 this had come down to an 11 percent, with some 40 countries achieving single-digit inflation rates;
- The average fiscal deficit for 1994 stood at 5 percent of GDP; it declined to 3 percent in 2003;
- Africa’s external debt to GDP averaged 77 percent in 1994 but has since declined to 48 percent at the end of 2003; its debt service to exports has similarly declined from 23 to 15 percent.

These average indicators, while masking large differences among individual countries, nonetheless clearly show the improving performance of the African economy and the achievement of greater macroeconomic stability. It must be admitted, however, that average GDP growth rates for the region as a whole are still well below the 6-8 percent
required to make progress towards the Millennium Development Goals. We should also not lose sight of the fact that conflicts in some 15 of our countries continue to impede development efforts not only within the countries themselves but in their respective sub-regions as well. In this regard, I would like to take this opportunity to salute President Obasanjo and other African Heads of States who have made tireless efforts to find peaceful solutions to these conflicts.

Nonetheless, it is evident that over much of the continent, with the exception of countries in conflict or emerging out of conflict, the foundations for long-term economic growth are gradually being put in place, albeit at varying paces. This is particularly the case in those countries which have been at peace for much of the last decade and a half and which have consistently pursued economic reform programs with the support of international donors, including the African Development Bank. This group of more than 15 countries--considered by the Bank as leading reformers--has begun to register significant economic achievements, with GDP growth rates, since 1996, averaging 5 percent and per capita income growing at 2.3 percent.

We are optimistic that as more of our countries begin to benefit from peaceful conditions, and as an increasing number deepen and sustain their economic reform programs, the Continent’s overall economic performance will indeed improve. Our optimism is bolstered by the high hopes we harbor for the NEPAD initiative. As I am sure Your Excellencies would all agree, NEPAD represents, first and foremost, a determination by African countries to pursue sound domestic economic policies and improve systems of governance to achieve higher rates of economic growth, reduce poverty, and create gainful employment opportunities.

In this respect, the establishment of the African Peer Review Mechanism (APRM), to which some 23 countries have already signed up, holds the promise of becoming an important mechanism for encouraging African countries to achieve NEPAD’s developmental goals. In addition, NEPAD also holds the promise of boosting regional cooperation and integration efforts.

I believe it also important to point out that the improved domestic environment has in recent years been complemented by a more favorable external environment. In this regard, it
is worth pointing out that: the prices of Africa’s major export commodities have recently shown some improvement; official development assistance (ODA), after declining for over a decade, has recorded a significant increase in 2002, although much of it was accounted by debt relief; an increasing number of African countries have begun to benefit from the HIPC initiative as well as from bilateral debt relief programs; and more countries have begun to benefit from preferential trade arrangements, such as the US Africa Growth and Opportunity Act and the Everything but Arms initiative of the European Union.

Clearly, Africa finds itself today at a considerably more favorable historical conjuncture with respect to its development prospects. It is therefore critical that our countries and their development partners seize this opportunity to boost the region’s development efforts, while maintaining macroeconomic stability, and saving part of the windfall gains from higher commodity prices for future generations and to act as reserves against economic shocks. In this regard, we believe that our different groups of countries face varying challenges.

For our middle-income ADB countries, some of which have signed association or trade agreements with the European Union and the United States, the challenge is to make their economies more competitive, as they begin to fully face the rigors of international competition. It is thus essential that further measures are taken to improve the investment climate, that critical investments in infrastructure are made, and that adequate resources are invested to equip the work force with the required skills and knowledge.

For the low-income African countries that have implemented economic reforms and that have achieved reasonable macroeconomic stability, the challenge now is to implement second-generation reforms. These should aim at creating the conditions for the emergence of more dynamic private sectors that can take advantage of both domestic and global market opportunities. Towards this end, we would advise our governments to maintain sound macroeconomic policies to deepen investor confidence, and improve the investment climate for both domestic and foreign investors by implementing the necessary legal and judicial reforms. For the other low-income countries and for those emerging out of conflict, the challenge will continue to be the successful implementation of first-generation reforms.
For all our regional member countries, a major challenge will continue to be streamlining and building effective regional cooperation and integration arrangements, as these are critical for boosting economic growth. In this respect much would be gained by encouraging greater convergence in macroeconomic policies, the harmonization of business rules and regulations, and undertaking larger investments in regional infrastructure projects.

The efforts of African countries will need the support of the international donor community if they are to succeed. We therefore call on developed countries to fulfil the commitments they made at important international fora such as Monterrey and the G8 Summits. In this regard, it is essential that ODA is increased to levels that are sufficient to enable low-income countries attain the MDGs; trade-distorting agricultural production and export subsidies are removed; access to markets for African exporters is enhanced; and the external debt of African countries is reduced to sustainable levels.

The Evolution of the Bank Group

Your Excellencies,

Distinguished Invitees,

Permit me now to turn to the activities that the Bank Group is likely to undertake in the coming years in support of the development efforts of our regional member countries to help them face the many challenges that lie before them. But before I do so, allow me to say a few words on where I believe the Bank stands today after its four decades of existence and accomplishments, and after having implemented a rigorous program of reforms for nearly a decade.

The Bank Group has indeed come a long way, thanks to the efforts of all those involved, including the many distinguished personalities with us here today. From a modest beginning with a subscribed membership of only 33 African countries and an authorized capital of UA 250 million, it has now become a truly multilateral development bank with a capital base of UA 21.5 billion and with a global membership spanning Africa, Asia, the Americas, and Europe.
Since its establishment the Bank Group has made available to its regional member countries nearly $50 billion in loans, grants, and debt relief and mobilized a further $70 billion from co-financiers, for a total of $120 billion. And in the last three years, its approvals have averaged nearly $3 billion a year from its own resources -- with about a half allocated to low-income countries. It has, in addition, mobilized a further $3.5 to $4 billion a year from its co-financiers.

The Bank Group has also over the years responded to the evolving challenges of its regional member countries. From an initial concentration on a few sectors such as infrastructure and agriculture, it has now embraced the broader goal of poverty reduction and sustainable economic growth, in response to the felt needs of its regional member countries. We were pleased that the primacy of poverty reduction, along with employment generation, was affirmed at the Extraordinary Summit of the African Union held in Ouagadougou last week under the chairmanship of President Obasanjo and in which I had the honor to participate. At the close of the Summit, African Heads of State rededicated themselves to these goals, adopted an Action Plan, and also set-up follow-up mechanisms.

Over the last eight years, and in response to the crises that it had faced in the early 1990s, the Bank has put in train a series of reforms affecting all aspects of its activities. We believe that these reforms have yielded notable dividends for the institution. Permit me to highlight a few.

For our operations in our regional member countries, we have succeeded in clearly delineating our priority areas of action as set out in our Vision Statement in 1999, which we adopted following wide consultations with all our stakeholders. We have, in addition, developed a coherent and comprehensive policy framework to guide all our interventions. Further, as a result of the series of measures we took to improve the quality of operations – such as improved project design, a more rigorous internal review process, and better management of the portfolio -- the proportion of problem projects has declined from 35 percent in 1995 to less than 10 percent in 2003.

With respect to financial management, the reforms have included the introduction of new loan products, upgrading our asset and liability management as well as our risk and treasury management. These have been aided by the use of advanced information technology
systems. These innovations together with stringent application of our arrears policy and prudent management of the administrative budget have led to a continued strengthening of the financial base of the Bank over the last ten years. Its net operational income has steadily grown from a low of $80 million in 1994 to an average of $260 million in the last two years. The reserves of the Bank have doubled during this period, and the financial ratios of the Bank such as its leverage, gearing and liquidity ratios rank today among the best within the multilateral development bank system.

The various corporate and institutional reform measures we took in recent years have also contributed to a considerable strengthening of the organizational structure of the Bank. While the 1996 reorganization was a response to the crises of the preceding years and constituted a downsizing of the institution, the 2002 organization, by contrast, was implemented to strengthen key areas of the Bank and represented a considerable expansion. In addition, the strengthening of our human resources management to make it more transparent and comparable to sister institutions, along with significant improvements in salaries and benefits – with salary increments now tied to performance -- has helped us attract some of the best professionals from Africa and elsewhere. Further, the considerable investment in information technology has served to modernize and improve the internal business processes of the Bank.

A final area of reform that I wish to briefly touch on is the reforms of the governance structure of the Bank Group. These have served to ensure that the interests of all shareholders are safeguarded. And as important, they have promoted harmonious working relations and consensual forms of decision making at all levels of the governing structures of the Bank Group.

This is evidenced by the success that the Bank Group has had in mobilizing resources. Over the last seven years, a total of $21 billion has been mobilized. This includes the 5th General Capital Increase of the Bank, three successive ADF Replenishments and resources mobilized from the donor community to finance the Bank Group’s involvement in the HIPC initiative. In addition, we are hopeful that with the successful conclusion of the ADF-X negotiations that have been underway since the beginning of the year, the total mobilization of resources will exceed $25 billion.
Meeting Future Challenges

Your Excellencies,

Looking towards the future, I believe the major challenges that the Bank Group will face are two: first, building on its recent achievements and becoming a stronger regional bank capable of not only providing high quality financial and technical support to its regional member countries but also becoming an intellectual leader and an innovator on African development issues; and second, becoming an even more effective vehicle of cooperation and partnership between African countries and the donor community, in support of the continent’s development efforts.

In its support to the development programs of its regional members, it is evident that for some time to come poverty reduction and promoting sustainable economic growth will continue to be its overarching objectives. The Bank Group can therefore be expected to focus on its priority areas of action set out in its Vision -- namely agriculture and rural development, education, health and the promotion of the private sector at the national level; regional cooperation and integration at the regional level; and mainstreaming cross-cutting issues such as good governance, gender concerns and environmental sustainability in all its interventions. Let me make a special mention here of our intention to broaden our private sector operations. We have prepared a new strategy that will govern our future interventions and which is under consideration by our Boards of Directors.

I believe, however, that the Bank would need to look into additional critical areas and develop appropriate strategies for its intervention. Of particular concern in this regard are the challenges being posed by high rates of population growth in a number of countries, although, in others, the HIV/AIDS pandemic is slowing down population growth rates and changing population dynamics. A second area of concern is the crisis of tertiary and university education in many of our countries. And a third is the continuing lack of capacity to implement in a timely and efficient manner national development programs and projects.

As well as focus on key areas, the Bank Group will necessarily have to make greater effort to enhance its development effectiveness. Towards this end, the Bank can be expected to continue to provide effective support for the development of second-generation poverty
reduction strategy papers (PRSPs). This is required to ensure that these strategies continue to evolve and become effective frameworks for national development, as well as stronger instruments for collaboration and cooperation among all donors. On the Bank side, this will be reflected by greater alignment of its operation to PRSPs, as it has begun to do so under the new generation of CSPs.

The Bank will also have to continue to improve the quality of its operations and to ensure the effective implementation by its regional member countries of the projects and programs that it finances. In line with the new Action Plan that it has drawn up, it will give higher priority to its support for institutional capacity building in its regional member countries. It will also improve the design of its projects by ensuring greater mainstreaming of key crosscutting issues. In addition, more effort will be made to strengthen the management and supervision of its portfolio.

We believe that these efforts will be greatly aided by the accelerated decentralization strategy that the Board of Directors has recently approved. This calls for the opening of 16 more country offices in the next two years, in addition to the nine that have already been approved, bringing the total to 25. The country offices will be given a greater role in policy dialogue and greater authority in matters of project implementation. We also envision a gradual but effective delegation of authority on procurement and disbursement matters, in line with the practice of sister institutions.

The Bank Group will also need to continue to review its financing instruments to ensure that they do indeed respond to the needs of its clients. It is evident that as more countries put in place effective poverty reduction strategies and as public expenditure management is improved, the Bank will increasingly use sector-wide approaches as well as direct budget support. And for the low-income countries that cannot sustain loans on even concessional loans, we envisage a greater use of grant instruments. In this regard, I wish to point out that we have, under ADF-IX, increased grants to approximately 20 percent of all allocations, with the level reaching up to 27 percent for the very low-income countries; we expect the level to increase under ADF-X.

A particular focus of the Bank, and in which it must necessarily be a leader, is in the area of regional cooperation and integration. The Bank will continue to promote such efforts.
In recent years, its interventions have been boosted by the NEPAD initiative, particularly in the area of regional infrastructure in which a short-term action plan is under implementation and a medium-term action plan is under preparation.

In addition the Bank has also launched a major Rural Water and Sanitation Initiative that has as its objective accelerating access to sustainable water supply and sanitation to rural Africa by increasing coverage to 80 percent by 2015. The investment requirement up to 2015 for the Water Initiative is estimated at around $14.2 billion and is expected to be raised by leveraging additional resources from multilateral, bilateral, as well as public, private and community sources. The proposal has garnered the support of a number of governments such as Canada, France, and the Netherlands as well as the European Union.

In all its interventions, I believe it is important to stress that the Bank will continue to adhere to the four guiding principles that it has adopted in recent years to enhance its development effectiveness: first, ensuring country ownership; second, attaining greater selectivity in line with its comparative advantage; third, continuing the use of participatory approaches, and fourth, deepening our cooperation and collaboration with other development partners. On this occasion, I wish to take the opportunity to express our appreciation to the Bretton Woods institutions, the UN system, the European Union, and bilateral development organizations for the excellent cooperation and collaboration we have developed over the years.

Concluding Remarks

Your Excellencies,
Distinguished Invitees,
Ladies and Gentlemen,

Permit me to conclude by noting that on the occasion of its 40th Anniversary, the Bank Group can indeed be quite optimistic about the development prospects of its regional member countries. Many are pursing sound economic reform programs and macroeconomic stability has been achieved in a large number. And thanks to the efforts of leaders such as President Obasanjo, peace is being restored in once-conflict ridden regions, although challenges clearly remain. The external environment for Africa’s development has also
improved on a number of fronts with the international community showing much greater commitment to support Africa’s development efforts.

It is thus essential that our countries, together with their partners seize this opportunity to scale-up their development efforts to reduce poverty and boost economic growth. In all such endeavors, the Bank expects to become an even stronger and effective partner for both its regional and non-regional member countries. Today the Bank is a much reformed and strengthened institution, having attracted some of the best minds from the continent and elsewhere. Thanks to the steadfast support of its shareholders, the guidance and oversight provided by its Boards over the years and the dedication of its staff, past and present, the Bank has become an institution in which Africa can take pride.

As with any institution, the Bank will undoubtedly face major challenges in the coming years as it seeks to improve the quality of its services, enhance the development effectiveness of the projects and programs, and become a leading institution not only in terms of providing financial support and technical assistance but also in the realm of development thinking and innovation.

I am confident, however, that given its track record of achievement in the last four decades and the continued support of all its stakeholders, the Bank will rise to the challenge.

I thank you for your kind attention.