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

13 September 2004
Tunis, Tunisia
Introduction

Members of the Board of Directors,
Staff Members of the African Development Bank,
Invited Guests,
Ladies and Gentlemen,

It is a great pleasure for me to welcome you all the official launch of our celebrations marking the 40th Anniversary of the African Development Bank. As you will recall, the Agreement establishing the Bank was signed in August 1963 in Khartoum, Sudan and became effective a year later in September 1964. At its creation, the purpose of the Bank was clearly and simply spelt out: to contribute to the economic and social progress of its regional members – individually and jointly. It is therefore appropriate that we mark this important milestone, as it represents four decades of accomplishment under often-difficult circumstances.

It is also appropriate that we recall and acknowledge on this occasion the many contributions of all those associated with the Bank in these last four decades – our shareholders, Board members, management and staff, as well as our many development partners. As in Kampala, when we marked the 40th Anniversary by holding a Symposium during our Annual Meetings, we have invited former Presidents, Vice Presidents, Board members and staff to join us this week to mark this important event and some of them are present with us this morning. We welcome them and we look forward to welcoming the rest and to have an opportunity to exchange views and to share our varied experiences.

The 40th Anniversary should also be a time of reflection for all associated with the Bank. It is a time when we should review how far our institution has come, take stock of our successes and setbacks, and assess more fully the challenges that lie before us. It is also an appropriate time for us to rededicate ourselves to the noble goal of our institution, namely, improving the lot of the many millions of African who continue to live today in abject poverty. This goal was set by our Founders some forty years back and reaffirmed on many occasions by our shareholders and stakeholders. We should therefore never forget that much is expected of us and more will be expected of us in the future.
This morning I would like to take the opportunity to review with you the progress that our Bank has made in the last four decades -- and in particular in the last eight years since we launched our major programs of reform. This, of course, does not diminish the important work that had been done before as well as the many accomplishments. Indeed, the Bank is where it is today because of the dedication and hard work of all those associated with our institution these past four decades. This morning, I will also touch on the major institutional challenges that we are likely to face in the future. I will restrict myself to these issues, as I will have an opportunity to address, at our 40th Anniversary Symposium next Wednesday, the broader development challenges facing our regional member countries and our Bank.

**The Bank at its 40th Anniversary**

Ladies and Gentlemen,

When viewed from the perspective of four decades back, there can be little doubt that our Bank has indeed come a long way. At the time it started its lending activities in 1967, the Bank’s authorized capital was only UA 250 million, with 33 subscribed members. And although the resources at its disposal were considerably augmented by the establishment of the African Development Fund in 1973 and the Nigeria Trust Fund in 1976, it, nonetheless, remained a relatively small institution during its first two decades of existence.

It was only the opening of Bank membership to non-regional members in 1982 that enabled it to become what it is today – the premier development finance institution on the continent. This decision also paved the way for the Bank to become a truly multilateral development finance organization – similar to its sister institutions in other regions -- with a global membership of 77 countries not only from Africa, but also from the Americas, Asia and Europe. Indeed, the Bank Group today represents a unique global partnership in support of Africa’s development efforts.

The entry of non-regional members also paved the way for the five successive capital increases of the Bank, such that today its capital stands at UA 21.5 billion. And, as important, it enabled it to become the only institution on the continent with a triple A rating. I should add that this standing of the Bank in the international financial markets was reaffirmed by the
successful floating last year of our first $1 billion global benchmark bond in the international capital markets.

In tandem with its increasingly solid financial base over the last decades, the Bank Group has also continuously adjusted its focus of operations. From an initial concentration on infrastructure and agriculture, it has, over time, broadened its objective to one of poverty reduction and sustainable economic growth. This orientation was clearly stipulated in the Vision statement that we adopted in 1999, following broad consultations with all our stakeholders. It is also the cornerstone of the Strategic Plan that our Boards approved at the end of 2002. The primacy of poverty reduction and employment generation was reaffirmed by African Heads of State and Government at the extraordinary African Union Summit held in Ouagadougou last week. At the conclusion of the Summit, the Heads of States adopted an Action Plan and also approved follow-up mechanisms.

I believe it is important to stress that our Vision Statement enabled us to clarify and delineate our priority areas of intervention. And as importantly, it extended our operations into areas – such as, for example, good governance -- that were once considered outside the purview of the Bank. And with the adoption of our Strategic Plan, we have made clear the fundamental principles that will guide all our operations in our regional member countries, namely: first, country ownership, second, selectivity in line with our comparative advantage, third, participatory approaches in all our interventions in our regional member countries, and, fourth, full cooperation and collaboration with all our development partners.

I should also add that the Bank Group has in the last four decades adjusted its interventions and developed new instruments in response to the evolving needs of its regional member countries. Thus, in the mid-1980s, it moved into policy-based operations to support policy reforms and provide quick-disbursing funds when an increasing number of our countries began to face serious balance of payments difficulties. It launched its private sector operations in the early 1990s -- and expanded it throughout the last decade -- when it became increasingly clear that rapid economic growth would only be achieved in our countries through the activities of vibrant private sectors. And we begun to extend debt relief to our countries in the second half of the 1990s, in the context of the HIPC initiative, when it became clear that the development prospects of many of our low-income countries was being held back by the accumulation of large external debts.
Although our Bank has made large strides in the last four decades, we must, however, also admit that it has faced serious difficulties -- and even crises -- in the past. This was particularly the case in the early to mid-1990s. After having expanded rapidly its lending program in the preceding years, many of its shareholders begun to feel that the Bank was no longer exercising adequate control over its operations. In addition, many felt that continued access to the ADB hard window by countries that were not creditworthy and which had, in addition, accumulated large arrears on their external debts, was undermining the financial base of the Bank. Further, various inadequacies in the internal financial and human resources management of the Bank were beginning to emerge.

These difficulties led to serious differences between the shareholders of the Bank, with a significant number expressing their loss of confidence in the institution. These differences accounted for the two-year hiatus -- from 1994 to 1996 -- of new lending activities from the ADF window -- the first time this had happened in the history of the Bank. In addition, it also led to the postponement of the negotiations on the fifth general capital increase.

In response to these crises, the Bank undertook a comprehensive survey of its operations leading to the publication of the Knox Report in 1994. In addition, the Boards of Governors established a panel of eminent persons to look into all aspects of the governance structure of the Bank and to propose changes. Their report, entitled “Reforming the Governance Structure of the African Development Bank”, and which included a series of recommendations on institutional and corporate governance, came out in early 1996.

**The Results of the Reform Process**

Ladies and Gentlemen,

Following the publication of these important reports, the Bank launched a series of reforms covering all aspects of its activities and its organizational structure, including operations, finance, corporate management, as well as institutional governance. *After nearly a decade of comprehensive reforms, where do we stand today? And what institutional challenges remain?* Let me provide with you with a broad overview.
Operations

In our operations, we have undertaken a series of important actions to improve their quality, effectiveness, and sustainability. These have included: first, developing a comprehensive, coherent, and internally consistent policy framework in line with best practices elsewhere to guide all our operations; second, enhancing our internal review system and providing training in project design work to improve the quality of projects at entry; third, enhancing our portfolio management by ensuring at least 1.5 supervision missions per program/project per year, enriching the skills mix of supervision missions, and undertaking mid-term reviews; and fourth, introducing, in the last year, a results management framework to help us better assess the impact of our operations on the ground and enhance their development effectiveness.

In addition, our interventions have specifically promoted country ownership by ensuring the alignment of our Country Strategy Papers (CSPs) to the Poverty Reduction Strategy Papers (PRSPs) of our regional member countries, where these exist. Further, to promote sustainability and efficient implementation, much effort has gone into ensuring the participation of stakeholders in the preparation of the CSPs, as well as in the design of specific projects and programs. I believe the collaboration with our partners has also improved considerably -- as evidenced by the strong working relationships we have built with the Bretton Woods institutions, the United Nations system, bilateral organizations, and NGOs.

There can be little doubt that these various actions have led to a general improvement in the quality of our projects and program. This is evidenced by the continuous decline in the number of projects classified as problem projects. These stood at 35 percent in 1995 but have declined to less than 10 percent in 2003.

While we can take pride in the achievements to date, it is clear, however, that we will need to take additional measures, particularly with a view to speeding up the implementation of projects, ensure their timely completion, and enhance their development effectiveness. The independent evaluation of ADF VII-IX has also indicated a number of areas that need to be strengthened.
Towards this end, and as many of you may be aware, we have developed a New Action Plan to improve the implementation of our operations and it will soon be presented to our Boards for their consideration. The Plan calls for a series of actions focusing on: strengthening country institutional capacity; improving further the quality of projects at entry; mainstreaming further critical cross-cutting uses such as governance, gender, and environmental sustainability; reducing substantially the time required for projects to become effective; improving disbursements; and a progressive implementation of results-based management systems.

In addition, we will give much greater weight to economic and sector work, substantially enhance our research program to provide stronger support to our operations, and expand our activities in key sectors such as governance and regional integration. Further, a new private sector strategy paper is under preparation and following its approval by the Boards, we will make every effort to expand our work in this important area.

We will also accelerate the decentralization of our operations by opening an additional 16 country offices in the next two years, in line with the strategy approved by the Boards of Directors, bringing the total to 25. This would considerably enhance our field presence and contribute to better dialogue with our regional member countries, as well as improve the implementation of our operations, and contribute to better coordination and cooperation with our partners.

Towards this end, as well as to enable the Bank Group to meet critical staff and budgetary shortages in other areas, we will soon be presenting to the Boards of Directors a proposal that we have called a Strategic Compact. The compact will indicate the additional staff and financial resources that the Bank Group will need to strengthen its activities in critical areas and to meet the many calls that have been made on it by its shareholders and clients.

I am confident that the full implementation of the Compact will result in the recruitment of the additional staff required for the Operations Complexes and thereby enable us to enhance further the quality and relevance of our assistance to our regional member countries. I therefore see no reason why our operations cannot achieve the highest quality and become comparable to the best practices and outcomes in other regions. I therefore call on
our staff in the Operations Complex, as well as other staff, to build on the good work that you have accomplished in the past and to attain even higher standards. I am confident, that as in the past, you will indeed rise to the challenge.

Financial Management

Turning now to the Finance Complex, here also we have undertaken a series of reforms and measures that have yielded many positive results. Over the last eight years, new loan products have been introduced to meet better the needs of our clients. The asset and liability management of the Bank has consistently improved and has now reached a standard comparable to the best practice in other financial institutions. In addition, the Bank has upgraded its credit and treasury risk management systems. And with the full implementation of the integrated enterprise resource planning system (SAP), the Bank is now one of the few institutions on the continent that has in place the most advanced information technology system to manage all aspects of its financial activities.

These measures along with the cleaning up of the Bank’s portfolio, the systematic application of its arrears policy, and prudent management of the Bank’s administrative budget, have led to a substantial strengthening of the Bank’s financial base. The Bank’s net operational income has averaged $260 million in the last two years rising from a low of $80 million in 1994, reserves have more doubled in the last eight years, and the level of arrears which had progressively increased to UA 1.1 billion in 2001 has been almost halved to UA 677 million in 2003. In addition, the Bank’s financial ratios such as leverage, gearing, and liquidity ratios, are now some of the best among the multilateral development banks.

The considerable strengthening of the Bank’s financial base has made it possible for the Bank to make an extraordinary contribution to ADF in 2003 to lessen the impact on the Fund of the cost of the relocation exercise. It has also make it possible for the Bank to begin making contributions from its net income to the post-conflict facility that the Boards of Directors approved in 2004. We expect the Bank to make a total contribution of UA 100 million to this facility over the next three years.

Corporate Management
As in the other areas, significant reforms have also been made in our corporate management. Since 1995, the Bank has undergone two restructurings. The first in 1996 was undertaken in response to the crisis that the Bank had faced and it entailed a considerable downsizing of the Bank. By contrast, the second, undertaken in 2002, aimed at giving the Bank Group the organizational means to fully operationalize its Vision and has involved a significant expansion. While some aspects of the second reorganization, such as recruitment for the newly created positions, have been delayed by the temporary relocation, I am confident that all aspects will be fully implemented in the coming months.

As part of the reform of our corporate management, much has been done in our management of our human resources. In addition to undertaking basic human resource work such as the classification of all jobs and identifying key skill gaps, we have also strived to ensure that our entire recruitment, appointment, promotion system is fully transparent. And while this may at times have been time-consuming, I do not believe there are many alternatives to ensuring that the system is indeed open and fair.

We have also made enormous progress in terms of ensuring that the salaries and benefits of staff is comparable to sister institutions. Five to six years back the gap for professional staff was over 40 percent but in these intervening years these have been narrowed considerably. Moreover, the benefits that our staff enjoy today are comparable to the best that our sister institutions offer. Other innovations in human resources management have included the major staff-training program that we launched some time back as well as the new initiatives for career development and staff mobility.

As in human resources management, much effort has gone into upgrading our information technology (IT) system. In 1996, the Bank only had individual workstations that were not connected, and much of the financial and human resource management work was carried out on outdated computers. Over the last eight years, the Bank has invested considerable resources in its IT system, including the SAP system that I referred to earlier. There is little doubt that our system today is state-of-the-art. Indeed, its flexibility, depth, and value were amply demonstrated by the ease with which we were able to transfer our operations following our temporary relocation to Tunis, and I commend staff for this remarkable achievement.
Institutional Governance

The final area I wish to touch on is the progress we have made with respect to institutional governance. We have indeed come a long way from the serious dissensions that existed among our shareholders in the early 1990s and the major differences that existed between management and the Board of Directors. The institutional governance reforms have resulted in ensuring the protection of the rights of all shareholders. This has enabled the Bank Group to successfully conclude the 5th General Capital Increase in 1999, the 7th, 8th, and 9th ADF replenishments, and to mobilize considerable resources to finance the Bank’s involvement in the HIPC initiative. These exercises have to date resulted in a significant mobilization of resources which we expect to exceed US$ 25 billion, following the conclusion of the current negotiations on ADF-X that we hope will result in a significant increase in the Fund’s resources.

I should add that the working relationships between the Boards of Directors and Management have also been very smooth since 1995, with most business done in a professional and consensual manner. This has enabled the Bank to implement the whole range of reforms that I reviewed earlier. Indeed, on this occasion, I would like to thank the members of the Board of Directors, past and present, for having contributed to developing such a fruitful relationship.

Concluding Remarks

Ladies and Gentlemen,

Let me conclude by affirming that our Bank has indeed come a long way since its establishment some four decades ago. We can take satisfaction that as a result of the actions of its pioneers, the Boards of Directors, management and staff of the Bank, and the far-reaching reform program that we implemented in the last eight years the Bank has now joined the ranks of the leading multilateral development banks, with the full support of its shareholders. This was amply demonstrated during one of the most challenging times for the Bank – the temporary relocation to Tunis. Indeed, Africa has today an institution of which it can rightly be proud.
But despite these many achievements over the last four decades we certainly cannot afford to rest on our laurels. We will need to continue to build on the foundations we have built to ensure that the Bank does become the premier development finance institution of the continent – one capable of not only meeting a significant share of the financing needs of its clients but one that can provide intellectual leadership and become an innovator on African development issues.

Towards this end, I call on all of you to re-dedicate yourself to the noble objectives of our institution – reducing poverty and enabling our countries to join the ranks of the emerging developing countries of the World. I also call on you to always remember that you are international civil servants and that you are called on to adhere to the values and decorum expected of such functionaries. It is also imperative that you demonstrate by your actions that you do indeed respect the mission and values that you collectively adopted in 2002. I am certain that you will all rise to the challenge.

I thank you for your kind attention.