Statement by Omar Kabbaj,
President of the African Development Bank Group
To Ambassadors from the Member States of the Bank Accredited to Tunisia
and Representatives of International Organizations

27 March 2003
Tunis, Tunisia
Introduction

Your Excellencies Ambassadors and Chargés d'affaires,
Distinguished Representatives of International Organizations,
Ladies and Gentlemen,

Let me begin by expressing my deep appreciation to Your Excellencies, Ambassadors and Chargés d'affaires accredited to Tunisia from the member states of the African Development Bank Group -- as well as the representatives of international organizations -- for having accepted our invitation to this gathering and for being here with us today. We have called this meeting to brief you on the mission and work of the African Development Bank Group and to provide you with an update on the progress we are making with respect to the temporary relocation of the Bank to Tunis.

We also see this meeting as an opportunity to exchange views with you on the development challenges facing the African continent and on the role of the African Development Bank in assisting its regional member countries face these challenges. Towards this end, I will be providing you with some highlights on Africa’s economic performance during 2002.

Permit me first, however, to express our profound appreciation to H.E. President Zine El Abidine Ben Ali and the Government and people of Tunisia for the warm welcome extended to the Bank and its staff. The Government has gone to great lengths to ensure that our temporary relocation is carried out smoothly and efficiently. The people of Tunis have also been most hospitable in receiving our staff and making them feel at home. The reception we have received has gone a long way in ensuring that any disruption to our 2003 work program that may arise out of the relocation exercise will be minimal. Indeed, as I will elaborate later we expect to be able to achieve most of the Bank’s 2003 work program, particularly with respect to our new lending operations.

Africa’s Economic Performance in 2002

Your Excellencies,
Ladies and Gentlemen
Permit me to begin with a brief overview of Africa’s recent economic performance. In 2002 -- and for the first time since 1995 -- the region’s economic growth fell to a rate below its average trend rate of 3 percent. Economic growth is estimated at 2.8 percent, down from 3.5 percent in 2001. Growth in 2002 was moreover unevenly distributed across countries. A prominent feature of 2002 is that while the number of countries with growth rate in excess of 5 percent declined from 21 in 2001 to 14 in 2002, the countries with 3-5 percent growth rates increased from 8 to 14 in 2002. Only five countries registered negative growth rate -- the same number as last year. This tends to confirm the trend of Africa’s growth stabilizing, on the average, around 3 percent.

Three factors account for the relatively poor performance of the African economy in 2002:

- **First**: the adverse external environment which affected exports proceeds; this was especially the case for receipts from tourism in North Africa;
- **Second**, the drought which affected agricultural production in East and Southern Africa; and,
- **Third**, socio-political conflicts affecting part of the continent, particularly in Central and West Africa

These factors also affected Africa’s standing in the international economy, as evidenced by the weakening of export performance. Both Africa’s trade and current account balances in 2002 deteriorated in relation to 2001. Consequently, the debt service to exports ratio increased to 22 percent, up from 17 percent in 2001. This is despite the fact that more than 22 countries have begun to benefit from debt relief under the enhanced HIPC initiative.

In spite of the generally lower growth rates, the improved fiscal policy stance of most countries continued, with the overall fiscal deficit as percentage of GDP remaining below 3 percent in 2002. Moreover, most countries also followed prudent monetary policies such that the region’s average inflation rate declined to 10 percent in 2002 compared to 13 percent in 2001.
The fall in Africa’s economic growth rate and the continued uncertainties in the global economy do not bode well for Africa’s quest to reduce poverty and its efforts to achieve the Millennium Development Goals (MDGs). While African countries will need to deepen their economic reforms and also implement the various initiatives launched under NEPAD, they will also need a more favorable external environment and the continued support of the international community. Such support is essential to enable them make significant headway towards achieving the MDGs.

In this regard, it is our hope that the donor community will honor the recent pledges it made in various international fora to increase ODA to Africa. The external debt burden of African countries should also be kept under review, and the level of debt relief under the HIPC initiative adjusted, to compensate for terms of trade losses. Further, it is our hope that the WTO negotiations on the Doha Development Agenda will indeed lead to improved market access, as well as enhance the competitiveness of African export goods.

The African Development Bank and Its Mission

Your Excellencies,
Ladies and Gentlemen,

The mission of the African Development Bank, as your Excellencies are aware, is to support the economic and social development efforts of African countries as they, in particular, seek to achieve the MDGs. Indeed, in the Vision statement we adopted in 1999, following broad consultations with all stakeholders, the Bank’s principal objectives is stated as reducing poverty and promoting sustainable economic growth.

The Bank Group seeks to meet its objectives through a variety of activities. It mobilizes resources from global capital markets through its ADB operations, and concessional resources through the African Development Fund (ADF) and the Nigeria Trust Fund (NTF). To date, with a capital base of close to $30 billion, the African Development Bank has committed $26.8 billion in support of development activities in its credit worthy countries, such as Tunisia. Similarly, the ADF has committed $17.8 billion to finance programs and projects in low-income countries, and the Nigeria Trust Fund $354 million.
In addition to its lending and grant operations, the Bank Group also provides technical assistance to help its regional member countries in the development of appropriate policies, programs, and projects. As well as the direct technical assistance that it finances through its lending operations, the Bank also provides training through its African Development Institute as well as the Joint Africa Institute, established in 1999 with the World Bank and the IMF. In 2002, close to 2000 officials participated in the courses, workshops, seminars, and symposia organized by these two Institutes. The training provided cover current development and policy issues as well as those related to project management.

Since its establishment in 1964, the Bank Group has made steady progress in increasing its support to the development efforts of its regional member countries. And beginning in the mid-1990s the Bank Group implemented far-reaching reforms in response to the crises that it faced in the early to mid-1990s. These reforms – encompassing the governance structure of the Bank Group as well as its internal organization and processes - have enabled the Bank to steadily increase both the quantity and quality of its lending and non-lending operations. This is reflected in the level and types of operations carried out by the Bank Group in the last two years. Permit me to provide you a few details on these operations.

For 2002, the overall level of financing operations for the Bank Group stands at $2.8 billion. While registering a small decline from the level reached in 2001 -- a level I might add that was the highest in ten years – the 2002 level is, nonetheless, significantly higher than in previous years. These levels have been achieved without compromising project quality. In addition, to enhance the development effectiveness of its operations, the Bank Group has taken a number of measures. These include: a strengthened internal review system to improve project quality at entry; enhanced portfolio management system through increased supervision; and better coordination with other development partners in the context of country-owned poverty reduction strategies.

In terms of the composition of financing operations, the ADB window reached $1.5 billion, a 17 percent increase over that of 2001. This includes private sector operations that have continued their strong growth of the last few years, reaching $270 million in 2002, and representing a 12 percent increase over 2001.
For the concessional ADF and NTF windows, lending, technical assistance, and debt relief operations stood at US$ 1.3 billion, a decrease from 2001, owing largely to the delay in finalizing the ninth replenishment of the African Development Fund (ADF-IX). The outbreak of political disturbances in Cote d’Ivoire in September 2002 also adversely affected the Bank Group’s activities to some extent.

In addition to its lending and grant operations, the Bank Group has continued to provide debt relief under the HIPC program. Twenty-two African countries have so far qualified, and the Bank Group has approved total debt relief of $2.2 billion for these countries. Of this amount, $614 million was approved in 2002, as compared to $768 million in 2001, when the largest number of countries qualified. In the coming years, we expect HIPC debt relief operations to wind down as the remaining ten countries qualify for such relief.

In this connection, I wish to note that the Bank’s modality for debt relief consists of canceling up to 80 percent of loan repayments due to the Bank Group until the entire debt relief is delivered. This represents the highest proportion of annual debt relief among all the international financial institutions.

In addition to our own resources, co-financing operations in 2002 are expected to raise a further $3 billion for a total external resource mobilization of close to $6 billion. Mirroring the growth of operations in the last few years, the level of Bank Group resource disbursements continues to show the remarkable resurgence of recent years. For 2001, disbursements amounted to $1.1 billion, representing an increase of 22 percent over the previous year. For 2002, disbursements increased further to $1.4 billion, or an increase of approximately 30 percent over that of 2001. While the increase in disbursements occurred for all three ADB Group windows, it was sharpest for the ADF which registered an increase of over 50 percent in US dollar terms.

In addition to these operations, the Bank Group has undertaken a number of other initiatives to support the development efforts of our regional member countries. Of particular note is the technical assistance we have extended to some 20 countries to help them develop fully-fledged poverty reduction strategy papers (PRSPs). Another important initiative that we have launched in the last year is the technical support we have provided to the NEPAD Initiative.
As Your Excellencies may be aware, the NEPAD Heads of State Implementation Committee has assigned the Bank the leadership role in infrastructure and banking and financial standards. We are also working closely with the ECA in the area of governance.

In infrastructure, the Bank has developed a short-term action plan that has received the full endorsement of the Committee. Within this framework, four projects have already been approved by the Bank and a further five are at advanced stage of preparation. And in banking and financial standards, we have developed a framework for fostering such standards in our regional member countries.

In addition to these specific engagements, the Bank has taken part in the various meetings of NEPAD at all levels. We have also expressed our readiness to contribute to the African Peer Review Mechanism, as it relates to economic and corporate governance.

In the coming months, the Bank will continue to work closely with NEPAD to develop further the action plans it has formulated for infrastructure and banking and financial standards. The Board of Directors has approved budgetary allocations to enable the Bank to set up a small experts unit to work solely on NEPAD-related initiatives.

The Bank has also participated in the Camdessus Panel on Financing Water infrastructure. Within this framework it has prepared a proposal for a rural water supply and sanitation initiative, which was recently presented at the Third World Water Forum in Kyoto. The goal of the initiative is to accelerate access to sustainable water supply and sanitation to rural Africa by adopting a program approach, as opposed to single projects, and by leveraging additional resources from multilateral bilateral, as well as from public, private and community sources. The initiative will operate under the broad framework of NEPAD and the Africa Water Vision.

Your Excellencies,
Ladies and Gentlemen

With respect to financial management, I am pleased to report that we have continued to make headway in strengthening the Bank Group’s financial base. As a result of the various measures we took over the past six years, the financial position of the Bank Group has steadily improved. In 2002, all three windows of the Bank Group earned healthy earnings, as has been the case in the last five years. The Bank reported strong
operating income of approximately US$158 million for 2001. For 2002, the operating income is approximately US$257 million. Furthermore, I wish to stress that for the ADB all financial performance indicators have improved in 2002, with most comparing favorably to our sister multilateral development banks.

I am pleased to add that the strong shareholder support, the financial reform measures, and the favorable financial outcomes have allowed the Bank to continue enjoying excellent ratings. Moody's, the Japanese Credit Rating Agency, and Fitch IBCA have reaffirmed their triple A rating. Standard & Poor's, rates the Bank at AA+, with a stable outlook.

Another important milestone of the past year that I wish to note was the successful conclusion of the ADF-IX replenishment negotiations. The agreed level of replenishment is significantly higher than that of ADF-VIII. We take this outcome as a sign of confidence of ADF donors and a further endorsement of the recent reforms of the Bank Group, as well as the direction taken in implementing the Fund's mandate.

The Temporary Relocation of the Bank Group

Your Excellencies,
Ladies and Gentlemen,

Permit me now to provide you with an update on the rationale and status of our temporary relocation to Tunis and the measures we are taking to ensure that the adverse impact on our activities, which may arise out of the relocation, will be held to the absolute minimum. The Boards of Directors will soon review the Bank’s 2003 work program and while some delays will inevitably occur due to the relocation exercise, we do not expect it to affect fundamentally its direction and execution. Indeed, we will take the required steps and make every effort to recoup the lost time, particularly with respect to our lending operations.

Before I discuss our temporary relocation exercise, let me take this opportunity to express my gratitude -- and that of the Bank -- to the government and people of Cote d’Ivoire for providing the needed support to our Institution while hosting the Bank during
the last forty years. Let me also thank them for the full cooperation extended to us in the relocation exercise. This has enabled the Bank to transfer smoothly its staff and to bring the necessary equipment and material to Tunis. As our governing bodies and management have re-iterated on many occasions, the Headquarters of the Bank will remain in Abidjan. In this regard, we wish success to the government and people of Cote d’Ivoire in their efforts at national reconciliation and in the measures they are taking to restore peace and stability to their country. And as I stated at the Paris conference in January, the Bank stands ready to support the rehabilitation process, in cooperation with the rest of the international community.

Your Excellencies,
Ladies and Gentlemen,

As you may not all be familiar with the various measures that the Bank took to maintain its business continuity and to prepare itself for any emergency, permit me to take a few minutes to explain to you the actions the Bank implemented in this regard, as well as its basic rationale.

Following the December 1999 coup d’etat in Cote d’Ivoire and its aftermath, the Bank, responding to concerns from its shareholders and the international community -- including its rating agencies and external auditors -- launched a process to formulate a plan that would assure the safety of its staff, ensure business continuity, while taking into account the specificity of its requirements as an international financial organization. Accordingly, the Boards of Directors adopted a strategy which evolved over the past three years and which consists of the following:

- **First**, subscription to a commercial service in Paris that would ensure, in cases of emergency, the continuity of the essential financial services of the Bank, including, in particular, the servicing of the Bank’s debt to the international capital markets and the continuation of disbursements to some 600 on-going operations all over the continent.
- **Second**, as this commercial service is limited both in its duration and scope – the service would be only be available for 8 weeks and the staff complement could not exceed 100 -- the Boards also decided to acquire an emergency site on the
continent that would not be circumscribed by these limitations. Based on the Bank’s need for business continuity, the Boards agreed to acquire a facility that would accommodate 400 staff members.

In selecting the Bank’s own temporary relocation agency (TRA), the Boards of Directors took all the necessary precautions to ensure that the selection process was transparent. A list of 12 criteria for the TRA was established and all 53 regional member countries were invited to consider hosting the TRA. Thirteen countries responded and, with the direct supervision of the Board, three finalists that met the set criteria best were chosen. An external consultant specialized in such matters was then recruited to provide expert advice and to assist in the final selection. Tunis was selected following this open and transparent process, as it was felt to be the site that responded best to the established criteria. It was also found to be the most cost effective. The decision to establish the TRA was taken in February 2002.

Following the decision, a site was selected and negotiations with the Tunisian Government were started on the agreement establishing the site. The process, including the ratification of the agreement by the Tunisian Parliament, was concluded in August 2002. It was only after the conclusion of these negotiations that we were able to launch the required work related to equipping the site with the necessary IT infrastructure, equipment, and furniture. Indeed, we were in the midst of equipping our TRA when the unfortunate events of 19 September 2002 began to unfold in Cote d’Ivoire.

In this regard, I wish to take this opportunity to express once again our deep appreciation to the Tunisian authorities for the full cooperation and assistance they have extended to us in establishing the site. Their cooperation has made it possible for the timely establishment and use of the TRA.

Your Excellencies,
Ladies and Gentlemen,

Following the events of 19 September 2002, it soon became evident that the political crisis that Cote d’Ivoire was facing was different in both scope and duration in relation to the earlier disturbances it had experienced during the previous three years. This
time around, the crisis was not limited to just Abidjan and it was evident that it would be of a more prolonged nature. Further, the country, including Abidjan, was placed under continuous curfew.

In the light of these developments, some shareholders of the Bank requested a meeting of the Governors’ Consultative Committee (GCC) – a Committee representing the countries on the Board of Directors at the Ministerial level. Such a meeting was needed to discuss the situation of the Bank, to assess the impact of developments in the host country on its activities, and to make the appropriate recommendations to the governing organs of the Bank.

Before the meeting of the GCC, the United Nations declared security alert Phase III for Abidjan. This required that all agencies of the United Nations evacuate staff dependents. The Bank similarly responded with an offer to assist staff to voluntary relocate their dependents – parallel to the actions taken by the UN system. Two-thirds of the Bank’s staff took advantage of the offer.

The first meeting of the GCC was held in December 2002 in Accra, Ghana. At the conclusion of their deliberations, the Governors recommended that the Boards of Directors and Management undertake the preparatory work related to all operational matters necessary for the implementation of the temporary relocation, including financial and budgetary appropriations. While some Governors were prepared to recommend the immediate temporary relocation of the Bank, others, however, counseled that as peace negotiations at the regional level were underway, and as France was launching a new peace initiative, the decision on relocation should be considered at a second meeting to be held in February 2003.

In the intervening period, a number of initiatives to find a peaceful solution to the political crisis facing our host country were launched. In particular, the Government of France hosted the Paris Summit in January 2003 with the participation of a number of African Heads of States, the Secretary General of the UN, and representatives of bilateral and multilateral development agencies, including the Bank.
Unfortunately, the situation in Cote d’Ivoire did not evolve as had been hoped. Shortly before the second meeting of the GCC, the UN declared security alert Phase IV for the entire country. This required UN agencies to evacuate all internationally recruited staff with the exception of security personnel and those working on humanitarian assistance. In our case, the Boards approved the activation of the Bank’s own Phase IV leading to the following actions that were in line with the emergency plan that had earlier been developed:

- 100 staff members were dispatched to the Bank’s emergency back-up site in Paris to ensure the continuity of the Bank’s essential financial and other business processes.
- Another 300 were sent to the Bank’s Temporary Relocation Agency (TRA) in Tunis to maintain other essential functions. They will soon be joined by the staff complement sent to Paris. The approximately 400 staff at the TRA will have the responsibility for maintaining ongoing operations.
- The remaining internationally recruited staff was relocated to their home countries. They have been placed on administrative leave until such time as they are recalled by the Bank to resume their normal duties.

And at its meeting in February 2003, the GCC, while noting the full activation of the Bank’s emergency plan under Phase IV, further recommended that the Bank should temporarily relocate its operations to Tunis and take as many staff as necessary to enable it to resume, as soon as possible, its operations in its regional member countries and to continue to provide support to regional initiatives such as NEPAD. The GCC also stressed the importance of the Bank reconstituting itself within a short time to enable it to deliver on its full development mandate.

Further, the GCC agreed that the decision on the temporary relocation would be reviewed not later than 180 days and every six months thereafter to assess the conditions that would permit the Bank’s operations to return to Abidjan. The GCC noted that a final decision would have to be based on a judgment regarding the re-establishment of those conditions necessary for the smooth operations of the Bank and the return of staff. In addition, the GCC welcomed Management’s undertaking to launch a study on decentralization in order to come up with proposals by the end of 2003.
The Boards of Directors approved these recommendations at their subsequent meeting in Accra. This has meant that in addition to the first building that the Bank had leased for its TRA it has had to seek two other buildings to accommodate the more than 1000 staff and the Board of Directors. Fortunately two adequate buildings were found close to the first building and work to equip them with the necessary IT infrastructure and office equipment is currently underway.

While the Bank has faced an unprecedented logistical challenge, these operations are going well and we expect the buildings to be fully ready and operational by the beginning of May. By that time, we expect all our operational staff to have gradually joined the staff currently in Tunis. We are fully confident that with the full mobilization of the staff, the Bank will not only be able to continue with the current operations but also deliver on its development mandate, particularly in the area of new operations.

In the meantime, we have taken steps to ensure that all the preparatory work for our 2003 lending program is undertaken. We are currently in the process of finalizing the revision to our Country Strategy Papers (CSPs) – the basic framework documents for our operations in each of our regional member countries -- as well as appraising projects and programs.

I wish to note that the activation of our Paris emergency service and the start-up of the Tunis TRA have enabled the Bank Group to maintain its key business functions. For example, all treasury operations have been undertaken on time as well as other key financial operations. In particular, the emergency measures have allowed the Bank Group to continue the disbursement of funds to the projects and programs that it supports throughout the whole continent.

I may add in this regard that the ability of the Bank Group to continue critical financial functions and to oversee on-going operations under emergency conditions is due to two factors: (i) the careful planning over the last three years in developing a business continuity plan, and (ii) the considerable investment that the Bank has made over the last six to seven years in upgrading its IT infrastructure to world standards.
Concluding Remarks

Permit me to conclude by thanking you, once again, for honoring our invitation and for giving us the opportunity to present to you the African Development Bank Group and the actions we have taken for its temporary relocation to Tunis. We look forward to working with you closely to enable us to meet the Bank’s objectives of providing quality support to the development efforts of African countries.

I thank you for your kind attention.