Statement by Omar Kabbaj,
President of the African Development Bank Group,
at the Opening Session of the Symposium on
“The 40th Anniversary of the Bank’s Establishment”

Annual Meetings of the
African Development Bank Group

25 May 2004
Kampala, Uganda
Introduction

Your Excellency President Yoweri Kaguta Museveni,
Honorable Governors of the African Development Bank,
Your Excellencies,
Distinguished Guests,
Ladies and Gentlemen,

It is a great pleasure for me to welcome our Honorable Governors, their delegations, and our special guests to this Symposium which commemorates the 40th Anniversary of the Establishment of the African Development Bank. Permit me first to express the Bank’s, and my own appreciation to President Museveni who has kindly agreed, despite his many pressing engagements, to stay and take part in our meeting. I should also like to express my appreciation to our Honorable Governor for Uganda, Mr. Ssendaula, for agreeing to chair this Symposium.

Let me also welcome former Presidents and Vice Presidents, Executive Directors and staff members of the Bank, as well as other distinguished personalities who, over the years, have made major contributions to building the Bank. We are delighted that you have agreed to share with us your vast experience and insights.

Your Excellencies,
Ladies and Gentlemen,

It is customary on occasions such as this fortieth anniversary to look back and “take stock” – to see how far we have come and how we are measuring up as a regional development-finance institution. It is also appropriate to look forward to the challenges that lie ahead and determine how best we could address them.

To cover, in any depth, the evolution of the Bank over its four decades of existence would, I am afraid, take up far too much of this Symposium’s time. Moreover, it is not necessary as we have distinguished speakers amongst us who have kindly agreed to speak on the different epochs of the Bank’s history. Permit me, therefore, to highlight some of the major landmarks in the evolution of the Bank over the last forty years.
The Bank’s Evolution over the Last Four Decades

Your Excellencies,
Ladies and Gentlemen,

The Evolution of the Bank Group’s Financial Base

As I am sure you would all recall, at its establishment in 1964 the Founding Fathers gave the Bank the broad mandate of "contribution to the economic and social progress of its regional members – individually and jointly." Established at a time when most of our regional member countries had just gained their independence, the Bank represented a symbol of this new era. It also represented the aspiration of African countries to achieve rapid economic and social development. Unlike its other sister multilateral banks, the African Development Bank was thus initially established with only the capital subscription of its African members.

However, the limitations of such a framework soon became apparent. Indeed, when it first started operations at its Headquarters in Abidjan in 1967, its subscribed capital was only UA250 million from 33 members. This severely limited the resources that it could mobilize to finance the rapidly growing demand for development finance from its members. It was thus inevitable that the Bank would seek to augment its capital through other means.

Over the years this goal was achieved. In 1973 the Bank and 15 non-regional countries established the African Development Fund (ADF) to provide concessional financing in support of the Bank's development activities. A unique feature of the Fund was the equal voice that African countries, represented by the ADB had – and still have -- on the Board of Directors of the Fund. The establishment of the Nigerian Trust Fund (NTF) soon followed in 1976, with an initial contribution of US$ 80 million from the Government of Nigeria. This also significantly augmented the resources of the Bank Group.

And in 1982, nearly two decades after the Bank was established, its shareholders agreed to invite non-regional states to become members. Their share was however limited
to only one third of the total shares capital. This was later increased to forty percent in 1998.

With the entry of non-regional members, the Bank’s capital increased fourfold from UA1.22 billion in 1979 to UA5.3 billion in 1983. Since then the Bank’s authorized capital has been augmented through five general capital increases and subscriptions of new members and stands at UA21.9 billion today. A similar increase in the resources of the African Development Fund took place in the 1980s and the early 1990s, such that total subscriptions to the Fund stands today at UA12.6 billion.

The significant expansion of the Bank’s capital and the increasingly larger replenishments of the Fund enabled the Bank Group to rapidly increase its assistance to its regional member countries. Yet, this rapid expansion, particularly non-concessional loans to countries that had begun to face difficulties in servicing their debts created serious policy differences among its shareholders. This was indeed the central issue that eventually led to the adoption of the Bank’s new Credit Policy. This limited access to the ADB window to only credit-worthy middle-income countries.

One unfortunate effect of the policy differences and governance crisis among shareholders in the mid-1990s was the protracted negotiations over the ADF VII replenishment. As a result, the Fund was not able to commit any new resources from 1994 to early 1996. This low ebb in the Bank’s history was reflected in total Bank Group approvals dropping, for the first time in a decade, below the US$ 1 billion mark in 1995. The Bank also began to experience a substantial increase in arrears. These financial difficulties and the policy differences among shareholders led to the downgrading of the Bank’s rating by Standard and Poor’s in 1995.

Clearly, the mid-1990s was a period of crisis for the Bank. It needed to take bold measures to resolve the problems that it faced and to regain the confidence of its shareholders. It was under these conditions of crisis that the Bank launched a wide-ranging and systematic reform program in 1995, with the full backing of its shareholders. The reforms aimed, first, at strengthening the Bank’s financial standing, second, improving the quality of its operations, and third building up its institutional capacity.
The successful implementation of these reforms eventually paved the way for the Bank’s shareholders to reach agreement on the Fifth General Capital Increase resulting in a 35 percent increase in the authorized capital of the Bank in 1998. They also made it possible for the successful conclusion of negotiations for the 7th, 8th, and 9th replenishments of the African Fund.

The impact of the reforms on the financial standing of the Bank is evidenced in the continued improvement in the Bank’s financial standing over the last seven years. Its leverage, gearing and liquidity ratios are among the best in relation to other sister multilateral banks. Its operating income has continued to grow – recording an average of close to $240 million in the last three years. And since 1995, the Bank has doubled its reserves.

The improvements in the Bank’s financial standing and the strong shareholder support found expression in the two global bonds that the Bank issued during the past two years. In July 2002, the Bank successfully launched a $500 million global bond, which was nominated the Agency-Supranational Bond of the Year by the International Finance Review. This was followed one year later by the successful launch of a five-year $1 billion global bond, representing Bank’s largest borrowing activity to date.

In July 2003, Standard and Poor’s (S&P) restored the triple A rating of the Bank such that it now enjoys the highest credit ratings from all four major ratings agencies, including Moody’s, the Japan Credit Rating Agency, Fitch IBCA as well as S&P.

The Evolution of the Bank’s Operations in its Regional Member Countries

Your Excellencies,

Ladies and Gentlemen,

Allow me now to turn to the changing character of the Bank’s operations in its regional member countries. The extent of its support to the region’s development efforts is evidenced by its cumulative approval of over 2,800 loans and grants in 52 regional member countries, amounting to approximately US $50 billion. In addition, the Bank has
over the years succeeded in mobilizing substantial funding through its co-financing operations amounting to US$70 billion.

The sectoral allocation of the Bank’s resources has also evolved over the last four decades, reflecting the changing priorities and economic circumstances of its regional member countries. Up to the mid-1980s, it was generally believed that infrastructural constraints represented the most serious obstacle to accelerating economic growth. Consequently, over half of the Bank's commitments during the first two decades of its existence were directed to this sector. In addition, agriculture and support to the financial sector were accorded high priority during the initial years.

In the mid to late 1980s, an increasing number of African countries began to face serious macroeconomic instability and balance of payments difficulties. The Bank responded to these crises by introducing, for the first time, policy-based loans. The loans were often made in close cooperation with other international financial institutions, principally the World Bank and the IMF and initially aimed to help countries stabilize their economies. And with time these policy-based loans were also used to finance the major reform programs that an increasing number of countries adopted.

As I indicated earlier, with the rapid expansion of the Bank’s capital in the late 1980s and the increasing volume of replenishments of the African Development Fund, the Bank Group’s lending and technical assistance to its regional member countries expanded rapidly in the 1990s. Yet, at the same time, the crisis in many of our countries worsened, increasingly making it clear that the Bank needed to adjust its operations.

In retrospect, it must be admitted that the Bank did not respond quickly enough to the changing reality on the continent. This was affirmed by the 1994 Knox Report which, after reviewing the Bank’s operations concluded that its lending strategies were often weak, that its operations lacked focus, and that the Bank was not adequately client-focused.

A major goal of the reform program that the Bank began implementing in 1995 was therefore strengthening the quality of the Bank’s lending and non-lending activities
and to give them a sharper focus. Several important initiatives were launched in this regard.

- **First**, the Bank introduced a comprehensive review system to ensure quality at project entry. In addition, it increased the frequency of supervision missions, as well as their composition, to strengthen the management of the Bank’s portfolio. And to increase its presence in the field and enhance the development effectiveness of its operations, it adopted a program of opening up 25 offices -- with eight in operation or to be opened shortly.

- **Second**, in 1999 the Bank Group adopted its Vision Statement following broad consultations among all stakeholders. The Vision affirmed that poverty reduction and promoting sustainable economic growth would be the overarching objectives of the Bank Group. It also clearly indicated the priority areas of engagement. And the Strategic Plan, adopted at the end of 2002, has given the Bank an important tool for specifying more clearly its strategic priorities, to align the allocation of its resources to its priorities, as well as the means to monitor its progress.

- **Third**, a comprehensive and coherent policy framework to guide the operations of the Bank has been developed. In addition, the new generation of country strategy papers (CSPs), based on country-owned Poverty Reduction Strategy Papers (PRSPs), have become important vehicles not only for programming our support but also for responding directly to the needs of its clients. Further, a new organization structure came into effect at the beginning of 2002, aimed at enhancing the capacity of the Bank to serve its clients better.

- **Fourth**, the Bank established the Joint Africa Institute with the IMF and the World Bank in 1999 to provide additional training in key development topics.

- **Fifth**, it is introducing a results measurement framework to enable it to assess the impact of its operations at the project and institutional level, and its contributions at the country level.

These various reforms have resulted in a considerable improvement of the Bank’s portfolio as evidenced by the sharp decline over the years in the number of projects termed as ‘problem projects.’ And with the increase in shareholder support, the Bank Group has also in recent years significantly expanded its lending and non-lending programs, with average approvals in the last three years amounting to UA 2 billion.
The strengthening of the financial and institutional capacity of the Bank has also enabled the Bank Group to launch several major initiatives and to take part in others. These include

- **First**, its active participation in the HIPC initiative which has enabled it to extend debt relief to 22 countries so far. The total cost to the Bank of its share of HIPC debt relief for the 32 African countries that are eligible is estimated at over $3 billion.

- **Second**, at the request of the NEPAD Heads of State Committee, the Bank is now taking a lead role in banking and financial standards and in regional infrastructure. For infrastructure, it has prepared a short-term action plan that has identified priority projects and areas of engagement which are expected to cost $8 billion. It is also preparing a medium to long-term plan in cooperation with the regional economic communities, the World Bank and the European Union. I may add in this respect that the Bank’s engagement in NEPAD has boosted the support that the Bank Group now provides to multinational projects.

- **Third**, the Bank has launched its Rural Water Supply and Sanitation Initiative as the Bank’s contribution to attaining the African Water Vision and the Millennium Development Goals for water and sanitation. The objective is to accelerate access to water supply and sanitation services in rural Africa, increasing coverage from the present 47 percent to 66 percent in 2010, and to 80 percent by 2015.

- **And, fourth**, the Bank has developed a proposal to enable it to play a more proactive role in helping these countries clear their arrears. As the build up of arrears is a major hindrance for the re-engagement of these countries with the international community, the Bank is setting up an instrument to enable it to assist eligible countries clear their arrears to the Bank Group.

**Governance Reforms and Strengthening Corporate Management**

Your Excellencies,
Ladies and Gentlemen,
The final area that I would like to touch on before I conclude is the progress that the Bank has made in strengthening its governance structure and its corporate management. As Your Excellencies may recall, the Boards of Governors established in 1995 an Eminent Persons Panel to look into the problems of governance that the Bank’s crisis in the preceding year had revealed. The Panel came out with its Report in early 1996 in which it identified the structural problems that existed between the various governing organs of the Bank. It also made a number of important recommendations. In addition, it identified a series of weaknesses with respect to the management of the human resources of the Bank that needed to be corrected.

In line with the recommendations of the Panel, changes in the governance structure of the Bank Group have been introduced. The ambiguities that had created governance problems for the Bank in the mid 1990s have over the last few years been cleared, through comprehensive and appropriate amendments to the Agreement Establishing the Bank. These have enabled the clear demarcation of authority and responsibility between the different governance bodies.

We can indeed claim today that there is harmony and genuine cooperation among all the shareholders of the Bank Group and between its different governing bodies. This has been evidenced by the Fifth General Capital Increase of the Bank, the three successive ADF replenishments since 1997, as well as the considerable resources mobilized to finance the Bank’s participation in the HIPC initiative. The cooperation that exist between both regional and non-regional shareholders is also exemplified by the strong support provided to the Bank by all its shareholders when the Bank was obliged to temporarily relocate its operations in 2003.

In the area of human resources management, I would also like to point to the considerable improvements that have been made. Over the years, a more open and transparent human resource management system has been introduced. Pay and benefits have been adjusted in line with the practices of sister institutions to enable the Bank to attract high caliber staff. And as importantly, the staff and management have, through their own mission exercise, adopted a set of values befitting international civil servants.
Concluding Remarks

Your Excellencies,
Distinguished Participants,
Ladies and Gentlemen,

Let me conclude by noting that the African Development Bank Group has indeed come a long way in its four decades of existence. While many challenges remain, there can be little doubt that the Bank has built up its financial, technical, and institutional capacity to support the development efforts of its regional member countries. It has one of the largest pool of African and non-African experts and has accumulated a deep knowledge of Africa’s development challenges. And as important, the Bank Group has joined the ranks of the regional multilateral banks and represents today a symbol of the partnership between Africa and its development partners.

The progress that the Bank has made in these last four decades is in large part due to the strong support of its shareholders – both regional and non-regional alike. It is also due to the dedicated service of its staff and management, both past and present, and represented by the distinguished personalities amongst us today. Let me take this opportunity to thank them all for their most valuable contributions.

Today, African countries and their development partners have in the African Development Bank an institution of which they could rightly be proud. It is therefore incumbent upon all of us to support it, help it grow further, and to enable it to meet the many challenges that lie before it.

I thank you for your kind attention.