

***STATEMENT AT THE GOVERNORS  
CONSULTATIVE COMMITTEE***

***Tunis 11 September 2009***

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President***

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**Mr. Chairman, Board of Governors,**

**Governors, Members of the GCC,**

**1. Let me begin by joining the Chair in extending to you all a warm welcome to Tunis. Thank you for making the time. When we met in Dakar at the Annual Assembly we set in motion a process to examine the matter of the capital resources for the Bank – to enable it to continue fulfilling its mandate and ambitions as articulated in the Medium Term Strategy, but also to provide the firepower needed to play a countercyclical role in these exceptional times.**

**2. We laid out, five benchmarks and the performance metrics to provide evidence of the Bank's need for additional resources namely:**

**(a) Presentation of a robust demand and the needs analysis on a bottom up approach;**

**(b) Evidence of the institutional and operational focus on poor countries;**

**(c) Demonstrating that we have utilized our capital headroom optimally and considered all options to fully leverage our balance sheets;**

**(d) That our risk management framework and governance get stronger everyday;**

**(e) Finally that we are not gearing up to perform roles of other institutions but rather demonstrate complementarity and division of labour.**

**3. We fully recognize that these are exceptional times: many shareholders are faced with similar requests from other MDBs and organizations – We also know many of the regional members are facing acute financial tensions.**

**4. As we embark on this exercise, allow me to share with you my assessment of where we as a continent stand today and how we – as Africa’s premier Development Bank see our role at this juncture. As a result of steadily increasing effectiveness over the last ten years, the franchise value of the Bank in Africa has grown tremendously. The prestige of the Bank has grown and so have the demand on its services and resources. Expectations have steadily risen especially during this crisis. From a Bank which probably 15 years ago was slightly more than a relatively modest player, it has emerged as a leading actor. The Bank now has a greater legitimacy in Africa and internationally. It has grown in effectiveness as a result of reforms over the last ten years – and shareholders can be confident that the bank operates under sound practices, transparent fiduciary rules and a robust risk management framework.**

5. *We have always been conscious, nonetheless that to be effective to better respond to Africa's increasing demand on us, we have to be selective. Our approach has been one of searching for focus and complementarity as we implement our medium term strategy, axed on reducing the obstacles to growth on the continent which we want as strong, sustained and broadly shared. We identified the critical niches – our comparative strength and mapped out how to complement and divide labour with other Africa's partners. I believe we were – we still are on track to deliver.*

6. *The economic crisis on the continent has been a major setback for Africa. We always understood that the continent cannot be immune from the crisis and it was a matter of time before our real economies took the hit. Countries, not surprisingly have been affected in different ways depending upon three elements: the structure of exports, level of dependence on external inflows and finally resilience or capacity to resist. As we know, Africa viewed from demographic or size of GDP is very diverse – many are very small economies. Only four countries have population above 50 million, the majority (39) have population of below 20 million of which 18 are less than 5 million and so not surprising, the impact has varied. We have about 20 countries who are extremely vulnerable to the crisis, but the remainder though badly affected, have shown a remarkable resilience, unimaginable ten, fifteen years ago – Evidence of the underlying momentum this continent economies have built up.*

*This is the context in which we view our response. Here is a continent which was set on a path of growth – seemingly irreversible for the first time in 50 years – now seeing its hopes delayed/frustrated by the crisis – and turning to us for support – as the last few months demand on Bank services have demonstrated. In this context, our challenge, as Africa’s Development Bank, as we try to ensure the broad momentum is kept, has been a triple one. How to respond to the crisis while retaining focus on our long term strategic direction and remaining sound financially.*

- 7. Before the financial crisis, a small but increasing number of African countries had started to access the capital markets. It now increasingly looks as though that access was the exception not the norm. Indeed discussions in the G20 and in the Basel Committee are likely to result in higher capital requirements for banks. Given the pressures they already face to increase lending in their own domestic markets, we should not presume that even as the global crisis eases, there will be early or substantial resumption of lending to Africa. It is therefore self evident – as the G20 has spelt out – that the role of Development Banks at this juncture is critical – as it calls on MDBs to play a counter-cyclical role, to make full use of our balance sheets, to front load commitments, to innovate, speed up processing and disbursement. This is what we have done.*

**8. But that inevitably means that we are consuming our resources more quickly than we had anticipated in the Medium Term Strategy agreed only last year. The MTS was developed around two key assumptions: an overall demand for financing from IFIs in line with nominal GDP growth, and a strengthened position of the Bank with projected annual increase in lending of 20% between 2008 and 2012. On this assumption the sixth general capital increase (GCI-VI) was not expected until 2013.**

**9 With the crisis we have revised our lending scenarios as detailed in the paper that take the increased demand into account.**

**10 It is our belief that the crisis-induced high demand in 2009 will only slowly taper off. Combined with countries' urgent need to get back on a growth path, there is little doubt that this will lead to sustained high demand for ADB financing. I believe the role the Bank has played in the crisis as well as the increased visibility and strengthened relationships that it has been able to forge during all this time is a factor which has encouraged many African countries to look increasingly to us.**

**11. As the paper before you will demonstrate, in the absence of a GCI, the Bank will quickly reach the strategic lending limits if expected approvals and disbursements for 2009/2010 materialize. It is therefore our hope that**

*these discussions can mature and reach closure expeditiously. Our strong credit ratings are principally founded on strong shareholders support and prudent management – expeditious and efficient negotiations would send a very powerful signal of strong shareholder support.*

*12 Management has already taken steps to manage this constraint, by looking for innovative ways to stretch our balance sheet further. In July 2009 the Board of Directors of the Bank approved a re-definition of the Debt ratio to help create some additional headroom.*

*13 In the full realization that the GCI can be a complex and prolonged exercise, Management has explored further areas for optimization of balance sheet utilization as long as the options are not imprudent and conform to sound banking practices. Those interim options to provide the Bank some additional headroom will be discussed today.*

*14. There are questions as to whether Low Income Countries benefit from a GCI. The documents before you indicate how; but let me touch on a few points. First, let me affirm our intention and determination to ensure greater flow to low income countries out of our net income, an issue I know close to many of you.*

*15. Second, to further increase the role of our private sector which have significantly extended their reach into ADF countries. Already 50% of*

*such operations are in ADF only eligible countries; and not surprisingly given the trends in Africa the demand is enormous. Third, through greater economic and regional integration; while it is true only a dozen countries or so can access the ADB window under our credit policy, several of such Middle Income Countries (MICs) are important regional economic locomotives with significant neighbourhood effects.*

16. *Several of you have raised with me the issue of the Bank's ability to deliver. I want to assure you that whether from the view of risk management, internal governance, robustness of external evaluation, search for and reporting of results, this is a fundamentally different Bank than the one we knew fifteen years ago. There remains a lot to be done but our Medium Term Strategy has spelt out a roadmap on how to do so. At our last GCI ten years ago, the AfDB was a fairly modest institution. Since then the Bank Group has expanded fourfold. ADF operations have grown from 600m US\$ to 2.5bnUS\$. ADF disbursements have tripled, private sector operations have increased eightfold, infrastructure fourfold. Commitments and disbursements by the Bank Group as a whole increased three times, and the Bank has always delivered reasonably on its mandate while seeking to continuously increase its effectiveness.*

- 17. In conclusion; these are challenging times; Africa's expectations of this Bank are high; much of the additional pressure we face is a consequence of our own success, in steadily showing that we can deliver what our clients want, are sensitive to and respond quickly to their needs, and are committed to accompany them on their development journeys. That is what gives this process importance beyond simply the size of our capital base. It is the signals you send of the confidence you have in Africa, in this institution. Africa is not looking forever to be dependent on others. That is why its primary focus is on a growth agenda, and growing African institutions on which it can depend.**
- 18. In the course of this process, I am sure you will give due weight to the importance of investing for the future, of building African institutions. That was after all the key message coming from our High Level Panel – that the ADB should become the premier development institution on the continent, a voice for development in Africa.**
- 19. The timing of the GCI-VI has been accelerated by 2 years as a result of the crisis. The size of the general capital increase will of course depend on discussions with you, the Bank's shareholders. However, management is presenting for consideration a 200% capital increase with a paid-in ratio of between 6 and 10%, which would allow us**

*adequate headroom to respond to our mandate and Africa's expectations.*

*20. I know there are many such demands at this time and inevitably comparison will be made with peers. This is legitimate. But when comparing these bids please bear in mind that for all the apparent similarities there are fundamental differences in the human and financial resources at their disposal as well as our wider theatre of action as we deal with all 53 countries in Africa.*

*21. The meeting last week of G20 Finance Ministers in London repeated the call made by G20 leaders for the MDBs to make full use of their balance sheets. As the documents before you show clearly we have done so. The G20 also explicitly reaffirmed their commitment to ensure that the MDBs have appropriate capital. I hope we can begin today the process to put this into practice.*

*22. Let me thank our shareholders, our board for the flexibility provided to us whether during the food crisis or in the context of the financial turbulence. This is what has enabled the Bank to play a major role at these times in advocacy, purveyor of knowledge and resources. Africa and its people are again looking at us, at the signals we will send, the determination we will show, and the urgency we will bring to the table.*

*Let me wish you a successful deliberations.*