



AFRICAN DEVELOPMENT BANK GROUP

Managing Change and Uncertainty, Unlocking Potential

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We are pleased to be holding our first assembly here in 10 years. I know how much efforts the Ivorian nation has put into the organization of this gathering. We are grateful to you. We are glad to be here at our headquarters. We are aware of how impatient you are for our return. We are confident that the Ivorian People will be able to find a lasting solution and a definitive end to the crisis soon, to enable the Bank to return to its headquarters.

I again thank the Government and People of Tunisia for affording us their hospitality, since we temporarily relocated to Tunis.

Thank you to the eminent personalities here this morning, leaders of the Ivorian institutions, heads of regional, continental and international organizations and former presidents for finding the time to be with us.

This is an assembly that will consider key decisions. Some of which are likely to influence the trajectory of the Bank for a long time. The General Capital Increase, the election of the Board and its reconfiguration, the election of the president and, finally, the penultimate negotiations for ADF 12.

Residual uncertainties

Since we met in Dakar much has happened in the global economy, on the continent and at the Bank. The world economy shows signs of recovery but remains in uncharted territory, battling with record deficits, sovereign debt, global imbalances, unemployment, repairing Bank balance sheets, facing risks of bubbles in large emerging markets. That can only mean uncertainty for all, Africa included.

For our economies, these last 24 months have not been easy, confronted by three crises in quick succession: food price hikes; energy; and the aftermath of the financial turbulences. Some economic damage was done; the crises momentarily disrupted and interrupted the growth momentum, particularly for three types of countries, the middle income countries, the natural resource rich economies, and those countries with pre-existing vulnerabilities.

Strong recovery – staying power – reforms have worked

However, beginning around the third quarter of the year, driven by renewed growth in large emerging countries, commodity prices rebounded and strengthened. Copper, which early in the year had declined to below 3,000 dollars per ton (forcing mine closures and job losses), is back to pre-crisis levels at above 7,000 dollars per ton.

Disruptions to external inflows have been limited, a decline of less than 5% for migrant remittances. Although the impact of the crisis in some countries was sharp, it was also brief and much of Africa was spared from a prolonged deep recession. Many low income countries in Africa have, this time around – much unlike previous such episodes – demonstrated a remarkable staying power. Proof, if any was needed, that years of economic reforms have proved worth and should continue.

A much improved outlook

While statistics are subject to frequent revision, the outlook for 2010 and beyond is much improved. Economic growth prospects will hover around four-and-a-half in 2010 and perhaps be one percentage point higher in 2011. That is still below what is needed, but it is encouraging. Indications are it may take some time to return to the buoyant, pre-crisis growth peak, but we are on the way.

Nonetheless, the larger question must be addressed: how we manage commodity revenues to build our infrastructure, to spread the benefits, in short to build diversified, self-sustaining rather than supply economies.

The Bank responded

In the face of the successive turbulences, you called upon us to come forward with a countercyclical response. We did. This is what you expected from us. We played our part, more than doubling our operations in 2009. By the end of the year 2009 we had delivered support equal to 12.6 billion dollars compared to 5.5 billion dollars in the previous year. We provided front-loaded additional budget support, trade finance and liquidity. Our private sector window filled the gap left by sponsors of key infrastructure projects. And, in providing that support, we were flexible, innovative and proactive. We cut down reaction time considerably. The ADF window alone increased its disbursement by 53% in 2009.

A strong, healthy Bank

The Bank was able to react swiftly because of its growing effectiveness. A growing effectiveness built on the cumulative changes which have taken place at the Bank over this decade and especially over the past three years.

An effectiveness resulting from decentralization, responsiveness to clients, sustained focus on our priorities, built on a robust financial position and reflecting our growing franchise value.

Robust financial position

The Annual Report before you and the financial presentation on Tuesday give you a flavour of where your Bank is today: strong; robust finances; focused and effective operations; and a changing institution. A Bank which continues to enjoy its AAA rating from all major rating institutions. A Bank whose three windows are again, despite market turbulences, reporting positive results.

Just consider that even at the height of the crisis in the global financial systems we continued to have access to capital markets for our borrowing programme. It is this financial strength that enables us to continue to effectively deploy our balance sheet. It is such a strength result that enables us this year to deploy 165 million dollars, out of the net income of 346 million dollars generated in 2009 to support a number of development initiatives, including increased contribution to the ADF.

But we are also strong because of your support. Three years ago you replenished the Bank's soft window, the ADF, with a record 50% increase and allowed some budget growth to build capacity. And today you have before you the proposal by the GCC and the Steering Committee to triple the capital of the institution. We are humbled by the confidence which this historic step signifies.

But, beyond the Bank, this decision to grow a strong, world class Africa's Bank is a vote of confidence in a resurging Africa. The timing is right to build strong, world class African institutions at a time when Africa is repositioning, building internal markets and integrating more closely within the global community.

A growing portfolio and lower risk profile

In 2005 you bestowed upon me the honour and privilege to lead this great institution. I undertook, building on the work of my predecessors, to whom I render homage, to consolidate the financial standing of the Bank, increase its effectiveness and give a new strategic direction. I am very conscious of how much remains to be done. But, together, we have registered significant achievements.

I am proud to have been leading a team of men and women who have contributed to the solidity of a Bank for which Africa can be today proud. The portfolio of the ADB window has doubled from 8.5 billion dollars to 15.6 billion dollars in four years; ADF approvals increased by 68% in four years; and outstanding loans (excluding the MDRI) have doubled. And, perhaps more importantly, this doubling of the portfolio has come with quality. Non-performing assets of the Bank decreased by 62% and now represents only 4% of the total loan portfolio. This is

achieved as a result of strong portfolio monitoring and an arrears clearance mechanism from the Fragile State Facility.

Going forward, projections indicate a strong growth profile over the next five years for the two windows of the Bank:

- With a GCI VI, and assuming ADB lending of around 5.5 billion dollars per year, the outstanding loans and equity will reach 30.2 billion dollars in 2015;
- For ADF, assuming annual lending of 3.6 billion dollars, total outstanding loans will increase from 9.8 billion dollars to 16.5 billion dollars.

But our operations are not simply growing in volume, doubling in four years; they are more effective. By shifting strategic direction and focusing to a few domains where we have – or could – build comparative advantage such as infrastructure, private sector and economic integration, we have enhanced our effectiveness as we steadily seek to be more relevant for all: middle income countries, low income countries and fragile states.

Strengthening risk management for a growing portfolio

We are conscious of the fact that a growing portfolio requires even stronger risk management. That is why last year I commissioned an external expert review of our risk management systems and practices.

Not surprisingly, they confirmed our systems are robust but made some recommendations for improvements, which the Bank will implement. We are reviewing our internal systems and processes, getting more staff in the field and considering a decentralization road map to strengthen the ability of the field offices to support you.

Fulfilling commitments

Today, as you consider to triple the capital base, we are aware that you do so at a time when nations the world over are battling with tough budget choices. We fully understand the responsibilities on our shoulders to deliver value for money. Our track record should give you a measure of confidence. You are right that the matrix of obligations which the Bank has accepted in this GCI be executed. You will rightly want to see a good score card in two years.

Solid progress on all the issues we have agreed upon, among them: deepening decentralization; the income model; and a hermetic risk management framework.

You want us to adopt and implement a more explicit disclosure policy and enhance our communication.

We understand the need for greater accountability.

We want to ensure feedback from the people we serve as to how we affect their lives, whether we comply with our policies and whether we take all necessary safeguards.

In the corporate world a regular survey of its clients and customers is a must. Perhaps the time has come for the Bank, in the same way staff surveys are conducted for feedback, to do the same with our stakeholders, including business and civil society.

Results framework

While the Bank has delivered tangible benefits we must be prepared at all times to rethink our strategies when we fall short. That implies a measurement framework that allows us to determine how effective we are as an organization. Our new four-tier results framework is a major step to a result oriented organization.

Anti-corruption measures

But getting results on the ground also means that we are constantly vigilant in combating corruption in the projects we finance. A new fully-fledged, dedicated department is now in place building on the work the anti-corruption division has done since 2005. You will be pleased to know that at the regular meeting of Heads of MDBs we have agreed on cross-debarment. This is a major breakthrough. It means that a company or firm barred by any of our organizations will be automatically barred from accessing the business of the other international financial institutions.

“Keep the ADF strong” component of the GCI

This week you are engaged in the last but one round of negotiations for the ADF 12. The Fund is an incontestable success. It is perhaps smaller than the peers, but it has identified its right place in the international aid architecture. The majority of the countries in this room still depend entirely on the ADF. It is a vital and essential complement to the GCI.

Let us keep it strong. It is getting results. It has contributed enormously and has shown the much needed flexibility during the crisis and has just graduated the Cape Verde, where I visited last month.

I take the opportunity to thank the ADF state participants who have, over the years, supported the Fund. I want, in particular, to recognize regional member countries such as South Africa who is a regular contributor to the Fund. I welcome the expressed intention by Egypt to do so and call upon other RMCs who can contribute to give it consideration. I know budget choices at this time are tough, but I hope we can – as we did for ADF 11 – make ADF 12 another success. The Bank itself is committing a higher engagement and should continue to do so.

A focused Bank

At our meetings in Maputo, in 2008, you adopted the recommendations of the Panel of Eminent Persons, led by former Mozambican President Chissano and former Premier Paul Martin of Canada. That panel spelt out forcefully the case for a strong African Development Bank. It argued for a strategically focused Bank on five interlocking flagship areas – critical at this juncture for Africa's growth prospects:

- Economic integration;
- Investing in infrastructure, energy, transport, IT broadband and water systems;
- Building institutions of governance and supporting fragile states;
- Promoting the private sector;
- Developing high level skills for a competitive economy.

I believe we have made headway in focusing the Bank exactly in that direction. The Bank is now recognized as a leading actor on economic integration. Last year alone we committed 1.8 billion dollars building regional transport corridors, electricity power pools and supporting Regional Economic Commissions.

The large infrastructure deficit

Infrastructure of all types now account for 52% of our portfolio. In response to power outages and the energy shortage in many countries, we have given particular attention to energy which accounts for 57% of the infrastructure outlays.

A growing private sector arm

Our private sector lending has continued to expand with total annual lending in 2009 at 1.8 billion dollars, compared to just under 400 million dollars four years ago, financing maritime ports like the ones in Dakar and Djibouti and renewable energies like in Cape Verde.

It is worth mentioning here that this expansion in non-sovereign operations has come with a very moderate risk profile. I understand we must increase our coverage to more countries, do more private-sector lending in low income countries – already covered by more than 60% of such lending.

I understand that we must do more to support Africa's own companies and enterprise. That is why our focus in building institutions, to strengthen economic governance to build a positive investment climate and lower the risks on the continent is key.

Fragile states

Incontestably one of the most visible successes of the Bank has been the initiative on fragile states, from arrears clearance in Côte d'Ivoire and Togo to rebuilding key infrastructure in Liberia and Burundi to boosting capacity in Central African Republic. The Fragile State Facility is contributing to the recovery of many post-conflict countries and normalization of their relations with the international financial system.

Selectivity is not neglect

You will be right to ask yourselves whether in increasing focus other key sectors have not been neglected. Let me assure you that the answer is no. In collaboration with others, we ensured focus is not neglect, building strategic partnerships with the EC, World Bank and IFAD as well as many bilateral agencies. The best example is our flagship water programmes which have continued to improve rural access to clean water, better health outcomes and retention of girl schoolchildren.

I take the opportunity to thank those of you who have continued to support the RWWSI and the African Water Facility. You will be pleased to know how much impact you are making on the ground and improving social conditions of millions of Africa's citizens.

Towards the next phase – the longer strategy

The post-crisis world cannot be the same as before – the landscape is different. The Bank will have to integrate some of the lessons of the recent crises and indicate how it will deal with emerging issues. The institution operates in a dynamic environment and must therefore continuously adapt.

The relevance of its approaches and the adaptability of its instruments test the evolution of the institution. As the global crisis, hopefully, abates the Bank will return to its core business, namely: addressing the structural bottlenecks to economic growth, obstacles that delay Africa's ability to free herself from poverty and dependence. Those obstacles remain the same:

- The massive infrastructure deficit;
- The shallow fragmented markets (due to limited integration);
- The paucity of skills for a competitive economy;
- The weak institutions that emanate from and reinforce poor governance and instability.

Let me pick up some of these areas.

Africa's internal market

This is the youngest continent, the fastest urbanizing continent. That means an opportunity. But it is also a challenge. How do we give the majority of Africans – the youth of Africa – hope? We do so by unlocking the potential of our market. As the post-crisis economic geography reconfigures and takes shape, many analysts have emphasized the emergence of the so-called multi-polar economic world.

The point made is: for now, by and large, Africa is still viewed through the prism of natural resources. Not an additional platform of demand, which the global economy needs today, more than ever. Take this example: 10 years ago in Kenya, only 15,000 had mobile phones. Now they are fifteen and a half million. This is the same story across Africa.

And it is not just mobile phones. Growing urbanization has led to the explosion of demand for all types of services: for infrastructure; for sanitation; energy; and consumer durables. And it can only expand.

But how do we, in the next decade, make this internal market a reality? How do we unlock this potential? Connecting Africa to itself and with the rest of the world is the

essential starting point – exactly what we have been doing: corridors; power pools; maritime ports; etc. Last week a major submarine cable we are partly financing landed next door in Ghana and will do so shortly in Nigeria. It will have a major impact on the cost of doing business in the region and cost of access to the world – the world of education, of business information, etc.

However, that is part of what must be done. The second critical element is the role of the large regional economies – the regional engines. Look at what happened at the height of the crisis. Not surprisingly, the large middle income countries were the first to be affected as they are more integrated in the global economy. Six of such countries account for 70% of the GDP of sub-Saharan Africa. As the recession deepened, the domino effect – the impact on the neighbourhood – was immediate: lower revenues; shrinking markets; and lost job opportunities. Conversely, when those economies are prospering, the multiplier effect is a powerful one.

Skills

There are many lessons we draw from Asia and her recent experience: the role of the state; policy sequencing; etc. But one of the major lessons is that a critical mass of high-level skills must be in place to conceive and deliver the kind of transformational processes we need. It cannot be done by technical assistance. Attracting back the diaspora takes time. Africa must now take that step to give a new lease of life to its institutions of higher learning. Many such institutions are cracking under increased enrolments and limited capacity.

A way forward, which takes into account the needs of the economies, the sustainability, and the financing schemes, is what we need and the Bank must take a lead. That is the way to give the youth of Africa hope – the power to transform their lives, and unlock the continent's potential.

Our current strategy identified the need for a special effort to rebuild Africa's higher education capability, especially in science and technology. The private sector can fill only a small part of the gap. Last year, with the Government of Gabon, we agreed to finance a new university and rehabilitate another one. Attempting to do so country by country will take time. We will need to make headway on regional centres of excellence within our policies of economic integration.

Food security

Two years ago, in 2008, the food price hikes demonstrated our vulnerabilities to shifts in the structure of world demand and supply for food. It has since abated somewhat but the problem has not gone away. The African Development Bank

has, at all times, been a major player in agriculture, even when other partners downsized their portfolios.

Today we continue to play our part, especially in irrigation and water management where we have first class experience. But our continent remains food insecure even though our farmers work harder and longer hours than their counterparts elsewhere. Analyses as to what went wrong, and what to do, is common knowledge. The science is available.

It is true, in past years, distorted macro-economic policies and an overbearing state depressed farmers' income. But that was corrected. But, paradoxically, what constituted a problem then may now be part of the solution. Fast urbanization across the continent, and the distorting policies now corrected, offer unique opportunities to the farmer. The terms of trade have shifted in favour of the farming world.

So what is missing? The state. The CAADP – Africa's agriculture plan – has spelt out the whys and the hows. Many governments are coming forward with national plans. The time is now ripe for the state to again firmly step in to provide the farming sector the level of support it now needs. Yes, it is roads and irrigation; it is finance, research and extension services, and yes – why not? – targeted, exit-timed subsidies for inputs and fertilizers. The nature and vehicle of delivery of such state support will, of course, be country-specific.

But, in scaling up that state support, we must be aware of major shortcomings of the past. For donors, the inadequate division of labour among IFIs. For governments, governance issues in parastatals which were meant to support, but ended up stifling, agriculture.

And for all of us? The biggest shortcoming of all? The inadequate attention that was given to the majority of farmers, the women farmers, to gain higher productivity, access to finance, move up the value chain and run viable agricultural SMEs alongside the menfolk. Food security will not be possible – gains in agricultural productivity are unlikely – unless gender is put at the center of a modernized agriculture. We have learnt this at our expense but it can now be corrected. At the same time, as we remobilize for agriculture, our continent is getting hotter and drier, with rains more unreliable due to climate change – an issue I will return to shortly.

LICs and the private sector

Throughout the world it is such SMEs in agriculture and other sectors that have led the path. With the GCI, it is correctly assumed that LICs will be major beneficiaries. They will benefit from greater transfers to the ADF, from innovative Bank products being proposed, from the spill-overs of large economies. But, incontestably, they must benefit from deepening private sector involvement by the Bank in their countries. Opportunities abound. Risks are sometimes high, but so are the returns. The Bank will define its risk appetite and sharpen risk mitigating tools, including more work on the business climate to lower the risks.

Climate change

During this assembly, there will be several sessions, including the Governors Dialogue, devoted to climate change and the additional costs it imposes on Africa. In accordance with the wishes of the African negotiators in Copenhagen, we are proposing to the Board the creation of a “Climate Facility” at the Bank, to serve as a vehicle for funding Africa’s climate change challenges. I am privileged to be a member of the UN Secretary General’s panel on climate finance.

Our task is to propose ways to raise the 30 billion dollars a year needed in accordance with the Copenhagen final statement: funds which are additional to – and not accounted for – within the normal programmes of ODA. The success, or otherwise, of our work before Cancun is vital. As the Bank focuses its attention on climate change in the context of adaptation, of forests, addressing the energy deficit must be at the centre.

The whole continent of Africa today has the same installed capacity – 560 Tw of electricity – as that of Spain. Sub-Saharan Africa lives on less energy than that of Mexico. This stands out as a powerful brake on our economic prospects. In 2009, we delivered a fairly large number of energy projects and last week we approved a 15 million dollar wind power project in Cape Verde. It will improve energy availability, but also lower reliance on fossil fuels. The pipeline of clean energy projects is long and growing: hydro; wind; solar; even geothermal.

All sources of energy have to be tapped: doing it right, of course, ensuring all safeguards – social and environmental – are respected. A new dedicated Department of Energy Environment and Climate Change is now in place for the purpose.

The Bank has come a long way

The Bank has come a long way, part of a positive evolving pattern as regional institutions take their rightful place. Just think: that the ADB was born with a capital of 250 million dollars. If the GCI VI is approved, it will be almost a 100 billion dollar Bank. That capital will be put to serving Africa's needs of today closing the infrastructure deficit: its roads; railways; waterways; broadband; water systems; and dealing with climate change. It will enable the Bank to contribute to the continent's agenda to feed itself, accelerating integration, getting more private sector in low income countries and rehabilitating our higher centers of learning.

The C10

Like my predecessors, like leaders of similar organizations, we have, from time to time, faced the dual task of navigating our Bank through uncertain, stormy conditions. Our task has always been to instill a sense of hope and direction.

At the beginning of the crisis, at your meeting in Tunis, you established a Committee – the C10 – to continuously monitor the impact and advise on the way forward. During these turbulent months, the Bank, alongside sister African institutions, the AU, the ECA, supporting the C10, was out there advocating for African economic issues in various fora in the G20, in Copenhagen and elsewhere. We understand the G20 will increasingly become the focal point for multilateral discussions for key international economic issues. Africa's effective representation is vital. We claim no monopoly of knowledge or voice on African issues. All we want is for your views, Africa's perspective, to be on the table.

Let me conclude. For the past five years you have given me the honour and opportunity to lead this great institution. I thank you, Governors and the countries you represent, for the confidence and your support throughout that period.

I want to pay homage to our senior management and staff, 40% of whom have joined the Bank in the past three years, bringing their talents and multicultural background to bear on our work.

I thank our outgoing Board of Directors who have been excellent representatives of their countries and effective partners to management. I have certainly been the leader and captain, but these achievements are collective.

I thank our sister institutions: the AU, the RECs, ECA, IFIs and partners of the Bank across the world for the loyal collaboration.

During the recent turbulences Africa has shown its staying power. And the African Development Bank has demonstrated its mettle, its franchise value to Africa as a mature institution that knows what to do. A Bank able to manage change, navigate uncertainties and seize opportunities in normal times, in crisis times, and now all set to move into the next phase. I wish you fruitful deliberations.

Thank you for your attention.