Managing Change and Uncertainty, Unlocking Potential

Opening Statement at the 2010 Annual Meetings

Donald KABERUKA
President

Abidjan

Assemblées annuelles
27-28 mai
Annual Meetings
May 27-28

African Development Bank Group

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Donald KABERUKA
President

Mr. President
Distinguished Heads of States and Governments
Mr. Chairman, Board of Governors
Eminent Personalities
Governors
Ladies and Gentlemen

I join the Chair in extending to each one of you, a warm welcome.

Thank you Mr. President, to your Government, the entire people of Côte d'Ivoire and the City of Abidjan, for the invitation, the excellent preparations and the warm hospitality.

Let me thank the distinguished Heads of State and Government for honouring us by their presence. It is a powerful signal of support and ownership.

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, 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 XII.

"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 twenty four 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, interrupted the growth momentum particularly for three types of countries, the Middle Income Countries, 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 US dollars per ton – forcing mine closures and job losses, is back to pre-crisis levels, above 7,000 US dollars.

Disruptions to external inflows have been limited, a decline of less than five percent 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 round, 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 4½ in 2010, and perhaps 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 US dollars compared to 5.5 billion in the previous year.

We provided frontloaded 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, increasing its disbursement by 53 percent 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 last 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.

Mr. Chairman
Excellencies
Governors

"Robust financial position"

The Annual Report before you; 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 deploying our balance sheet.

It is such a strength result that enables us this year to deploy 165 million US dollars, out of the net income of 346 million US 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 percent 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 an 8½ billion dollars to 15.6 billion, 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 percent, and now represents only 4 percent 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 US dollars per year, the outstanding loans and equity will reach 30.2 billion US dollars in 2015.
- For ADF, assuming annual lending of 3.6 billion US dollars, total outstanding loans will increase from 9.8 billion US dollars to 16.5 billion US 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.

A 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, 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, 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.

Mr. Chairman
Excellencies
Ladies and Gentlemen

"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 mean 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.

Mr. Chairman,
Ladies and Gentlemen

"Keep the ADF Strong" "Component of the GCI"

This week you are engaged in the last, but one round, of negotiations for the ADF XII.

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 XI – make ADF XII 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, 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 percent 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 percent 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 in Dakar and Djibouti, 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 percent 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 rebuilding key infrastructure in Liberia and Burundi and 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 school children.

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, the adaptability of its instruments and 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"

Mr. Chairman
Excellencies
Ladies and Gentlemen

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: Ten years ago in Kenya, only fifteen thousand people (15,000) had mobile phones. Now they are fifteen million and a half. 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, 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 sub-marine cable, we are partly financing, landed next door in Ghana and 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.

Nor 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 seventy percent 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 job opportunities.

In converse, 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 enrollments 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 Centers 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 the 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 how. Many Governments are coming forward with national plans.

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, irrigation – it's 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 men folk.

Food security will not be possible – gains in agricultural productivity is 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, 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 which 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 spillovers 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; 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 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 it 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 Twh 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 fairly a large number of energy projects and last week, we approved a 15 million US 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"

Mr. Chairman,
Excellencies
Ladies and Gentlemen

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 US dollars; if the GCI VI is approved it will be almost a 100 billion US 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 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.

Mr. Chairman, Excellencies
Governors

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, forty percent of whom have joined the Bank in the last 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, 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.