

**STATEMENT AT THE 2008 LUNCHEON
FOR MEMBERS OF THE DIPLOMATIC CORPS**

***Consolidating an Agenda of Sustained Shared Growth
- The Bank in 2007 -***

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Excellency Minister for International Cooperation Mr. Jouini

Excellency Secretary of State for Foreign Affairs

His Excellency Paul Martin

His Excellency Joachim Chissano

Excellency, Dean of the Diplomatic Corps

Excellency, Ambassadors

Heads of international Organizations

Vice Presidents

Ladies and Gentlemen,

1. I am delighted to welcome you once again to the Bank's annual luncheon for the diplomatic community here in Tunisia. It is an opportunity and an honour to extend to Your Excellencies on behalf of our Board of Directors, Management and Staff, our best wishes for a happy and successful new year. I pray that the nations that you represent be blessed with peace and prosperity in 2008. I wish to especially thank H.E. President Zine El Abidine Ben Ali, the Government and People of Tunisia, for the gracious hospitality shown to the Bank since its temporary relocation in Tunis and wish them a prosperous year.

This is also an ideal opportunity for us to share with you the Bank's achievement during the year past, and to offer some reflections on the African economy at this juncture.

2. Let me start with a few pertinent remarks in respect to the economic developments and prospects on the Continent, highlight the Bank's financial and operational performance during 2007, and share with you the ongoing strategic and institutional realignments to enhance the capacity of the Bank to better carry out its development mandate.

3. Across the African continent, average economic growth continues to be buoyant. I expect this year economies to grow at average 6.5%. As I outlined to you last year, we still consider four factors to be key: First, strong international demand for commodities and other natural resources. Second: the consolidation of the gains in macro-economic stability which is enhancing trade and investments. Third: improved business and investor confidence and the changing perception of Africa. Fourth and last, for several low income countries increased resource flows both from traditional and non-traditional sources.

I must note in particular, that debt relief has created real opportunities for expanded social service delivery. A new element would seem to be that the volume and diversity of resource flows from new emerging donors, philanthropic funds are set to increasingly play a larger role.

This is a development, that portend a significant potential realignment in the global framework for development assistance, with implications for the way traditional development agencies, including ourselves do business for maximum impact.

This is the moment to commend the G8 and other OECD countries for keeping Africa on the Agenda; at Gleneagles 2005, and Heiligendam in 2007. While the pace of delivery in increasing core development financing to Africa is still not commensurate to MDG challenges (if debt relief is excluded). I applaud many of your Governments who have continued to support the different Bank initiatives on water, regional integration, infrastructure, clean energy, governance, gender among others and we thank you. The replenishment of our concessional window concluded last December in London was truly symbolic and historic.

Participating States agreed to replenish the Fund with a record increase. This provides us with nearly 9 billion US dollars over the next three years to finance development in low income countries.

Ladies and Gentlemen,

4. Growth prospects remain good, many countries chances of attaining the MDGs remain slim, and absolute poverty for millions in rural areas, in urban slums remain a scar on Africa's face. There are five areas of major concern: (i) inequalities are growing and in some areas generating social tensions and probably even roots of instability; (ii) the challenge of managing debt especially for natural resource rich countries is getting more complex; (iii) strong vulnerability to any downturn in the world economy or internal disruption; (iv) bottlenecks in infrastructure especially energy which is raising the costs of doing business, and finally, the impact of rising oil and food prices on some of the low income countries in Africa.

5. We are nonetheless optimistic because I also see an ambition to overcome obstacles; and a realization that conditions which create business confidence must exist, which means sustained stability and sound policies. Many countries have undertaken what I consider irreversible reforms to promote a

more conducive business environment. Many surveys in this domain have indicated clearly Africa fairs well among the top reformers of the investment climate.

In low income countries the combined effect of sustained economic growth and debt relief, has contributed to improvements in the credit quality of this group of African countries, making them for the first time, investor attractive. But I am also optimistic because I sincerely believe the international community is set to fulfill its commitments.

6. I am of course concerned about the risk of reversals by countries who have been doing well who suddenly fall back and are not able to sustain progress. The negative perceptions about our continent that this entails can be quite damaging. Our fervent hope is that in 2008, in Africa, as a whole progress is sustained, not reversed, that the few countries that remain stuck in severe conflict stabilize, so that the African region can definitely shed this unduly high risk and negative perceptions.

In this respect, let me applaud Bank shareholders for their strong support to our Fragile States Facility Initiative. A 600 million US dollars facility that helps to address challenges of countries emerging from conflicts, or other sources of fragility; typically normalizing relationships with International financial Institutions and kick-starting the economy.

I thank the donors who have last year enabled us to deal with the arrears of Liberia, the Comoros, thereby normalizing their relationship with the International community as was the case with RCA the year before.

7. Let me now return to the Bank in 2007. I can confirm to you that 2007, once again, has seen a very good year. Our outturn both in terms of operations and finances are at record high and our institution is strengthening its delivery capacity. Total financing approvals by the Bank Group, excluding debt relief, reached a new peak at 4.3 billion US dollars, 25% higher than 2006, driven by both the public and private sector windows. You may be interested to know that the private sector window is now overtaking the public sector for the first time. The resources, concessional, available under ADF X have been fully committed and the pipeline under the new ADF XI looks very strong.

The Bank's outstanding portfolio has begun to reverse what was a steady decline over the past several years.

8. The Bank financially continues to be rock strong. The financial statements of the Bank Group in 2007 are currently being finalized for the year end audit. But I am pleased to share with you provisional and yet to be audited information confirming robust earnings for the Bank windows. The Bank is expected to report income before transfers as approved by Governors in excess of 400 million US dollars compared to 292 million US dollars in 2006, to a large extent due to the reduction of the number of countries in arrears. Such a record level of earnings will serve not only as additional buffer against unexpected adverse events, but also reinforce our capacity to finance or development programmes.

9. The Bank's triple "A" rating has been confirmed by all major rating agencies reflecting the strong financial position of the Bank, the sound financial and operational management, comfortable levels of capitalization and solid shareholder support. As a result of Bank's prudent risk management policies and practices, the effects of the current turmoil in financial markets on the Bank Group have been significantly minimized.

The Bank holds sizeable amount of unused risk capital that will help to support scaled up operational activities in the medium term. As the Bank strives to do so, making most of its strong risk bearing capacity, I am happy to report that portfolio quality safeguards are adequately secured by an integrated prudential framework of financial management policies.

10. We are always aware of the high diversity of our continent. The Bank seeks to respond effectively to the expectations of all its regional member countries in this diversity: Middle Income Countries, Lower Income Countries and Fragile States, as we at same time pursue regional integration.

Even those of our members who are capital surplus or who are aspiring to emerging economies status, they all have a multitude of needs in terms of pockets of poverty and other problems, which the Bank must be equipped to respond to with a range of products and services. We aim to mobilize resources and knowledge products to assist them in relation to their needs, whether that means financing technical assistance and policy advice in domains ranging from taxation, Bank regulation or business law reform.

It is for that reason we are deepening our efforts to regenerate our structures, skills mixes processes and instruments in order to better respond to this constantly changing economic landscape. In this respect, I am pleased to report the successful efforts of bringing Africa's leading economist and think tanks to reflect on development issues of the day. Many of you were present at the launch of the African Economic Conference and I look forward to seeing you later this year.

Excellencies, Ladies and Gentlemen,

11. We are aware that while Africa's needs remain immense, the Bank alone cannot provide all the answers. We have opted to be more focused and selective, in order to be really effective. We are therefore engaged in carving out a set of distinctive activities and responsibilities in sectors and domains that can confer us a clear "comparative advantage" in relation to global and regional development institutions. We believe this is a challenge for all development partners. Our ability to work together in "strategic alliances" could enable us to ensure collective excellency. This is a complex domain which is very much 'work in progress'.

But I have been very much impressed by the fact that the urge to be “selective” is shared by donors, regional member countries and definitely the management.

12. The Bank is currently finalizing its new Medium Term Strategy for the period 2008-2010. In doing so, a growing consensus has developed around the domains that can unlock growth potential, reduce costs and doing business and maximize Africa’s chances for MDGs. Energy, water and sanitation, private sector, skills and regional transport corridors.
13. The Bank earlier this month approved a three-year private sector business plan. We see our role as catalytic: to crowd in investment as financier, advisor and partner. We are constantly deploying new financial instruments, including risk sharing products, such as syndication, local currency financing etc. It remains our intention that the sustained growth in non-sovereign guaranteed operations reflects prudent risk-taking, so that the overall portfolio risk profile is maintained at a moderate level.

While the private sector has grown quite rapidly in the last 2 years, it still accounts for only a small percentage, 7% of the Bank's overall financing portfolio. The average weighted risk profile of our entire private sector portfolio has remained very moderate.

14. Let me now briefly turn to our exercise to decentralize the Bank to increase our presence on the ground and our institution more responsive. I am glad to inform you that the implementation of the Bank's decentralization strategy is well advanced with 23 offices opened and negotiations ongoing for the remaining two in Algeria and Angola.

The successful execution of this programme is not without its own challenges, but we have determined that the benefits far outweigh risks. This vastly increased presence on the ground has significantly increased our operational effectiveness through closer country policy dialogue, enhanced project management and greater harmonization with partners. We know this remains a complex exercise. We will therefore be keeping the situation under review for any due corrections to be made. In addition, an independent evaluation exercise will be undertaken in 18 months to assess progress towards the attainment objectives.

Excellencies, Ladies and Gentlemen,

15. As we scan the African economic landscape at the beginning of 2008, we all agree on the basics. Africa cannot attain the MDGs until there is sustained growth. But unless that growth is shared it cannot in all probability be sustained. My strong conviction is that we are entering a period where designing and delivering programmes that have widespread benefits providing hope and opportunity for many, especially the youth must tax our imagination. Here the role of small businesses including the especially those owned by women, is key. Improving to financial services by the poor must receive the attention it deserves.

16. It is in this spirit that the Bank has agreed to host a new initiative, known as “Making Finance Work for Africa Partnership” which was championed by Germany at the G8. The aim is a better coordination of donors’ support and improved knowledge sharing for financial development in Africa.

17. We, of course continue to build on our experience in developing local capital markets. An initiative worth mentioning in the Bank's recently floated 1 billion Rands issue on the South African market. This was the first time a supra national issue was authorized in the South African Market and we are grateful to the Authorities for that. In the course of 2008, we plan to spearhead an initiative "African Bond Fund" to deepen domestic financial markets and facilitate foreign investment.

18. As I have had opportunity to spell out elsewhere, we are embarking on a comprehensive programme of how to help our countries adapt to the big challenges of urbanization and adapting to climate change. Next month we shall convene together all stakeholders of the Congo River Basin. In May in Maputo we will be looking into all aspects of urbanization. It is a large agenda. I want to express my thanks to those Governments with whom we cooperate already in the two domains. My message today is that of conviction that steady progress is being made across the continent. With your support we are adjusting our instruments to provide better support to that process. We will pursue our reform agenda with an unswerving devotion to the ultimate goal.

19. In the coming year, we will consolidate our achievements. For that purpose we are rebuilding our institutional capacity, reducing the vacancy rate from 20% to 5% and modernizing our business processes. Through a results-oriented management we will put emphasis on measurable targets and delivery.

20. We recognize that 44 years after its creation, the Bank has to deliver on its mandate in an environment that is constantly changing – both within and outside Africa. We are therefore called upon to redefine our instruments and strategies to better respond to the dream of the Bank’s founding fathers.

21. It is with this in mind that we asked a High Level Panel of Eminent Persons co-chaired by two eminent Statesmen; Joachim Chissano and Paul Martin both here with us today to lead this strategic reflection. Despite demand on their time, they have launched the Report today and have kindly agreed to be with us. They have worked assiduously. The Report they have submitted to me today will be given all the attention it deserves and I thank both President Chissano and Premier Paul Martin, the Eminent Persons for this work.

22. Let me express once again my deep thanks to you and the Governments you represent for your support to Africa and its Bank and urge you to keep faith with us. The progress that Africa has made is irreversible, but all such transitions are complex. No one expects this to be linear or uniform process. I want to assure you of the determination of the ADB Group to strive ever to fulfill its mandate, always adjusting to the dynamic world around it.

Let me once again hope 2008 brings peace and prosperity to Africa and all the countries you represent here. Happy 2008 to you all.

Thank you.

