

**STATEMENT AT THE NEW YEAR LUNCHEON
FOR MEMBERS OF THE DIPLOMATIC CORPS**

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***Your Excellency Minister of International Cooperation
Your Excellency Secretary of State of the
Ministry of Foreign Affairs
Your Excellency Dean of the Diplomatic Corps
Your Excellencies Heads of Diplomatic Missions and
International Organizations***

Allow me to begin by thanking you for accepting our invitation to the luncheon as we begin the New Year. I would like to thank the non resident Ambassadors who have joined us for this occasion. I take this opportunity on behalf of the Board of Directors, Senior Management, and Staff of the African Development Bank, to extend to you and through you, to the Governments and Peoples as well as institutions you represent, our very best wishes for 2010.

We pray that 2010 is a year of goodwill, economic recovery and peace around the world. I am sure you join me in expressing our heartfelt compassion to the People of Haiti in the face of these truly extraordinary tragic events which have led to destruction of human life and livelihood in that country.

I would like to place on record here our deep appreciation for the manner in which the cooperation between the Bank and your countries has continued to grow from strength to strength and we look forward to consolidating and deepening our relationship in our service to the People of Africa.

By all accounts, 2009 has been a year full of challenges for all our countries, and especially so many in Africa – as the economic effects of the crisis reached our shores. I would like to express my gratitude for the way in which the support to Africa has been maintained, despite tremendous budget pressures and rising unemployment in the major economies of the world.

As is our tradition, today I would like to accomplish three things: Firstly: A brief analysis of Africa's economies in 2009; Secondly: share with you our assessment of the prospects and outlook for 2010; Thirdly: The role of the Bank in helping our member countries respond to the crisis and the implications for our resource base going forward.

Your Excellencies,

When we met last year on the same occasion, only four months after the collapse of Lehman Brothers, the dominant view was that African economies might just escape excessive damage given our limited integration in the global financial market.

We knew nonetheless that there was no way African economies could be totally immune from the economic effects of the turbulence at the epicenter of the global financial system.

It was clear that, while our financial sector might remain unaffected, at least in the first instance, the slump in global demand would affect our commodity earnings, and unemployment would affect worker remittances and tourism arrivals.

What was less certain was the extent of the second round effects on our private sector activity, government revenues and ability to maintain essential public expenditure programmes. Equally uncertain was the impact on foreign investment inflows as well as the ability of donor countries to fulfill their commitments.

Within six months of the crisis, that means at the end of the first quarter of 2009, the full effect of the decline in the demand for, as well as prices of primary commodities were evident, hitting especially hard countries with dependence on mineral resources such as Botswana, Zambia and the Democratic Republic of Congo, as well as frontier market economies like Mauritius and South Africa.

Some countries were able to put in place anti- crisis packages to protect employment and output. Others had less scope to do so, and suffered economic and social disturbances which have persisted to this day, even though the relatively good prices of some commodities and support from international financial Institutions, especially the Bretton Woods institutions and the African Development Bank, have helped to mitigate some of the negative effects.

Your Excellencies,

As one might expect for a continent as large as ours, the impact of the crisis differed from region to region depending mainly on three factors: (i) the structure of exports; (ii) the level of dependence on external inflows of different types; and (iii) pre-existing vulnerabilities and thus capacity to resist.

As the New Year sets in, the prospects look much more optimistic – although it is still too early to discern the longer term effects on our continent's growth prospects. However, African economies have avoided a major recession.

In 2010, I expect about 22 countries to resume growth above population increase of around 5.5%.

Another dozen or so will stagnate around 3% which means at par with population; the reminder's prospects are uncertain at this stage.

What the crisis has demonstrated mainly is the vulnerability due to continued dependence on primary commodities, and the impact of the still limited integration of our continent's economies and hence, the full potential of the internal market.

Not surprisingly, we have observed a relative resilience of economies which are much more diversified such as North Africa and those where economic integration has made progress such as Eastern Africa and the ECOWAS region where many countries have continued to post real economic growth above 5%.

Your Excellencies,

Let me now turn to what the Bank – alongside our international partners, has done, and is doing to enable our countries minimize the impact of the crisis.

Our role has been of three strands:

- (i) utilizing fully our convening power to bring Africa's economic managers regularly together;***
- (ii) advocacy – in terms of getting Africa's voice heard internationally and***

advocacy internally for sound policy coordination;

(iii) Purveyor of resources and technical advice as the case may be.

Before the crisis, the Bank total operations were on average around 5 billion dollars per annum; as of last year 2009 the volume of operations reached about 11 billion dollars of increased support and innovative new instruments.

Although we faced both a paucity of appropriate resources and instruments, the Bank was able to stand and be counted as a reliable partner during normal times but also crisis times.

The support we provided was tailored to country specific needs and a detailed analysis of crisis impact. For some, it was budget support, to cope with a sudden deficit, for others it was problems with liquidity or trade finance, and in others support to ensure key private sector infrastructure projects can be completed.

Some of the countries coming to us for support were hitherto soundly managed economies doing well pre crisis but suddenly confronted by insurmountable economic challenges.

Our capacity to intervene was enabled by our strong financial position, even during the crisis, and good cooperation with partner institutions, as well as the ever growing credibility of the Bank's business processes enabling us to provide flexible rapid response.

Your Excellencies,

You would be right to ask what the difficult financial situation globally and our commitment to play a countercyclical role has meant for our financial and other capacities.

I am pleased to report that despite the difficult global economic situation, all the windows of the Bank in 2009 expect to report positive earnings, the Bank continues to enjoy the highest ratings from all the major rating agencies, thanks to the shareholder support, as well as prudent and proactive financial

and risk management policies and practices of the Bank Group.

The Bank continues to be able to raise funds in the capital markets at competitive and attractive rates. Despite the turbulences in the financial markets over the last 18 months, in 2009, we were able to raise about 7.5 billion dollars equivalent at a weighted average cost of 6 month dollar Libor + 9.7 bps.

This is evidence of the financial credibility of our institution and contributes greatly to our ability to respond to our countries needs both in normal and crisis time. We have continued to reinforce our capacity internally to efficiently manage the increasing volume of operations and strengthen corporate governance.

Your Excellencies,

As prospects for the world economy improves, and the crisis induced demand on our resources abates, our intention is to return to our core activities in line with our Medium Term Strategy, that is supporting the core elements of Africa's growth agenda: infrastructure, agriculture, economic integration,

economic governance, skills development, supporting fragile states recovery and promote the private sector.

Nonetheless, the growth in demand on our resources in the last two years, first, due to food crisis, and then the financial crisis has put pressure on our resources and will limit our lending ability going forward.

We have begun discussions with our shareholders for a general capital increase for our Bank.

Let me thank many of your Governments who are collaborating closely with us on this and we are working assiduously to ensure all technical preparatory work is complete during this semester.

Equally, we have begun consultations on a new replenishment for our soft window - The African Development Fund, on which the majority of our over thirty low income countries are dependent and we hope to conclude that in the course of the year.

Your Excellencies,

As I come to close my remarks, let me express the hope that in 2010, a deal on climate change can be concluded.

It has been repeatedly emphasized, Africa is the most affected part of the world, and yet the least responsible for the causes.

The impact is there already for all to see, prolonged droughts in some regions, massive floods in others, perturbed agricultural seasonal patterns and the re-appearance of some vector borne diseases.

We face a major challenge of adaptation and we cannot wait for too long for a deal to be reached; a deal that reflects indeed common but differentiated responsibilities, a deal that unlocks resources for adaptation and clean energy development such as our considerable hydropower potential and other renewable sources.

For it should not be forgotten Africa's shortage of energy to spur our economies, is not lack of potential, but rather the limited means to develop that potential, a domain in which the Bank has put at the core of our activities.

You can therefore understand why we put much store in progress post Copenhagen.

Let me in the same spirit express the ardent desire for Africa's voice to be listened too, and the concerns of its 1 billion people taken into account in the G20, and other fora where the issues confronting humanity are addressed.

Your Excellencies,

There is no doubt 2010 will continue to pose challenges and risks to our Continent's economies, challenges that are long standing and structural – such as commodity dependence, and limited economic integration, eruption of instability and crises here and there, as well as the aftershocks of the financial and economic crisis, whose effects continue to reverberate around the world.

The African Development Bank, our region's premier institution, with your support, is ready as always to play its part as our key role in this dual crisis, food and financial has demonstrated.

We continue to build our systems, our internal capacities, our external reach with our field offices, as exemplified by three recently opened offices in Algiers, Pretoria and Angola, adding to the complement of the 23 offices already opened.

We have demonstrated our ability, through this crisis as the partner of choice of Africa's economies, large and small, and it is a role we are set to play even more in coming years. In the year beginning we shall continue to need your support, our traditional partners, as well as new partners of the Bank to effectively play this role.

Let me again extend to you my best wishes for yourselves, your families and your countries in the New Year and thank you for your support as well as for responding to our invitation.