

STATEMENT AT THE 2009 LUNCHEON
FOR MEMBERS OF THE DIPLOMATIC CORPS

*Entering the year of uncharted waters: the global crisis
on Africa's economy in 2009*

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Excellency, Secretary of State for Foreign Affairs

Excellency, Dean of the Diplomatic Corps

Excellency, Ambassadors

Heads of international Organizations

Ladies and Gentlemen,

1. It is my pleasure and honour to welcome you to the 2009 Bank's annual luncheon for the diplomatic community in Tunisia. Let me seize this opportunity 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 2009. Allow me also to especially express our sincere appreciation and profound gratitude to H.E. President Zine El Abidine Ben Ali, the Government and People of Tunisia, for the gracious hospitality extended to the Bank since its temporary relocation in Tunis, and wish them success in 2009.
2. I am delighted for the opportunity to meet with you at such a critical time for the world economy, to share our thoughts on what the ongoing financial turbulence means for Africa and the work we do at the Bank. With your permission, I will also briefly comment on the Bank's work during the past year and in particular what we are doing in response to the impact of the crisis on the respective African economies which as you know quite well are highly diverse.

3. It has been said, the global economy is at a turning point. No one is certain whether the worst is behind us. This is the toughest economic challenge in the post war era, a time of high uncertainties which puts to test our ability to restore confidence in the global economy, financial markets, reforming financial governance and staving off recessions. For Africa and other low income countries, it is yet another nail deepening the successive crises our economies were facing already, in particular the food crisis, the impact of climate change and volatility in energy markets; inevitably therefore the big question has been: Is this the turning point at which the gains of the African economies in last decade are reversed? And what are the options available?

4. It is for this reason that the Bank in collaboration with sister institutions, the African Union (AU) the Economic Commission for Africa (UNECA) convened a Ministerial Conference in Tunis November 2008. We brought together Finance Ministers, Central Bank Governors, leaders of regional economic organizations and institutions, to deliberate on the implications. At the end of the gathering a Committee of Finance Ministers and Central Bank Governors, was constituted to monitor the fast evolving situation and propose actions in mitigation. The Committee held its first working session in Cape Town (South Africa) last

weekend. Together, we assessed the evolution of Africa's economies since we met in November, and agreed on a set of internal policy responses, as well as inputs into the work of the various G20 working groups, and above all we reaffirmed Africa's legitimate demand to be present and associated to the deliberations in the G20 process.

5. At this gathering in the Cape, we took time to assess the vulnerability of Africa's economies and evaluate at macro and micro economic levels, the impact to date. It was clear, that the situation was developing into a fully blown development crisis. We saw a fast evolving picture whose full effects are yet to be known; tightening access to liquidity, increasing funding costs, contraction of activity and business closures especially in sectors that depend on international demand. Governments are already seeing lower revenues and fiscal retrenchment is clearly inevitable. Before the crisis, Africa was set to grow on average at a real GDP of 6.5%. This is in all probabilities, now revised downward to 4.5% in 2009, and probably lower. We are faced with gloomy prospects, looking ahead, and the reversal of the gains of the past ten years, are real.

6. As Africa looks to developed countries to stimulate their economies, stave off recession, restore confidence and keep faith with their commitments to low income countries, African countries fully understand the imperative to come up internally with individual and collective responses that can help to mitigate the adverse effects of the crisis in these uncharted waters. At the Tunis meeting there was stated an unequivocal determination to sustain and deepen, rather than slowing down on the economic reforms in a much more complex and difficult landscape; to mitigate external shocks and hopefully take advantage of the opportunities that may arise.

7. As soon as the crisis set in, we at the Bank established the Financial Crisis Monitoring Group with the remit to assess its impact on Bank finances, its operational activities and the African economy in general. We mapped the risk of vulnerability – country by country; depending upon a number of factors, such as the openness of the economy, relative importance of foreign bank assets, fiscal and current account positions etc. Not surprisingly, we find that strongly reforming economies were always better placed to withstand the external shocks relative to slow reformers, although of course, most of the countries were already economically weakened by inflationary

pressures, fiscal and balance of payments tensions as a result of the food situation.

8. The crisis has exposed starkly the interdependence of the global economy and the reality that no solution will be possible nor lasting, unless it is global, coordinated and inclusive. Larger sophisticated economies are of course systematically more important than ours, but the fall out affects all, rich and poor. Consequently, it is well founded to expect that the discussions in the G20 address the concerns of all, the systemic issues in the broad sense through an effective representation. It is equally important to look forward to deliberations that extend beyond narrow financial issues to include those related to the challenge of our time: the grinding poverty in Africa, now deepened by the crisis and what the world must do to ensure the Millennium Development Goals, now only six years away, are attained. It is about ensuring that in Copenhagen a deal is made on climate change, that we can progress on ODA, improve aid effectiveness in line with Paris Declaration and the Accra agenda, and re-launch the Doha Trade Round; all things which give poor countries a stake and which are systemically critical to all inhabitants of this threatened planet.
9. We at the Bank are very much aware that providing short-term responses to such crisis is not our core activity, which remains focused on growth drivers such

as financing long-term infrastructure projects. But we cannot, at the same time, but readjust the way we do business in response to such a crisis. The Bank is therefore proposing new innovative instruments: the 1.5 billion \$ Emergency Liquidity Facility and a 1 billion dollar Trade Finance Facility to help our countries and Financial institutions cope with the credit and liquidity crunch. Equally, we are proposing flexible instruments, for our poorer countries that enable us to be more responsive and proactive. We are determined to deploy, within boundaries of prudent sound banking principles, our considerable risk bearing capacity to scale up our lending activities, mitigate liquidity crunch and help to ensure key investments are not abandoned.

Ladies and Gentlemen,

10. The year 2008 goes down, as one in which Nemesis came visiting the global financial markets, a tough year for many financial houses, large losses, closure of key banks and other institutions, the takeover and recapitalization of others. It is a crisis in which no one can be cushioned. You will nonetheless, I am sure be glad to hear that the African Development Bank's prudent, proactive financial and risk management policies and practices, have continued to serve us well during this financial turbulence. The Bank's Triple A rating was reaffirmed by all major rating agencies, a

reflection of the strong and sound financial position of the Bank, its comfortable level of capitalization and the solid shareholder support it enjoys. As a result, international capital markets access remained open, to the Bank's bond issues and we are able to execute our borrowing programme, at still relatively attractive average funding costs, in a difficult market. The financial statements of the Bank Group for 2008, now under finalization for our external auditors, anticipates to report a broadly positive income from all the three windows of the Bank, in spite of the very challenging and difficult financial climate.

11. As a result of this strong, solid liquidity and capital position, the Bank has continued to scale up its development assistance, from both its public and private sector windows. Total disbursements by the Bank Group increased by over 15% in 2005. We have approved major investments with long term significance for Africa. Let me cite a few examples; here in the Maghreb region we have committed a total of 1.2 billion US\$; such as the 450 million € power project in Egypt (The Ain Sokhna); in Tunisia a 150 million € gas project and a 174 million € road programme. In Morocco, we supported in 2008, the sectors of agriculture, health, water and public service reform to the tune of 203 million €. We are also investors in the Maghreb equity fund. Overall for the African continent we have committed millions of

dollars to infrastructure, agriculture, regional integration, to human development and governance, to a tune of 4.8 billion \$, of which 1.3 billion \$ are loans to the private sector.

12. As I pointed out at the Ministerial Meeting, this crisis could not have come at a worse time for Africa. We are therefore adapting our strategies to take account of the new landscape but without departing from our longer term horizon. In uncharted waters, the compass is needed more than ever. In May, this year past, the Governors adopted a new 5-year 2008-2012 Bank Group's Medium-Term Strategy, clearly defining where we are, where we want to be in 5 years' time and the means to get there. This remains our compass. We are continuing to build internal capacity and reform our business processes so as to be more agile and responsive. We have opened more field offices and building on the ground new partnership with donors, and private sectors. We are determined to continue to make the Bank a more reliable business partner for efficient procurement of goods and services and always aim for results. We are sharpening up our work in fighting corruption, building institutions and strengthening our work on fragile states including those emerging from conflicts. We are increasing our support to infrastructure and regional integration and responding to new challenge such as food crisis with out African Food Crisis response.

Excellencies

Ladies and Gentlemen

13. Let me, in concluding, say that clearly, 2009 will be a challenge to us all; but it is my hope that we can overcome. We will continue to monitor the markets and spillover effects through our Financial Crisis Monitoring Group, whose assessments, will continue to serve as a guide to decision making. We, at the AfDB are determined to do all we can, to help our countries cope with the uncertain times, keeping development issues and the fight against poverty at the center of the international discourse. The last few months have demonstrated that bold decisions can be taken when the clarion calls. Such decisive measures are needed today more than ever. For the last three decades, the continent of Africa carried out tough economic reforms and the fruits were beginning to bear. With the support of the donor community, debt was cancelled, and growth picked up. In the last decade Africa made progress unprecedented. Let us resolve that together, in the same vigorous determination as we address the global financial and economic landscape, the place of the millions of the poor in Africa and other low income countries stays at the middle of our radar. I want to take this opportunity to express my thanks to your governments for the support you have provided to the African Development Bank, through the soft concessionary

window, through various trust funds and other commitments to our institution. I want to thank many of you who have paid us visits to see the work we do and I look forward to welcoming you always to the Bank. Last year we welcomed into our membership, the Republic of Turkey. We look forward to the accession of Luxembourg in May this year and I hope to see more countries joining hands with us as members of Africa's Development Bank.

Let me once more wish you and the countries you represent success in 2009.

I thank you for your kind attention.