



LUXEMBOURG

JEAN-LOUIS SCHILTZ, Governor

It is a great pleasure for me to attend for the first time the Annual Meeting of the Asian Development Bank, given that Luxembourg became a member of the institution only in September 2003, and that my own appointment as Governor dates back to September 2004. Luxembourg is honoured to be a member of this institution whose overarching goal to reduce poverty on the continent where most poor people live. I can inform you that my government attaches the highest priority to reaching the **Millennium Development Goals** that we collectively set ourselves, both on a national basis and as current President of the Council of the European Union.

At the **national level**, we have continuously raised our ODA allocations over the last decade, from some 0.32% of GNI in 1995 to some 0.85% last year. Moreover, the Luxembourg government remains committed to reaching 1% of GNI in next few years. This increase in ODA appropriations has benefited both our bilateral and multilateral programmes. In the latter case, membership in ADB and a substantial contribution to ADF need to be mentioned, together with a doubling of our IDA-14 contribution in comparison to the previous replenishment.

At the **EU level**, our efforts go into firming up the pledges taken at Monterey. While the European Union already today is the largest donor with over half of total ODA, the objective is to arrive at 0.56% of our collective GNI by 2010, on which the Luxembourg Presidency intends to forge a consensus at the upcoming Council of EU Development Ministers later this month. At the same time, at the level of the Council of EU Finance Ministers we are actively pursuing the exploration of innovative financing mechanisms with a view to arrive at some concrete proposals in time for the G-8 Gleneagles Summit in July and the MDG Summit in New York in September.

But let me now focus on some of the issues facing this particular institution. With the arrival of the new president, Mr. Haruhiko Kuroda (whom we warmly congratulate on his unanimous election), we believe the time is ripe for some fundamental reflections on the future of the Bank. In fact the region where it operates is changing fast, with some areas developing at a sustained pace, whereas others are still lagging behind. At the same time, one observes a flattening of the demand curve for bank products, which together with substantial loan pre-payments lead to the accumulation of unused finance capacity and a reduction of net income. The key challenge therefore is to **develop new products** that can meet the region's changing needs.

In this regard, there are several options that present themselves to the Bank: first of all, **lending at a subnational level** without necessarily relying on a sovereign guarantee: such a product would not only enable the Bank to improve the provision of utilities of direct benefit to the local populations (i.e. water supply, sanitation, power generation); it would also contribute to creating a track record and enhancing the creditworthiness of local entities (e.g. municipalities or service companies) so that they will be able to tap regular commercial financing in the future. In parallel, the Bank should strive to further integrate **private sector development** into its main operational activities: this could be done for example by promoting public-private partnerships more vigorously (notably in the infrastructure sector), or by resolutely extending its support to the SME sector (by establishing credit lines or

guarantees through local banks). It is true that a portfolio reoriented in this fashion will be inherently more risky than one built on sovereign public loans alone, but we believe that the incremental risk is well worth taking in view of the economic impact of these activities, and the substantial financial headroom that the Bank possesses at the moment.

Other promising avenues for ADB to increase its role in Asia are to actively promote **regional integration** and to further develop its **local currency operations** (including national bond issues and swaps): indeed, the challenge will be to tap the substantial savings pool in the region for the benefit of the least advanced areas. The inaugural issues launched last year in India, Singapore and Malaysia were quite successful and should be replicated wherever possible.

Let me congratulate the Bank also on the swift response it provided to the tsunami disaster. By setting up the **Asian Tsunami Fund** as early as February 2005 and by providing within weeks concrete finance proposals for the Maldives, Sri Lanka and Indonesia, the Bank has shown its responsiveness and effectiveness in very difficult circumstances. For this reason, Luxembourg decided in March to provide USD 1 million to the ADB multi-donor trust in addition to our other efforts, and we expect that some more donors will follow suit.

While all these initiatives will underpin the institution's reputation and insure its continued relevance in the Asia region, the monitoring of activities in line with the Bank's reform agenda started last year still needs to be pursued vigorously: managing for development results, improving operational policies, reorganizing internal structures as well as optimizing human resources are still the order of the day. We welcome the progress achieved to-date, and are looking forward to further measures in this regard in the near future.

In conclusion, let me wish President Kuroda all the best in his important task to implement the reform agenda started under his predecessor, former President Chino, and to find the right product balance for the Bank so that it can employ its substantial financing capacity to best use. After all Asia is in a better position to achieve at least part of the MDGs than other regions: this is an opportunity, but also a responsibility, and Management can be assured of our full support in this important mission.

Thank you for your attention.