

**GERMANY**

KARIN KORTMANN, Governor

I would like to thank the Spanish Government, President Kuroda and, of course, the Asian Development Bank (ADB) team for their excellent work in organizing this Annual Meeting.

The current problems on the international financial markets, which started with the subprime crisis in the US, are having a powerful influence on global economic development. Added to that are sharp rises in commodity prices, which look set to remain high for some time.

The *Asian Development Outlook* suggests that, in Asia, overall growth rates will continue at a respectable level with only minor blips. At the same time, however, many countries have to deal with sharp rises in their rates of inflation and—particularly in those countries that are net importers of raw materials—an increasing strain on public budgets. This also places a strain on the budget for pro-poor policies.

The extreme increases in the price of food in particular place a heavy burden on poorer sections of the population. The social and political implications of these increases were highlighted by my distinguished colleagues from India and Cambodia during yesterday's deliberations on the long-term strategic framework (Strategy 2020). ADB therefore needs to meet these challenges, based on an extensive, country-based analysis of the causes and effects. This analysis should also look at what ADB can do in the short and medium term by making flexible use of funds and by developing partnerships, because many countries in the region—acting out of understandable concern for their own populations—have imposed trade restrictions which are, however, pushing prices up still further. I appreciate that ADB has offered some insight with its most recent publication *Soaring Food Prices, Responses to the Crisis*. The highest priorities at this time are for calm to return rapidly to the food markets and for the right to food to be guaranteed for all.

In this context, I would like to underline that it is not acceptable for the production of agro-fuels to make these food shortages worse. This example shows once again just how important it is to take a comprehensive approach to development: the environment, climate change, food security and observance of basic social standards must be combined within one coherent policy.

I would therefore like to say a few words about the current safeguards update. Observance of these strict environmental standards is an essential component of sustainable development. When multilateral development banks get involved in investment projects, they do more than just provide loans. Their participation is also valuable because the banks' safeguards act as a guarantee that procedures will be socially and ecologically sound. The safeguards must be

maintained as a vital pillar of ADB and as the added value it offers. The safeguards update offers the chance to harmonize standards internationally at a high level and to help partner countries to gradually incorporate them into national regulations. ADB must refute the concerns that have been expressed, not only by nongovernment organizations (NGOs), that the update could lead to a watering-down of the standards by making genuine improvements. It is high time for the regional banks and the World Bank to consult on and harmonize their safeguard policies. However, they should focus on achieving the maximum possible and not the lowest common denominator.

In Asia, it is not uncommon to find wealthy, well-educated people living alongside poor people who are not adequately involved in political and economic life. Despite booming economies, there are still 700 million Asians living in absolute poverty. The soaring numbers of city dwellers are causing immense problems in metropolitan areas. The City Development Initiative in Asia, which we have founded jointly with ADB, is therefore a welcome step toward environmentally sound urban development. The aim of the initiative is to help towns and cities implement urban development plans that have been elaborated on a participatory basis, so as to improve the living conditions of poor people in particular and also the environmental situation. The huge demand and the interest displayed by officials from municipal authorities and towns has shown us that we need to get other donors on board. I am particularly pleased that Sweden and, just a few days ago, our host country, Spain, have joined this initiative, and I encourage others to follow their example.

The high incidence of poverty in Asia makes it clear that the Millennium Development Goals cannot be achieved unless further progress is made in this region. I strongly believe, therefore, that ADB needs to take on a major role in this respect over the immediate future. And so I expressly welcome the vision of “an Asia and Pacific free of poverty” in Strategy 2020. With this vision, ADB has pledged to keep poverty reduction as its overarching goal. I hope above all that ADB and the Asian Development Fund (ADF) will play an active role in formulating and implementing a policy directed at ensuring that all people enjoy the fruits of economic growth. The concept of inclusive growth, which forms the basis of Strategy 2020, seems to me to be an appropriate means of achieving this. Country-specific analyses of the obstacles to growth will need to be undertaken. Young people and young families in particular need to be in a better position to engage in productive employment and make a decent living.

More attention should also be paid, however, to those members of the population who have gone abroad in search of better opportunities. They, too, still have ties with their countries of origin and an interest in their development and can make a positive contribution. For example, migrants support their families at home through remittances and thus help combat poverty directly. I will mention here only the extraordinary example of the Philippines, which according to the World Bank received US\$17 billion in remittances in 2007. A number of ways have already been developed for using these remittances to boost the country’s development. For example, the Economic Resource Centre for Overseas Filipinos offers savings products with fixed interest rates that are specially designed for Filipinos living abroad. The investors get good conditions and know that, for as long as their money is deposited, it is used to finance microfinance in the Philippines. While their savings are growing, they are also working for the development of their home country. I suggest the ADB looks at how the development impact of remittances can be intensified at the regional level.

Inclusion and sustainability are, I believe, central to economically and socially successful development. The limitations of policies that focus purely on growth are already clear to large sections of the population. The impact of climate change is making it clear that we must link

economic and social policy more systematically with the concept of ecological sustainability. The revision of the ADB energy policy that is planned for this year offers an excellent opportunity to focus systematically on improving energy efficiency and the use of renewable energies within ADB activities. In addition to that, there is a need for a systematic climate proofing of ADB's portfolio and for adaptation measures. It makes sense for ADB to coordinate its contribution closely with those of other players in terms of both the instruments used and the issues addressed, not least in anticipation of the Climate Investment Funds that are being prepared in cooperation with the World Bank.

Now that Strategy 2020 has been adopted, the strategic framework it sets out must be put into action and a number of questions answered.

- What implications does the strategy have for the volume and structure of the portfolio?
- Does the ADB have the optimum organizational and staff capacities? How can the demands of implementing the strategy be reconciled with ADB's administrative budget?
- Finally, when approving Strategy 2020, we pointed out that the role of the ADF in implementing it needs to be made clearer.
- Besides these questions on matters of substance, clear benchmarks are needed when implementing the strategy in order to enable continuous monitoring.

There is general agreement that the poorer Asian states in particular will not be able to finance efforts to achieve the MDGs without assistance. That is why the ADF is so important. The outcome of the replenishment negotiations that have just been concluded shows that the donors see the ADF as an essential instrument for reducing poverty in Asia. At the same time, agreement was reached with the Management on a comprehensive reform agenda that should help ensure that the Fund's institutional performance improves and, with it, its development impact.

Finally, we will continue to support the Management's efforts to rapidly implement these reforms. I would like to thank the President and his staff most sincerely for our good and close working relationship. Thank you very much for your attention.