



Why Capital Increase is essential

The effects of the global economic crisis, which slashed Africa's economic growth rate from a very healthy 6% to 2%, are still reverberating in many African countries. A rapid intervention by the African Development Bank helped shore up many economies but in the process, its own resources have come under enormous strain. The Bank is now seeking a general increase in its capital to help the continent work its way back to its former growth trajectory.

While the last two years have been terrible for the global economy, they have been, in a sense, good for multilateral and development finance institutions which have had to leap to the rescue of national economies on the brink of collapse.

Among the first out of the starting blocks was the African Development Bank (AfDB). Acutely aware of the vulnerability of some African states to external shocks, the Bank swiftly convened a meeting of African finance ministers and central bank governors to assess the impact of the real economic crisis and swung into action. Before the crisis, Africa had enjoyed an average growth of 6% for about five years – which was the most sustained period of growth for the region. While the continent had benefited from high commodity prices, countries without oil or minerals has also shown strong growth.

Donald Kaberuka, the President of the African Development Bank, puts this down to sound macroeconomic policies, reforms, diversification and better and more accountable public management. The investment climate, he says, had improved, a robust private sector had emerged and some African countries were beginning to access capital markets.

But, the crisis, he says, “threatened to undo all the gains so painfully acquired prior to it.”

Non-regional member countries

Argentina	Japan
Austria	Korea
Belgium	Kuwait
Brazil	Netherlands
Canada	Norway
China	Portugal
Denmark	Saudi Arabia
Finland	Spain
France	Sweden
Germany	Switzerland
India	United Kingdom
Italy	USA

Speed was of the essence in tackling the crisis but so was flexibility of approach. “We had to take exceptional measures,” he recalls. “The Bank front-loaded commitments, speeded up implementation and we restructured our portfolio in order to release resources. We also introduced new, quick disbursing instruments, including a \$1bn trade facility and established the \$1.5bn Emergency Liquidity Facility to fill in financing gaps – especially in those middle-income countries that were particularly hard hit”.

It was also essential that, in the turmoil unleashed by the financial crisis followed by the full-blown economic crisis, Africa's case was heard in international fora. Following discussions with African governments, the Bank's experts put together solid arguments why Africa deserved international sup-



AfDB's President Donald Kaberuka led a speedy response to mitigate the effects of the economic crisis. Below, funding has gone into projects such as wind farms in Kenya.

port during these troubled times. Kaberuka and his top officials were at the heart of the African delegations that attended the London and Pittsburg G20 summits.

For Africa, Kaberuka says, the global economic crisis meant lower export earnings, reduced investment flows, weakening of fiscal positions and current accounts and contraction of private sector activity. Countries heavily dependent on exports and mining suffered the full brunt of the global downturn in demand.

Extraordinary measures

There was an unprecedented demand for the Bank's services and advice. It doubled its lending to more than \$11bn although total financing for 2009 is expected to reach \$15bn. “The Bank responded by playing a countercyclical role,” says Nkosana Moyo, AfDB Vice-President. “It responded to the increased demand for lending and it increased access to finance for regional member countries by diversifying its instruments. Many of these came to the Bank for the first time in decades.”

Meanwhile, the Bank's ‘soft’ lending arm, the African Development Fund (ADF), which provides concessional lending to Africa's Low Income Countries (LICs) was itself coming under unprecedented pressure, sometimes from unexpected quarters. “The crisis hit us and hit us hard,” says Aloysius Ordu, Vice-President of Regional and Country Programmes and Policies.

“In many of our client states, trade dried up and banks stopped providing credit. We had to move funds to help countries which were hit by the crisis,” he recalls. “Money was needed to shore up economies of otherwise well-performing countries.” Even Botswana, one of Africa's best-managed economies, he says, had to call on the AfDB for a loan. The loan was approved swiftly.

There is little dispute that but for the Bank's rapid and well targeted measures to counter the effects of the economic crisis, many African countries would have struggled to keep their heads above water. But this has taken a toll on the bank's resources. It is clear that if the Bank is to continue playing what has now become a critical role in Africa's growth, it will need a substantial increase in its capital.





Nkosana Moyo is very clear on this point. He says that the crisis should not be considered a temporary blip that will go away but that it will require sustained effort over time if Africa is to return to its pre-crisis growth path. Both the AfDB and the ADF will be central to the continent's recovery and both require more financial muscle.

The membership of the Bank is made up of both regional, i.e. African members and 24 non-regional members (see box). Regional and non-regional members together contribute to the Bank's capital. A General Capital Increase (GCI) is a periodic increase in the ordinary capital base of a multilateral development institution. A GCI raises the institution's 'hard' lending window and allows it to fund more vital projects in countries.

The AfDB has already benefited from five GCIs, with the last one coming in 1998. The Bank's Medium Term Strategy (2008–2012) had been built around continued solid growth in most African countries and had not envisaged the need for a capital increase until at least 2013. However, the impact of the global economic crisis on Africa, forcing the Bank to take extraordinary measures to mitigate its effects, has completely changed the landscape. At the current rate, says Kaberuka, 90% of the Bank's risk capital will be exhausted by 2012.

Given this situation, a committee of Governors of the Bank, meeting in Washington DC on 23 April, endorsed a tripling of the Bank's resources to nearly \$100bn. They recommended acceptance by the full membership. This increase will allow the AfDB to sustain a higher level of lending, including to the private sector and it will be better able to cope with the overwhelming demand from all countries. A statement by the full membership is expected at the AfDB's annual general meeting in Abidjan in May.

Funds for the ADF are replenished by donor countries every three years and the 12th replenishment is due this year. Like the AfDB, the Fund has had to restructure its portfolio and disburse money to countries caught in the crunch. Its role has broadened since the 11th replenishment in 2007 and it is expected that donors will take this into account when announcing the 12th. ■

At the core of Africa's development

By **Anver Versi**, Editor of *African Business* magazine



The African Development Bank today is hardly recognisable from the stolid, secretive institution it was a little more than six years ago. Observers say the transformation brought about by Donald Kaberuka over a remarkably short space of time has been astonishing.

The Bank has now become such an integral part of Africa's modern history that it is difficult to conceive of a time when it languished on the margins of the continent's development strategy. In addition to its role as a regional development bank – which has been broadening and deepening by the month, if

not by the week – the Bank has become the primary catalyst of change for the region.

I have had the pleasure of meeting Kaberuka and his team on several occasions and I must confess that I found the depth and scope of the expertise contained within the organisation almost overwhelming. No other organisation, to my knowledge, contains such a wealth of detailed information on virtually all things African as does the Bank.

Today the Bank is bristling with outstanding talent, not only from Africa itself, but also from Europe, the US, Asia, Canada and several other corners of the world.

Prime thought-leader

The AfDB has also developed as the prime thought-leader on African issues. A series of discussion and debating events has not only taken critical issues involving Africa to a higher plane, it has brought ownership of this discussion back into African hands.

I have attended meetings where the likes of Joseph Stiglitz, Festus Mogae and

the AfDB not only open but positively eager to share information of a high quality. But the Bank is not a talking shop. It is geared for action and the discussions and debates help shape policies far and wide. A number of foreign DFIs now rely on advice from the Bank in drafting their own strategies.

The private sector arm of the bank, once a neglected step-child, has blossomed under

ous forms of ICT are all up and running. The Bank, working with other development finance institutions, is brokering investment deals of around \$10bn each year and more are on the way.

Plethora of projects

The Bank's African Women in Business Initiative is unlocking the vast potential of the some of the region's most vigorous and innovative segments of society.

If Africa is becoming an investment destination of choice, look no further than the Bank for some of the causes. The Bank is also active in a largely unheralded but crucial area of activity through its Fragile States Facility helping nations such as Liberia, Sierra Leone, Guinea-Bissau, the Comoros, DRC and Congo-Brazzaville and others find their feet.

There is still a huge amount of work to be done. The Community of East and Southern African States (COMESA) summit in Egypt in April revealed that Africa's infrastructure shortfall amounts to around \$92bn. The supply of clean drinking water, as well as water for irrigation, is still far behind the MDG targets and the continent is still far from self-sufficient in food or adequately provided in education or health.

The Bank, working with national governments, multilateral organisations such as the World Bank, scores of development partners and the private sector has been steadily chipping away at the continent's unmet needs.

But this is a monumental task requiring vast financial resources. The Bank, which uses its position to raise finance from capital markets at favourable rates for onlending, has been as prudent as its AAA rating suggests, but the economic crisis and the bank's response to it has been a severe strain on its ability to service all the urgent demands made on it.

Unless the AfDB can convince its development partners to increase its capital this year, it will be forced to cut back on its lending at a critical juncture on Africa's growth curve. This will be a tragedy and will undo all the good work that has gone into the region's development. But Donald Kaberuka is confident. "The case is strong," he says. ■



Above left: Investments in Ethiopia's power sector will underpin energy supplies. The bank has brought together experts, such as Joseph Stiglitz (top) and Mo Ibrahim (above), to discuss African issues.

the Kaberuka leadership. The concept of public-private partnerships is given teeth. The focus is on infrastructure, power, water supply and sanitation, agriculture, transport and health.

A plethora of projects from airports in Senegal to wind farms in Kenya, to hydro-electricity in Ethiopia, to roads and bridges in several countries and, of course, vari-

Mo Ibrahim have crossed swords with some of the most brilliant minds engaged on matters African and the region's place in the world. It is with some pride that you realise that the thoughts and ideas emanating from these discussions, and during the annual general meetings, are often well ahead of received wisdom from the more traditional sources. In short, if you want to understand Africa and what is happening now, the only place to go to is the Bank.

As a journalist often frustrated by the reluctance of some institutions to divulge information, I have found the new regime in