

Development Banking in the post crisis era

**Statement at the Annual Conference of the  
Development Bank of Southern Africa**

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1. Good afternoon Ladies and Gentlemen. Let me begin by thanking Jay Naidoo and Paul Baloyi for the kind invitation to speak at this annual event. We are proud of the growing partnership between our two institutions, in the context of our shared vision for an integrated prosperous region. The DBSA Board, Management and staff can be proud of the achievements over the last decade.
2. The African Development Bank, through the facilities extended to the DBSA and joint financing of programmes, is encouraged by the DBSA's increasing ability to operate in a complex environment and we are happy not only to offer our support, but to examine together the nature of additional support that may be needed to cope with the new landscape.

3. Our own activities have grown considerably over the last five years in the fourteen SADC member countries, your principle theater of action, with a total volume of operations amounting to 5.4 billion dollars.
  
4. It is for this reason that the existence of a reliable partner in the Region is a much welcome incentive for us to go even further. We are a strong believer, in the principle of subsidiarity, and therefore, working closely with – and where possible through – sub-regional development institutions such as the DBSA at the local and regional level in a form of partnership which we find mutually beneficial.
  
5. Today, in the limited time available, I want to reflect with you on the global financial crisis and what it means for the work we do at the African Development Bank and for DFI's in general. The context for African Development has changed dramatically over the last two years, the demand for our resources is at its peak and the imperative for effectiveness has never been greater, and hence the need for strong development banks at all levels. In several countries, such institutions were scrapped during the years of structural adjustment for fiscal reasons, as well as poor governance.

6. The current issue of 'The Economist' in one of its lead columns says and I quote: "The World economy has stopped shrinking and the worst global recession since the 1930's may be over". It goes on to point out that while it has been deep and nasty, the debate now is about the geometry of the recovery – V, W, U shape? Its own conclusion is that while the recovery is real, it is fragile – "a gloomy "U" with a long flat bottom of weak growth is the likeliest shape of the next few years".
  
7. You will be forgiven if you say – why should we believe economists again! After all, the profession is charged with three rather ominous offences:
  - Helping to cause the crisis
  - Failure to see it coming (except if you are Nouriel Roubini)
  - No idea how to fix it

No wonder the profession is said to have its reputation in tatters – or in the words of one writer in 'The Economist' again: "An arrogant profession has been humbled as the game theorists and option modelers run for the hills!"

8. But, on a more serious note, this crisis contains a number of key lessons for us. Globally, I believe the principle lesson is that pragmatism is back. With traditional tools such as monetary policy (in times of crisis) proving ineffective, the search for practical solutions that address both market and state failures is continuing.
9. Just as the great depression gave birth to Keynes, and the 1970's stagflation fuelled a backlash into Milton Friedman, Thatcher and Reaganomics, the current crisis demonstrates that the real world is a much more complex political economic system than we were prepared to admit a few years back. I like to believe in so far as we in the developing world are concerned, the lessons are even more starker.
10. There is a general concern: How can we, in the future, shield our economies from the excesses of globalization and deficient global governance? As tentative evidence grows that the global economy may be recovering somewhat, it is not certain that we in the emerging markets and low income countries have seen the worst.
11. Let me illustrate: The last fifteen days have been seismic in one of the largest economies in Africa, with the Central Bank taking bold action to protect its financial sector. As one tries to understand what has happened there, this is roughly the picture. As a result of

capital flight from the emerging markets since the global crisis, there has been a decline in the stock exchange of that country.

12. Prior to that, the Banks in that country grew their lending books by extending loans to customers to purchase shares – the so called ‘margin lending’. These loans are said constitute around \$4.8bn or 13% of total commercial banking assets. With the stock market falling by more than 58% since its peak a year earlier, inevitably the Banks have had to take large loan loss provisions as a result of bad loans secured by shares whose values were now plummeting. And the Central Bank is reported to have had to inject close to 2.6 billion dollars to avert a systemic problem.
13. Your expectation and mine is that the G20 decisions to reinforce global governance, transparency and accountability which are being put in place succeed and that the issues of concern for low income countries are also addressed.
14. But until then, what does it mean for the work we do? It means:
  - Responding to the crisis, but staying focused on the long term.

15. My considered view is that as the role of the state is reassessed, development banks will now have a critical role to play. A few years back, their role was often put to question. The crisis is proving that such institutions – at national, regional and global level – are now more needed than ever. This is the time for strong development banks. I am glad to see that internationally the G20 recommended boosting resources for multi-lateral development banks. Indeed, such a process for the AfDB is underway in form of initial discussions with our shareholders.
16. I have been impressing on member countries of the African Development Bank to find innovative solutions that ensure our institution has enough resources to respond adequately to the crisis and I am very encouraged by the response.
17. I have been surprised by the level of demand on our resources during this crisis, and appreciate the call on us to play a countercyclical role such as filling in large gaps for trade finance.
18. As many of you will be aware, like yourselves, the DBSA, our traditional mission has always been that of long term financing of projects such as infrastructure. But the global crisis has altered the demand parameters. In acting counter cyclically we have had to provide large volumes of trade finance, exceptionally large budget

support operations, liquidity facilities and picking up the gaps in key projects, which would otherwise have been scaled down or abandoned altogether by the promoters as investment retrenches.

19. We estimate that our total lending, which stood at 5.9 billion dollars before the crisis, would probably grow to 11 billion dollars by next year.
20. As you may imagine, this has put stress on our resources as we have practically more than doubled our lending including very fast disbursing instruments such as liquidity programs or budget support.
21. Another lesson we can easily draw from the crisis, is the critical nature of regional integration and regional trade. The work done by institutions like the DBSA in this domain must now see a step change. This calls for a strengthened, better resourced DBSA, and stronger partnership with institutions like ourselves. To this extent, I commit to further our cooperation in the coming years, especially in infrastructure finance in the SADC region, in energy, transport or IT. We will need to innovate and we are already doing so.
22. For South Africa alone we have in the 2009/2010 pipeline projects amounting to almost 3 billion dollars.

23. In this respect, let me commend the evolving tripartite relationship between SADC, COMESA and the EAC, which provides a unique platform for us to further develop economic integration in Africa between and among regional economic communities and to develop together critical links such as the North-South Corridor.
  
24. Mr Chairman, let me conclude by saying that this crisis has been a major setback. Whether the recovery is V, U or W shaped, there is little doubt that the next few years will test our resolve and our abilities to think out of the box. I am quite optimistic that the fundamentals for a renewed growth path in Africa are quite robust – as the relative resilience to the crisis in many countries has demonstrated.
  
25. The emerging landscape demands more of us development banks; but, we must be clear in answering the question: What is so developmental about us?

26. We are requesting our shareholders, our partners to come up with additional resources to provide us greater firepower. As our shareholders grasp the challenges of juggling resources, they expect us to take risks, to innovate, to work together providing a response to the new landscape. It is our responsibility to use the occasion.
  
27. Let me end by commending Board, Management and staff of the DBSA for their devotion and achievements and at the same time salute your shareholder, the South African Government, for providing a bedrock of support. As your principal external partner the African Development Bank looks forward to strengthening its partnership with you in the years ahead.
  
28. Let me thank you again for your kind invitation and wish you well.

Thank you.