

Africa is in Business- For the long Haul

Donald Kaberuka

President, African Development Group

Keynote at the Africa Investor Forum

New York Stock Exchange

September 21, 2009

- 1- Ladies and Gentlemen. Good morning. It is an honor to be here and give a keynote at this prestigious event- in this hallowed building considered the thermometer of the financial temperature for the global economy*
- 2- This week the leaders of the G20 meet in Pittsburgh- they will no doubt take steps- and consolidate previous measures to ensure the world navigates safely out of the financial crisis. There is little doubt, even as we begin to see the light at the end of the tunnel, this is a crisis which has laid havoc in its wake that will take time to repair.*
- 3- In a gathering such as this- many will ask me the question: what has it all meant for Africa- how long will the continent take to recover- how much damage has been done. The question is even more pertinent given the phenomenal and momentous progress African economies were making in the decade leading to 2007.*
- 4- I am here to reassure you that – yes- this has been a major setback- but Africa is beckoning- it is in business and for the long haul. I am here to tell you that in the African Development Bank- you have a reliable partner- who understands Africa- ready always to going*

with you in mitigating any risks- as a partner, an advisor and a financier.

- 5- But first, while the crisis has been a major setback- the continent has shown a remarkable resilience, unimaginable- say fifteen years ago, we are, as you are aware, more than fifty linked but yet heterogeneous economies- the situation varies from region to region, The transmission of the crisis from its epicenter to our shores was not so much financial- but rather- the real economy- lower export earnings, reduced investment flows, weakening of the fiscal positions and current accounts and of course contraction in private sector activity- especially where strongly dependent on international demand- countries whose economies depend heavily on mining suffered significant shocks. But in the midst of it all you have countries and regions- non oil, non mineral dependent- still posting 6% growth per year!*
- 6- As for the financial sector it has remained generally stable- well regulated well capitalized, there remains vulnerability which of course requires vigilance : as the real sector contract, this feedback into increase non performing loans or- as we have seen in trade finance- parent/ subsidiary bank relationships manifests areas of weakness. But on balance- the stability of our financial sector remains rock solid.*
- 7- It is also a fact that before the crisis, accessing capital markets though still limited to a few countries was growing, with several successful sovereign bond issuances- now we see that rising risk aversion means that countries that were set to follow suit have*

postponed tapping the international capital markets. This is disappointing.

- 8- Before the crisis set in, as part of our Medium Term Strategy the African Development Bank had significantly ratcheted up our non sovereign financing activities; from a modest 300 million dollars a year in 2005 to roughly 1.5 bn\$ in 2008 through direct lending, equity participation, guarantees and syndication. Our core areas of interest remain infrastructure, financial institutions, equity funds and developing local capital markets. Almost half of our activities are in low income countries and the demand is growing.*
- 9- The crisis has presented us with a challenge- but also opportunities to innovate. As the G20 called upon international and regional financial institutions to play a countercyclical role- we have introduced new frontloaded fast paced, innovative instruments, these range from trade finance (not a traditional core area for us), liquidity facilities, infrastructure funding and in the case of one or two middle income countries, we have provided rather large budget support.*
- 10- In the search for innovation, we have taken a leading role in creating several platforms- The African Financing partnership- an eight institution collaborative, cofinancing framework is one. We are thus able to optimize the institutional market knowledge and project financing skills applying syndication principles. We have thus been able to crowd in more financing, diversification of risk and ability to do more with less. Just to give you an example; as we saw in the “ Main One Cable” project in Nigeria- assuming that each of the eight partners taken the lead in 2-3 transactions*

annually, we believe this could bring in 10 billion\$ for Africa in project financing.

11-We have also used our convening power to bring together leading private equity funds active in Africa. Given the strong market demand, we were looking at how to support the expansion of the network of such funds in Africa. We concluded that with due care in structuring, the quality of transactions, we could see a remarkable growth in equity investments in Africa that might outperform even other emerging markets. Today, the Bank has invested close to half a billion dollars in private equity funds and our target is around 20% of our non sovereign portofolio.

12-We did the same for trade finance, bringing up to Tunis major actors in this area to identify the gaps and identify what countercyclical role was required. This has given birth to 1 billion dollars trade finance facility, half of which is co-managed within Global Trade Liquidity programme with the IFC. There are signs that the tension in this area may be easing and banks might be coming back as we are seeing with Ghana CoCobod \$ 1.2 billion syndication.

13-We are planning to host an African Sovereign Funds Roundtable with partner countries early next year. We will bring together Sovereign Funds from those countries, Central banks, and pension funds to look at potential for diversification.

14- Since 1990, the number of active SubSahara African stock markets have risen from five to twenty. They are posting good returns, outerperforming some of the well established markets and offering diversification benefits to global investors.

15- *My firm conviction is that the first generations of reforms in the 1980's and 1990's have delivered a firm foundation, mainly macroeconomic, the ongoing second generation reforms in the microeconomic area- investment climate, state- private sector relationship are growing everyday. The World Bank's doing Business Report attests to the improving landscape which is consolidating.*

16- *There remains one challenge which is beyond the firm or farmgate-so to speak; This is the challenge of infrastructure-energy, roads and broad band access. The explosion in the telecommunication market had stepped up demand for optic fibers and satellite communication facilities. At the same time growing business, large and small are hampered by power outages as well as poorly maintained roads and dilapidated railroads. All these are areas at the heart of the bank's sovereign and non-sovereign activities- to which we are always in search of partners.*

17- *As the leaders of the G20, decide on how to give impetus to an inclusive global recovery, I cannot think of the best way to do it than provide support to Africa with its infrastructure. Indeed, we as the African delegation will be proposing - as Georges Soros and others before us have done that such a fund could be set up at the African Development Bank funded in part by some of the SDRs, which were recently given to countries who may not need them in form of soft loan grants on terms to be agreed.*

We are also calling for a general capital increase for the African Development Bank to enable us to step up our activities in support of the emerging- resilient Africa. We are in the process of discussions with our shareholders for the purpose.

18- *Let me conclude by thanking you for inviting me in my capacity as AfDB President to share with you our perspectives, and to spell out my conviction that Africa is the ultimate destination; not just for oil and minerals. Its population of 1 billion, increasingly urbanizing, its rising sophisticated young elites, well trained business managers cannot but be an opportunity. The Continent's economies have, during the crisis, got leaner and fitter- and are in business for the long haul.*

19- *As the global economy recovery and gathers momentum, I have little doubt the stamina our economies have built over the decade, the resilience demonstrated during the crisis- is an indication of a fundamental shift- not annihilated by the crisis. I believe the period of the chronic overestimation of Africa's risks and underestimation of its assets may be coming to an end. Perceptions, for the moment, may not always be on our side – hence why I applaud the organizers of the event-The Africa Investor Forum and for associating the African Development Bank.*

Thank you so much for your kind attention
