



AFRICAN DEVELOPMENT BANK GROUP

# Sustaining Africa's Economic Growth

## The Challenges of Inclusion and Financing Infrastructure

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I would like to thank you for the honour of inviting me to speak to you this evening here on the very beautiful island of Mauritius. It is the first time I have had the opportunity to speak to the Association of Central Bank Governors and I very much welcome the opportunity.

I commend you for focusing on an issue that is so vital for Africa at this juncture. I refer to the whole area of inclusive policies, of which financial inclusion is a vital component. We will study carefully your recommendations and determine in which area the African Development Bank can play a role.

As we meet here in Mauritius, there is a heated debate on the so-called “real deceleration”. The proposition is that the large emerging markets – the BRICs which have been the engine of growth – have finally ground to a halt. Indeed, *The Economist* magazine is running a debate entitled “The BRICs economies: Is the fastest period of emerging-market growth behind us?” I am not proposing that we enter the debate here, for which I am sure distinguished economists such as you can take a view.

For my part, I come here from the BRICs Business Summit in Johannesburg. My sense is that the dynamism of the group – but also the realism – remains. As they say in common parlance: “trees do not grow up to the sky.” But that is not the same thing as “growth that has stopped”.

The very inspiring economic figures we’ve been seeing in the large emerging markets for about the past two decades have transformed the global economic landscape. The commodity super-cycle may take off, but that only changes the speed, not the nature of the change.

However, there is an issue which is familiar to us all: “the Middle Income Countries trap”. It is one issue affecting the large emerging markets. We ourselves have to learn the issues around quality of growth and sustainability. As we know, what it takes is inclusion and innovation. This is as true for the large emerging markets as it is for us in Africa,

I want to commend you all for this because it is in the financial sector where the leadership on inclusion and innovation has taken place. In so doing, you as governors of Africa’s central banks are taking the lead not only on the issue of macroeconomic and financial system stability, but also on growth that is sustainable.

Going forward, these issues of inclusion and quality of growth are what will determine the future of Africa’s growth. Two additional factors will be decisive.

The first is management of our natural resources at all levels of the value chain. We discerned this model at our Annual General Meeting in Marrakesh, and I do not forget to come back to the issue today. The issues are familiar. Suffice to say today that following that debate in Marrakesh and the matter received at the latest G8 Summit in London, I have decided to set up an Africa Natural Resource Center to take this matter forward.

The second factor is infrastructure. This is truly the trap for Africa's sustained growth. It is not feasible to maintain the current economic pulse until we make progress in closing the gap.

I am aware of how much work is underway. Many countries are leveraging their natural resources, tapping capital markets, domestic revenues and, of course, international financial institutions to scale up infrastructure investment. We ourselves at the AfDB – with an active portfolio standing at 25 billion dollars, 60% of which deals with infrastructure – we are committed to doing more.

### **The infrastructure gap**

Today I am here to share with you my concern that business as usual has reached its limit. With economies growing at 5% and above, the infrastructure deficit constrains the potential. Few countries in the world have been able to sustain 7% GDP growth and above without making big investments in infrastructure.

We discussed these matters in Marrakesh. This is not a problem unique to Africa. A generation ago the conditions in some Asian countries were not so different from conditions in many African countries today. We are building roads, water systems, ICT networks and electricity grids in Africa, but we are doing it too slowly.

Inadequate infrastructure holds back economic growth everywhere on the continent by at least 2% each year, and reduces the productivity of the private sector by as much as 40%. This equates to 40 billion dollars in lost GDP every year.

### **Accelerate delivery**

So what are the next steps? You will recall that in the 2012 Declaration on the Program for Infrastructure Development in Africa, African Heads of States called for innovative solutions to accelerate infrastructure delivery in Africa, particularly since public sources, including Official Development Assistance, alone cannot close the gap in infrastructure financing. As we discussed in Marrakesh, it is time for Africa to reduce its reliance on others. It is time for us to take charge of our own development.

## **Africa50**

Today, I am here to share with you how far we have gone with the new infrastructure delivery vehicle from the African Development Bank – “Africa50” – with which you are familiar.

It’s a facility set up to find and finance bankable infrastructure projects supported by African institutional investors, pension funds, insurance companies, as well as international public and private sector funding. It will mobilize private financing to accelerate the speed of infrastructure delivery in Africa, thereby creating a new platform for Africa’s growth.

We know that to increase the rate of infrastructure delivery in Africa we need to speed up project preparation and project development. We also know that we need to use specialized financial tools to address specific market challenges. Africa50 is designed to respond to these needs. The critical objective is to shorten the time between project idea and financial close from a current average of seven years to less than three years. This will deliver a critical mass of infrastructure in Africa within the short-to-medium term.

Africa50 is the result of experience and innovation. By focusing on high-impact national and regional projects in the energy, transport, ICT and water sectors, Africa50 will deliver on key national and regional projects capable of delivering high growth and reducing poverty significantly across the continent.

Africa50 will finance new roads and highways that speed up the time it takes our producers to bring their goods to local markets and beyond, thus connecting them to global value chains.

Africa50 will finance electricity generation-transmission-distribution networks so businesses can thrive instead of endure chronic power outages that sap their ability to earn profits.

Africa50 will finance new water and sanitation systems so that people live healthier lives and can turn their hands to new ways of contributing productively to our growing economies.

Africa50 will finance information and communications technologies for homes, schools, businesses and governments so that Africa stands not in isolation but connected to the world.

As I have shared with you before, I believe our central banks will have a key role to play within the limits of your investment guidelines and mandates. We understand

fully the special needs and constraints of central banks. We would like to work on these together with you.

To date, we have designed an implementation strategy, set out a work plan and corresponding timelines, and a very experienced transactional team to ensure the new vehicle is in place. We have also received strong support from Africa and outside. Indeed I have been told: "Let's set up the ground quickly; let us demonstrate the idea is workable."

While Africa50's work will fulfill our infrastructure development goal, it will operate according to commercial principles, mobilizing African capital and savings and delivering commercial returns to investors. I am pleased to report today that there is a lot of excitement and enthusiasm in the market.

### **Three billion to start**

To get going and deliver on Africa's current infrastructure pipeline, including PIDA, Africa50 will need an equity investment of 10 billion dollars, thereby attracting 100 billion worth of local and global capital. To begin operations it will target raising three billion dollars in paid-in capital, thereby establishing credibility with governments, private developers and financial markets.

African ownership of the risk capital is central to the Africa50 strategy. Over the next few weeks my team and I will be engaging you on issues around the return profile, governance, risk mitigation and so forth.

I am here to seek your support. Your participation will send a strong signal to developers and financiers around the world about our commitment to address Africa's infrastructure bottleneck in a decisive and yet commercially viable way.

As the G20 meets in St Petersburg in the next few days, the issue will be reigniting global economic growth for the countries such as G8 members: how to complete the structural reforms needed for growth.

For emerging markets it will be, I am sure, how to stimulate the domestic consumption model. So the question we should ask ourselves today is: what is at the top of Africa's agenda? It can only be:

- Quality of growth, which means primarily inclusion;
- Inclusiveness of growth, which implies judicious management of natural resources to translate that "inherited" wealth into "real" wealth;

- Avoiding the trap of the infrastructure gap, which requires a new financing framework – a new business model.

So let us face it: at the end of the day our aim is industrialization – interacting with the global value chains – and that implies unlocking Africa’s internal market through enhancing infrastructure, trade facilitation, the free movement of goods, people and capital.

I know that in this company I am preaching in the church or the mosque and hence for now it is time to get going.

Thank you for inviting me.