

# **Building Africa's Trade Capacity**

STATEMENT BY

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**Mr. Chairman**

**Ministers,**

**Ladies and Gentlemen**

Let me begin by thanking the organizers of this AGOA Summit Review for getting us together, the Government and People of Kenya for the generous hospitality. It is as always an excellent opportunity, not only to assess where we are on the AGOA, but also Africa's overall trade performance. Since the last review, the time could not have been more opportune, coming at a time when global demand for our exports is seriously dented by the downturn in the global economy and, consequently the large question: how to maximize preferential regime opportunities while focusing on the long term agenda of competitiveness and diversification.

Today, I will limit my brief remarks to three issues:

- (i) What the global crisis has meant for Africa over the last few months and since the last forum;
- (ii) The implications for AGOA and similar preferential regimes;
- (iii) What we, at the African Development Bank have been doing since to build Africa's trade capacity.

At the beginning of the turmoils in the global economy, a certain optimistic view seemed to prevail that, low income countries, particularly those in Africa, may be relatively immune because of the limited integration in the global financial markets. The reality, as we know it today, is that the effect of the crisis on our exports, on investment, on private sector activities, on revenues attained our shores much quicker than expected and in all probabilities, may take longer to reverse. Not surprisingly, the principal vehicle of transmission into our real economies has been the trade channel - or shall I say, the commodities channel.

This is the reason why economies most dependent on one or two commodities, especially minerals, have suffered the most. I have been asked, frequently, over the last one year as to what lessons African countries may draw from this crisis. As one may surmise, the lessons are many. One such lesson, how to better manage commodity “booms and bursts”, which, evidently are here to stay. And in managing such cycles, the continent must refocus fully on how to boost competitiveness. We have always been aware that even when preferential regimes are available, Africa has been out competed by other low income countries, such as Vietnam in the coffee market, who are more competitive.

This is familiar story which boils down to:

- i) the business environment and entrepreneurship into a diversified low cost, reliable supplier;
- ii) the cost of doing business; and
- iii) dilapidated infrastructure.

As we examine the landscape in the wake of the global financial crisis, we see not only a highly variable situation in Africa, but also some generic issues. Taking the Continent as a whole, according to the most recent statistics, the average growth will be in the neighbourhood of 3%, which means, given the demographic trend, real per capita incomes are not increasing and poverty will worsen.

The impact on each of our 53 economies essentially varies depending on three factors:

- (i) Structure of exports;
- (ii) Level of dependence on external inflows, such as ODA, tourism etc.;
- (iii) Capacity to react (level of reserves, fiscal room, pre-existing vulnerabilities).

What we have found is that:

- a dozen countries are still holding at above 5%, mainly those with better diversified economies and strong reform credentials;
- another dozen or so, have demonstrated a surprising resilience and capacity to react, and will probably maintain growth in the neighbourhood of 3% GDP;
- and then, the majority — about 26 countries who are showing negative real per capita GDP. In these groups of countries, almost half of Africa, poverty levels are rising and this is clearly worrisome. In some of these countries, steady progress had been made over the last decade, and this is where strong action by the International community is required to prevent reversal of gains.

It is, nonetheless, very encouraging that despite the crisis, and the ricochet on Africa, the global turmoil has not rolled back the Continent's economic reform momentum or strong belief in the need for a robust investment climate. In addition, it has given a much welcome refocus on identifying opportunities offered by Africa's regional markets in their diversity. Over the last ten years, regional trade has played a key role, but remains hampered by both physical and man-made impediments.

Since the last AGOA Review Forum, I believe progress has been made in mainstreaming trade in national plans and building capacity, to take advantage of the open market opportunities, such as AGOA, as well as regional trade. Just look at the number of countries which have decided to keep their borders open for 24 hours.

This morning, the Kenyan papers headlines lead with the story of the impending power cuts and rationing, a familiar story across Africa - and a sign of the bigger problem we have to deal with; infrastructure deficit in general. This is why for us at the Bank; we have continued to focus on trade related infrastructure, regional integration, removing man-made bottlenecks and building trade capacity. This is a domain in which the AfDB is acquiring a certain level of invaluable solid experience. Infrastructure projects now account for around 60% of our activities.

While putting great emphasis on infrastructure in general, we are emphasizing trans-Africa corridors in particular. Over the last three years, regional projects have multiplied three fold to just under 1 billion dollars each year. In the process, we have drawn some lessons which I would like to share with you.

First, the need to address the apparent competition for resources between national and regional programming: the allocation of International ODA resources remains basically national in character

and performance based. Regional programmes are sometimes viewed as potentially providing a large scope for free riding and escaping the prism of performance. One solution we have often attempted is one of “cost sharing”. While this intrinsically makes sense, in practice, it can be quite problematic; as indeed one leader told me “elections are won at home”! We will need to think together how to overcome some of these obstacles if we are to give a greater boost to regional integration and regional trade, which holds such great promise for the continent.

The second lesson we are learning is that regional ownership is critical. This is why we must continue to build the regional economic institutions. Many of them still face limited capacities, but the best way to assist in building their capacity is not to bypass them and set up new structures. In turn, it is the responsibility of the such Economic Communities (RECs) to exploit to the full the “subsidiarity principle”, taking on those tasks for which they, and only they, and not national or sub national authorities, are best suited to implement.

In our quest to strengthen trading capacity, we have stepped up financing to the private sector through a whole range instruments: loans, guarantees and equity with 40% of such operations in “low income countries”.

We are equally putting a lot of emphasis on building private sector organizations’ capabilities, training trade officials on all pertinent

matters, such as quality and standards. Through our budget support operations, which during the current crisis we have front loaded, we are able to provide fiscal space for eligible countries, thereby enabling them, among other things, to compensate for revenue losses, as they make deeper trade reforms.

Let me now briefly return to the issue of trade logistics. As some of Africa's leaders have been pointing out, there is the need to take a fresh look at the capacity of our maritime ports and that of our dilapidated railroads. As business has grown, over the last decade, infrastructure overall has come under pressure; roads, power etc... The road network, in particular, has suffered from limited resources for maintenance, and growth in volumes of bulky low value goods, ideal for rail transportation, has exacerbated the situation.

Very few railroads have been built in Africa over the last fifty years. The existing ones, built during colonial times, aging and inefficient, were privatised for very good reasons. The experience so far has been mixed. In several cases, it has not worked out to our satisfaction. While state-owned and operated railways did not do any better, the alternative has not provided the viable solution either. There is thus a renewed impetus not only to rehabilitate existing lines, such as the Benguela Railway, and construct new ones, but also to re-examine the operational management model. This deserves support. The same applies for maritime ports.

We have recently been doing considerable financing in this area, the ports of Doralleh in Djibouti or Dakar in Senegal being two such cases. To gain a better understanding of the broad issues and to get a longer term perspective, I have commissioned some work at the Bank with regard to Africa's port capacities, building on previous work by the World Bank, UNCTAD, and others. I expect the findings to appear in the Africa Economic Report, 2010, which I think will complete our understanding of the logistics challenges in the maritime port area.

Finally, let me say what we are doing in trade finance, at this time. We as a development bank, for years, considered our mission to be that of long term project finance and not such domains as trade finance. Until the crisis, commercial and specialised financial institutions were able to provide such facilities. However, the impact of the current crisis has led to the call, including by the G20, to international development institutions to play a counter cyclical role, including filling in the void left in the trade financing lines.

Early this year, we brought together Africa's leading regional/ sub-regional financial institutions, including commercial banks, in Tunis. We took stock of what is happening, and the financing gaps. It became clear that there was a problem of a unique magnitude requiring a response. Consequently, our Board of Directors decided

to make available 1 billion US dollars for trade finance. For reasons of effectiveness and complementarity:

- ½ % billion US dollars will be provided directly to Africa's banks and trade finance houses;
- Another ½ billion US dollars will be available through the Global Trade Liquidity Programme (GTLP), a common pool to be managed by the IFC, which we initialed with the World Bank Group and other partners early this month in Geneva.

Once the crisis is over, we will then review our role in this area, and determine whether we remain engaged or revert to the core of our original mission, that of financing long term projects.

**Mr. Chairman,**

**Honourable Ministers**

After a promising decade, the current global crisis has been a major setback for Africa. But as a Continent, we are resisting much better than we could have done fifteen, or twenty years ago. The African economies are holding out in a manner which could not have been envisaged at the onset of the crisis. The continued determination and momentum in building competitive companies, improving the investment climate, and further promoting regional integration, is what will enable us, not only to maximize the advantages of AGOA, but

also, in due course, go well beyond reliance on preferential regimes, to compete on the open market.

I remain quite optimistic about the economic prospects of our continent. Once the crisis has abated, we will, I am convinced, return to our growth trajectory. But this requires that we intensify programmes in the domains of investment climate, Infrastructure, trade facilitation and building trade capacity in general.

There is little doubt AGOA has been an extremely effective instrument which has benefited many countries. That some of the countries were not able to maximize its benefits is largely a function of trade capacity, which is being steadily addressed. While the current economic downturn is a complicating factor, I believe we can respond to the short-term challenges engendered by the crisis, while remaining focused on the long term goal, that of building diversified competitive economies and reducing aid dependence; provided we and the International Community take all the necessary steps, such as those agreed upon by the G20, the crisis will be overcome and trade and investment in Africa will resume the encouraging dynamic of the last decade.

Let me thank the organisers for this opportunity and assure you of the African Development Bank strong commitment to this agenda.

Thank you.