



AFRICAN DEVELOPMENT BANK GROUP

Africa in 2012 “Feet on the Ground – Eyes to the Future”

**REMARKS AT THE NEW YEAR LUNCHEON FOR
MEMBERS OF THE DIPLOMATIC CORPS
ACCREDITED TO TUNISIA**

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**Tunis
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Honourable Ministers,

Your Excellency, Dean of the Diplomatic Corps,

Your Excellencies, Ambassadors accredited to Tunisia,

Honourable Representatives of International Organizations,

Distinguished Guests,

Ladies and Gentlemen,

Allow me, first of all, on behalf of the African Development Bank Group Board of Directors, Bank staff and on my own behalf, to express to you, your countries and the institutions that you represent, my best and most sincere wishes of good health, success and prosperity.

Each year, in keeping with our tradition, AfDB and I are honoured to receive members of the diplomatic community accredited to Tunisia.

Last year, for reasons known to us all, we did not have the privilege of receiving you.

Therefore, it is with great pleasure that we have this opportunity to meet to break bread together.

For us, this annual get-together is highly symbolic. Certainly, it offers us the opportunity to meet and exchange views.

Above all, however, it is a demonstration of your constant readiness and the attachment of countries and institutions that you represent to cooperate with the African Development Bank.

Therefore, I would like to thank you wholeheartedly for your faithfulness and friendship.

Excellencies, Ladies and Gentlemen,

For close to nine years now, Tunisia and its people have offered us their brotherly hospitality.

I would like to seize this opportunity to reiterate our profound gratitude to them and to wish them all success in the great work of transformation initiated since 14 January of last year.

Throughout the past year, the Bank has seen it as its natural duty to walk alongside the Tunisian people by providing its support to the priority reforms decided by the transitional authorities.

Last Thursday, I was greatly honoured to be received in audience by the Head of State, Professor Marzouki.

I used the occasion to reaffirm to him that the Bank will spare no effort in continuing to accompany Tunisia and all North African countries in concretizing their noble ideals of development and inclusive growth.

As you all know, pursuant to the statutes establishing the African Development Bank, Cote d'Ivoire remains our headquarters host country.

Hence, I welcome the normalisation of the political and security situation in Cote d'Ivoire, which augurs well for the eventual return of our pan-African institution to its official headquarters as soon as the decision is taken by the competent organs.

A momentous year

Your Excellencies:

What a momentous year 2011 was for Africa; indeed for the World –

- The tumultuous events known as the Arab Spring, and the determination of the people of this region to live in societies that offer hope, freedom and opportunity.
- The reverberations of the aftershocks in the global economy and the impact on what has been called “innocent bystanders.” For Africa, a Gordian knot, how to maintain growth momentum (built since a decade), at a time when the room for manoeuvre, the shock absorbing capacity, is lower than it was, at the height of the financial crisis.
- Add to this the famine and mayhem in the Horn of Africa, the birth of Africa's newest nation South Sudan and the post-election violence in the Ivory Coast.

Growth momentum sustained

The long-term trajectory of some of these events cannot be fully fathomed at this time, and obviously, “history is still in the making.”

Let me now turn to our business of the day – the assessment of the African economy in 2012.

Let me begin with North Africa. As one would expect, North African economies, are going through a delicate phase. They are dealing with the combined effect of revolutionary changes and the turbulence in the Eurozone, and this at a time when social expectations are high, fiscal positions weak, the risk profile higher and investors, still very much with a “wait and see” attitude.

Much will depend on the policy clarity of the newly elected governments in creating space for wealth creation, in fighting crony capitalism and corruption, and in creating level playing field.

Above all, a lot will depend on the governments demonstrating that they are able to reconcile social demands, fiscal discipline, and an open society.

The people of North Africa have high expectations. They have paid a high price.

No doubt, there will be temptation for populist tendency for easy solutions. But there will also be reasonable expectations for better opportunities and more equitable, open society.

And they deserve it. But that takes time.

On the other hand, most of sub-Sahara African economies continue to perform quite strongly, 5.6 percent in 2011 and probably 6 percent in 2012, on average.

There are, of course, regional and country differences but the broad picture is an encouraging one.

Commodity demand has played a major role. However we need to bear in mind the role played by domestic demand, buoyed by a growing urban consumer class.

Thanks to the sustained robust performance of the emerging economies, whose trade with Africa has almost doubled, from 20 percent in 2000 to 40 percent in the last decade, demand for African commodities has remained strong. Going forward much will depend on what happens in the BRIC economies in 2012.

Analysts seem divided. Some believe there could be a hard landing while others see a manageable slowdown.

Either way, it is a cause for concern.

Whichever way the BRIC economies move in 2012, the turbulence in the Eurozone cannot but be a major cause for concern, not only for North Africa, with a large market share but also for other emerging markets like South Africa, Mauritius and Namibia, with strong links through exports, tourism, investment and financial flows.

But Africa is not immune

At this stage, as I said a while ago, with exception made for North Africa, the impact of the Eurozone turbulence is still muted for the time being.

However, AfDB economists estimate that a one percent drop in GDP growth in the OECD countries translates into a 10 percent fall in demand for our exports.

You will therefore understand our concern and even trepidation.

African economies have shown strong staying power, but immunity from the crisis in the global economy is not possible.

Information available at this point indicates that already some of the smaller countries are beginning to experience problematic access to trade finance, and several frontier markets have postponed the launch of sovereign bonds.

To sum up: North Africa remains very much on the descending part of the “J” curve. Recovery will be slow and could take time.

Sub-Saharan African economies, on the other hand, have shown remarkable resilience and, with other things remaining the same, as economists are fond of saying, they can expect to perform reasonably well in 2012.

The big question now is: will other things remain the same? We cannot be sure.

There are heavy, dark clouds on the horizon – the lagged effects of slowdown in Europe, the uncertainty about how the BRICs will fare in 2012 and what that means for investment flows and demand for our exports.

That remains to be seen.

Jobs and inequality

Your Excellencies,

I referred earlier, to the reduced room for manoeuvre in dealing with external shocks.

In 2008, when the financial crisis was at its apex, Africa was in a much stronger position.

This time around, the resilience is not as robust, and the shock absorbers and fiscal space are weaker.

In some countries, double digit inflation is back. In others reigning in subsidies and counter cyclical spending is proving to be politically challenging.

The task is heavier this time around.

However, as if this were not complex enough, let me refer to another hill to climb: the veritable “Damocles Sword”: inability to translate the strong headline growth into jobs, lower poverty headcount, create opportunities for the young and make visible improvements in people’s lives.

Statistics show that over the past 30 years, inequality has worsened especially in resource rich countries.

This is not difficult to understand.

In such economies growth is an enclave in nature; it is concentrated and capital-intensive, and inevitable to the infamous “resource curse.”

Broad sections of the population are excluded from the benefits, and the result is massive poverty amidst plenty, feeding sometimes into the hands of extremists, who take advantage in order to advance their agendas.

Oftentimes, governments have attempted to go around this conundrum by providing subsidies, on such products as petroleum, or major food products.

The untargeted welfarism has not only undermined public finances but has also bred corruption, capture by the elites and not benefited the poor.

A broad consensus exists, therefore, which maintains that managing our finite natural resources, avoiding the resource curse, ensuring broad based benefits, building forward and backward linkages is the sure way to translate inherited wealth into real wealth.

The management models are known. It is the political will that has to be galvanized.

The crisis will not go away

Like those of you, who were here in January 2011, I consider myself to have been privileged to be a first-hand witness of changes taking place in North Africa.

The legitimate expectations of the young for voice, accountability, a decent education and jobs is a cry that will not go away.

With more than two-thirds of its population aged under 25, Africa is the youngest region of the world.

This youth bulge will continue to accelerate and so will the social and political temperature.

The world as a whole will face an unemployment problem, but Africa will face unemployment of its most important asset – its youth.

You will agree that this is more than a social, political or economic problem. It is at the heart of the future Africa we want and we should build.

Lessons learned

Your Excellencies, Ladies and Gentlemen,

If I have painted an image of a resurgent Africa, it is by no means an attempt to underestimate the obstacles that need to be overcome. It is only to put that in context.

And that context is that African economies, in their majority today, are managed by “mature reformers” who know what to do.

Lessons that were learned in the 80’s and early 90’s are proving to be lasting.

Just look at macroeconomic indicators, the commitment to the orthodoxy and compare that with the rest of the world.

But you will be right to ask me: How does this fit in with the desolate pictures – such as the ones late last year, in the Horn of Africa, the Somali mayhem, and the economic desolation in parts of the continent, and you would be right!

You will be right; and I will be the first to acknowledge a rather curious phenomenon: African leadership has become much smarter at dealing with “economic deficits” but less so in managing “the democratic deficit”:

- Limited voice and accountability
- Democratic practices devoid of democratic substance
- Election related violence
- Leaders overstaying their mandate
- Manipulation of state constitutions

I could go on.

Like many of you, I am persuaded that it is not possible at least, in the long-term to manage political and economic space in hermetically sealed compartments.

Economic and democratic deficits are two sides of the same coin. We fail in one, we fail in both.

I am not by any means suggesting that addressing the democratic deficit will be enough. It is a necessary but not sufficient condition.

Your Excellencies:

The Bank is responding

As I come to the end of my remarks, let me give you some indication of how the African Development Bank has attempted to fulfil its mandate, under the challenging times last year.

Our role, our main role, as you well know, is long-term project finance.

Our current approaches, well defined in our Medium Term Strategy 2008-2012 is coming to the end this year.

In 2011, our total grants and lending stood at USD 6.2 billion. This was broken down as follows:

(a)	Support to the private sector	USD 1.4 billion
(b)	Commitments to infrastructure	USD 2.5 billion
(c)	Grants and lending to the energy sector	USD 0.8bn billion
(d)	Supporting Regional Integration	USD 1.1bn billion

Beyond the impressive numbers, you will have noticed that our business model is increasingly anchored around a greater role for the private sector and a more decentralised approach, with 32 offices in all regions of Africa, including our pilot regional centres in Nairobi and Pretoria.

The Bank's crisis response

Since 2008, the advent of the triple crises – food, fuel and finance – the African Development Bank had to step in a counter-cyclical way, financing, budget gaps, and providing trade finance and liquidity support. In short, ensuring that we can minimise the damage, while avoiding strategic drift, a feat which we think the Bank has accomplished.

It was always clear though, that we would gradually wind down the counter-cyclical response and return to our traditional activities. It is these activities that Africa needs to unlock its potential and build wealth, energy, skills, transport, connectivity and boosting private sector capacity.

The North African Response

Nonetheless, the aftershocks of the financial crisis means that the counter-cyclical role is sometimes still needed.

In addition, beginning last year, AfDB was called upon, not only to join, but to show leadership in the international community's efforts to accompany the transitions in North Africa.

The African Development Bank was the first international organization to support the Tunisian transition - with a half a billion budget support package. The Bank has since approved additional financing and is playing a major role in the platform to support private sector development in North Africa, coordinating collaborative effort known as the Deauville Partnership.

I take the opportunity to express my appreciation for this collaboration. The people of this region need us – and we need them to succeed.

Your Excellencies,

Let me conclude.

At a time, when the global economy is navigating a new landscape and Africa is struggling to maintain its momentum, the African Development Bank is repositioning to fulfill its mandate.

The African Development Bank is now preparing a new long-term strategy. It cannot be but a demand-driven one.

We want to listen to all our partners, to hear from you – on how we can better promote, broad-based growth, deal with climate change, green our economies, reduce Africa's aid dependence and unlock Africa's potential.

The growing demand for our services requires that this common instrument, Africa's premier development institution remains a strong bank.

This is why I am pleased to report that despite the turbulence in the markets, the African Development Bank remains in a very strong financial position. Prudent financial and risk management policies have ensured that the institution continues to enjoy triple-A ratings from all the major agencies.

The African Development Bank is still able, in spite of tough market conditions, to access capital very competitively. You will, for example, be pleased to hear that only last week AfDB raised a USD1 billion bond issue, competitively priced, in the global markets, and the appetite, by diversified investors was quite good. A demonstration, if any, was needed of the confidence which the Bank commands in the capital markets.

The African Development Bank's risk bearing capacity remains strong, earnings comfortable, the portfolio healthy and thanks to the solid shareholders support – as evident from the decision to triple our capital two years ago, AfDB is as ever in a condition to fulfil its mandate and respond to crises.

In short, this is a bank that Africa and its partners can be proud and confident about.

Your Excellencies,

At the dawn of this new year, a time when the world is at a turning point, it needs, above all, three things: **leadership**, **legitimate institutions** and **efficient solutions**.

There are high expectations that the G20 process will provide the much needed leadership.

Expectations are high, however, that more can be done, ensuring that commitments are seen through, however tough. There are expectations that, above all, issues like trade, climate change and returning the global economy to growth will be addressed.

There is also the issue of legitimacy.

How else can we imagine a solution without Africa?

A strongly growing Africa is not only part of the solution to the global problem. It is the low hanging fruit.

We need leadership, we need legitimacy but we also need effective institutions. In the African Development Bank we have an excellent vehicle instrument of cooperation.

It is an institution that has always demonstrated leadership legitimacy and efficiency.

Going forward, I invite you, together, to join hands, each one of us through our different instruments and comparative competencies to come together in an inclusive mechanism that addresses questions of common interest.

As a continent, we have had a remarkable decade, a surprising resilience, a staying power, a shock absorbing capacity.

The North African revolutions usher in hope and promise, but also short-term difficulties.

The international community has a role and an obligation.
This is the hour and the price is not too high to pay.

There is frustration that the international community has not always quickly fully followed up on its promises.

It is in our interest to respond with speed and flexibility.

The African Development Bank remains as ever alert at its obligation to be at the forefront of that endeavour.

We know what it takes; we have our feet on the ground and eyes on the horizon. We know our priorities of the day: economic integration, the private sector, infrastructure, governance, energy, high level skills: all things which, every day, make a continent attractive for investment.

There are dark clouds on the horizon but together we must be determined to prevail.

We can be proud of our achievements – and those are common achievements.

Allow me once again to thank you for accepting our invitation and to wish you the very best in 2012.

Thank you for your attention.