

AFRICAN DEVELOPMENT BANK GROUP

The Financial Crisis & Africa

Remarks by Donald KABERUKA
President – African Development Bank Group

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Your Royal Majesty
Your Excellencies
Minister Charles Michel
Distinguished Participants

1. It is a great honor for me and for the African Development Bank to join you today. And thank you Minister Michel for your invitation to deliver the opening statement at the Assises de la Coopération belge au développement. In large parts of Africa, Belgian cooperation has distinguished itself especially in the domains of agriculture, health and governance. However, the current turmoil in the global economy and its impact on developing countries means that we have all to rethink how we deliver our support to protect the achievements and prevent a situation where poor countries slide back. I therefore thank you Minister for this initiative.
2. The 1970s and 1980s were very difficult years for a majority of African economies. It is true that Africa is a diverse Continent of 53 countries, large, small, islands, land locked, well endowed, poorly endowed etc. But generically speaking many countries were characterized by chronic balance of payments difficulties and unsustainable macro-economic imbalances, which, combined with poor governance led to what was termed a “lost decade” for Africa, afro pessimism and the rest.
3. But this was part of the larger, well known story of Africa which is thirty years of episodic growth periods, usually commodity boom driven, followed by setbacks and stagnation following commodity booms and bursts. There were of course many external factors especially the impact of the cold war on the African theatre. But you could almost always explain the economic setbacks by internal factors; governance, instability, frequent policy reversals, inability or unwillingness to see through the reforms. In the last decade however, Africa began to turn a corner, witnessing a period of sustained growth of over 5 per cent. The twin deficits had largely disappeared, inflation had been brought under control and many countries began experience growth higher than population increase. A number of social indicators had started improving, even though at a slower pace, given the

low starting point and in some cases, demographic pressures. Countries started taking advantage of the improved economic environment to tap into international private capital resources to support development financing. We were optimistic that as many countries as possible could at least achieve some MDGs, even though halving poverty level by 2015 remained quite distant.

4. Now, the landscape has dramatically changed. The setback is entirely externally driven. This time around the macroeconomic fundamentals have been eroded by factors external to Africa. The impact differs, varies across countries with mineral exporting countries most hit. But in general, the entire continent is adversely affected by the economic downturn in the developed countries, through any number of channels, particularly exports and investment flows. And what is most worrying is that what took Africa a decade to build has been wiped off in a matter of months. It took Africa a decade to transit from stagnation to 7% growth in real GDP. Now, it is now most likely that some countries will return to the negative growth per capita. This is what is implied by the continent's projected growth rate of less than 3% for 2009. And in all probabilities, whenever the global economy recovers, the African recovery will be slower.
5. I must add two caveats: first, for many low income countries, the crisis is probably at its beginning and we don't know if the worst is yet to come. Secondly, as I just observed, even when the global slowdown eases, it is not evident that Africa will recover as fast. But at this point, macro-economic aggregates are already deteriorating as the crisis hit the key drivers of growth, trade, capital inflows, and exports and the risks of twin deficits, inflation and de-globalization are real. Export revenue is expected to fall by more than USD 250 billion in 2009. Consequently, the continent will also suffer a shortfall in trade tax revenue to the tune of USD 15 billion, representing 1 per cent of GDP and 4.6 per cent of government revenue.

6. The Bank forecasts a budget deficit of 5.4 per cent of GDP for 2009 for the continent as a whole, down from a surplus of 2.8 per cent of GDP in 2008. The current account balance will deteriorate from a surplus of 2.7 per cent of GDP in 2008 to a deficit of 4.3 per cent of GDP in 2009. Not surprising, the oil and mineral exporting countries are among the most severely affected with both export and fiscal receipts contracting significantly. Middle income countries with a large manufacturing sector such as South Africa have equally been affected as are those that depend on tourism and migrant transfers. Let me add at this juncture, though that in the low income non-oil producing countries, the effects of the global slowdown have as at this stage, been delayed due to the beneficial effects of lower oil prices and hence a longer lag period.
7. So how should we in the development field, IFIs, bilaterals respond? The crisis is hitting countries without the means or instruments to ride it out. Very few have fiscal room or enough reserves. Recovery in the region therefore is hinged on the global economy picking up as well as robust mitigation measures being successful. We are hopeful that measures taken to stabilize the global economy and lead the world out of the crisis succeed.
8. I want to suggest that our first challenge is to strike a balance between short-term crisis response strategies while remaining focused to address structural constraints to Africa's long-term growth. The first and immediate short-term crisis response is (a) to prevent macro-economic deterioration; (b) second to provide safety nets for the poor; (c) thirdly to protect the achievements especially on those MDGs such as UPE where considerable progress has been made. Then, I suggest it is vitally important to stay focused on the long-term. One of the problems the Continent experienced in the last decade of growth was the impact of dilapidated infrastructure, especially energy and transport.

We saw new donors coming in on the back of raw materials deals and other countries such as Ghana tapping capital markets. At a minimum, Africa should not be pushed back on a negative growth trajectory. That requires progress on infrastructure. The risk I see now is that resources are shifted towards crisis response to the detriment of long-term development programs especially agriculture and infrastructure. Africa's growth potential can only be sustainable and vibrant if and only if the structural defects that have for long plagued the continent are addressed. We must therefore strike the balance. Recovery from the crisis needs to be supported by investments in such things as power generation and skills development, domains in which the AfDB has carved out in its Medium Term Strategy. But how do we strike this balance? One answer to that is a much more robust deliberate effort to delineate a clear division of labour in: (a) responding to the crisis; (b) protecting achievements; (c) staying focused on long term objectives. The Accra Agenda for action will become more urgent than ever.

9. In these difficult times, governments in Africa are doing their best but they face declining revenues and shrinking capital inflows. This makes it difficult to meet rising demands for public investment, including in social sectors. The Bank estimates that just to achieve the pre-crisis growth rates, African countries would need US\$ 50 billion to finance the investment-savings gap. In other words, US\$ 117 billion if the 7 per cent growth rate that is required to meet the MDGs is to be achieved.
10. The African Development Bank is supporting its member countries through numerous initiatives. First, taking advantage of its convening power, the Bank got together Africa's economic leaders in Tunis, supported the creation of the Committee of Ten African Ministers of Finance and

Governors of Central Banks to monitor the crisis, and advise African Heads of State and government on a concerted African response. Internally, the Bank has also taken measures to enhance support to its African member countries during the current crisis. But we have had to think hard at how to respond to our countries problems in their diversity. Our first concern has been to try and limit damage as projects are cancelled, trade finance dries up.

11. The Bank has developed a new set of crisis instruments, including an Emergency Liquidity Facility of US\$ 1.5 billion and a Trade Finance Initiative of US\$ 1 billion. But this does not really address the problems of the poorest countries. Therefore, the Bank decided on an Accelerated Resource Transfer to African Development Fund countries by accelerating use of, and front loading currently available concessional resources. We are fully aware that we will need to innovate and stretch our resource base and we are discussing with our shareholders how best to do so.
12. In addition, this crisis has thrown up policy challenges to our countries, hence the Bank is strengthening and scaling up its advocacy role by enhancing its analytical capacity, intensifying detailed information gathering at the country, sector and regional levels, strengthening collaboration and partnerships with other Multilateral Development Banks and other institutions to tailor country-specific circumstances.
13. In this context, renewed partnership of the donor community and the Accra Agenda for Action is more urgent than ever. This is the appeal I would like to make today. Selectivity and complementarity in such areas as Health, Governance, Agriculture and Rural Development has always been the hallmark of Belgian cooperation. How can we compliment each other's action at this time? I would like, in particular, to make a special appeal for fragile states and those emerging from conflicts. Belgium and the Bank are strong advocates for those states. How can we coalesce support around these countries to avoid slippage?

14. Let me end my remarks on a brighter note. Sooner or later, this crisis will end. Africa is and will be the next frontier to potential investors. But we know we cannot continue to depend on the commodities as the boom and burst cycles will never go away. Our task is to ensure the Continent is ready when benign conditions return. Natural resources on their own, are not sufficient for sustained growth. Successful development requires the institutional and political environment that make investment worthwhile. I want to assure you that African governments, from what I am hearing, are committed to further deepening policy reforms and governance. We need to provide them support at this stage. But we need to do something else. Provide room for them to articulate their own policies instead of managing ours and donor priorities. The time is now. With the right combination of domestic policy reforms, policy space, Africa will overcome the crisis, and return to the growth path. Our task is to help them make that happen.

Thank you once again for the invitation and I wish you successful deliberation.