

AFRICAN DEVELOPMENT BANK GROUP



“LEARNING FROM THE ECONOMIC SOUTH”

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***Statement at the Africa – China Poverty Reduction and
Development Conference co-hosted by the UNDP, Government of
Ethiopia and the China International Poverty Reduction Centre***

Addis Ababa, November 1, 2010

**Your Excellency, Prime Minister Meles Zenawi,
UNDP Administrator Helen Clark,
Minister Trevor Manuel, Ministers,
Vice Minister Zheng Wenkai,
Friends, Ladies and Gentlemen**

1. It is an honour to be here on behalf of the African Development Bank. Thank you to the Ethiopian Authorities, UNDP and the China IPRC for convening us to this timely and pertinent event. Thanks also to IPRC which I was honoured to visit during my trip to China early this year.

2. Last month, many of us, were in New York, for the MDG Summit, to take stock of where we are ahead of 2015. It was clear to all and sundry that although economic growth alone was not sufficient to attain the MDGs, it was the essential precondition.

3. Those countries, who over the last two decades, have registered near or double digit growth have all, invariably, made rapid progress to the MDGs, and that includes a number of African countries, albeit a minority. But like you said, Prime Minister, I agree that trickle down is not enough, deliberate policies must be in place to ensure the poor benefit from growth. It is a condition for sustainability.

4. As we in Africa continue to battle with the issue of poverty eradication, there are many lessons to draw upon, many best practices to inspire us, from Africa herself and many other parts of the World.

5. Today's event is therefore extremely relevant: to share experiences with our Chinese colleagues, other countries in the "Economic South" on how they have been able to lift millions out of poverty in two decades. There is no assumption here that those are transferable or transposable.

6. In the case of China, half a billion people; lifted out of poverty in two decades! Brazil's success in reducing extreme poverty by half - to under 10% in just one decade.

But even more impressive are stories of countries like Vietnam where extreme poverty dropped from 64% to 22% in the last decade and a half, despite all the turbulence in Indo-China in the last 30 years.

7. There has, of course, been a number of equally successful countries in Africa who have made giant leaps forward, sometimes against incredible odds.

8. But there is no doubt the Asian experience remains quite inspirational. Are there lessons for us? There must be. Are they all transferable – may be not all- but in any case they point to a certain direction.

9. As we convene here today, the economic landscape globally is undergoing a radical change – which story is now familiar:

- **Rich countries in the North are battling with large deficits, unemployment, huge sovereign debt and financial systems yet to be fully stabilized. Not surprisingly therefore “realpolitik” means attention is still very much on internal issues.**
- **New additional poles of growth have sprung up across the globe, with the Emerging countries of the South –especially the BRICs – but also a few others such as Vietnam not far behind - emerging as significant economic powers.**
- **Global imbalances have increased and the multilateral system, in theory, supposed to provide the solution, is still constrained to providing old solutions to the new challenges- or rather old wine repackaged into new bottles.**
 - **The G20’s outstanding performance at the beginning of the crisis, still lacks clout, still having internal contradictions among its members its legitimacy sometimes questioned by those locked out. Its agenda has not yet been able to go beyond the narrow original agenda of dealing with the (understandably global economic emergencies) to the exclusion of the other “emergencies” especially of interest to the low income countries: pervasive poverty, climate change and an opportunity– to enable poor countries trade their way out of poverty via a fair trade Doha deal.**

10. Africa, for its part, is rebounding, much better than expected from the economic and financial crisis. Growth has picked up this year and is projected to accelerate even further in 2010 to around 6%.

Despite risks and uncertainties on the horizon, such as the impact of climate change, huge infrastructure deficits, renewed global economic turbulences, or domestic political upheavals; the prospects look quite positive in all parts of the continent, save for pockets of specific political, local or climatic challenges.

For once Africa is defying the received wisdom.

The role – countercyclical role- played by the MDBs including the African Development Bank during this phase has been critical.

Policy buffers have worked to reinforce the resilience of the economies, which has proved to be quite surprisingly robust.

11. Nonetheless, critics point to several weaknesses in the underbelly of this positive story. They generally point to four areas:

- a. Firstly, Africa is growing, not because of its internal dynamics and structural change, but due to a brisk demand by the BRICs for commodities;**
- b. Secondly, while welcoming the impetus provided by this strong demand for commodities, they posit that it is yet again a relationship, based on raw materials, in which Africa is the junior, vulnerable partner to countries like China whose only interest in Africa is raw materials;**
- c. Thirdly, a residual doubt as to whether this is yet another false dawn similar to the one experienced in the mid 1970s;**
- d. Finally, the perennial question: Where is the dollar in “my pocket”; where is the growth in real per capita incomes?**

12. Of course, these are legitimate questions. But equally, there are several plausible answers:

As for whether this is yet another false dawn, this seems unlikely. The renewed momentum is, this time, well merited and anchored in solid foundations- built over years of reform – a much sounder business environment, a reassessment of Africa’s risk, strong macro-economic fundamentals, and good progress in the microeconomic area- including increasing productivity at the level of the firms.

13. In the same vein, while Africa is making progress-generating positive real per capita incomes, it must be remembered that it comes after two decades of negative per capita income growth.

It will take much longer, a sustained basis of growth lasting a decade or two to make a dent on poverty. But there are signs across Africa that this is happening and the pace is accelerating.

As for whether we are yet again about to become victims, as raw materials exporting junior partners, it must really be a function of the broader strategic view as to where we intend to take the relationship.

Africa’s leaders must be in a position to define clearly what they want from this new South-South relationship. It certainly cannot be a replica of the traditional North-South relationship – and that is for African leaders to decide- not China, Brazil, India or Malaysia. African leaders must take a long-term view, which can form a basis for engaging those partners.

14. The other larger question must naturally be: how do we sustain progress at a time when traditional sources of finance are grappling with their own domestic issues- and where “international development” as we have known it, since the 1960s, returns to the back burner.

15. Here perhaps comes what must be the main criticism of Africa’s growth trajectory to date and which is germane for our discussion today.

16. Our development model - and the trajectory it has taken has been characterised by four “genetic defects” that must be addressed:

First; the underlying paradigm has been a variant degree, or other, of the so called Washington Consensus –beginning with the famous “Berg Report” entitled “Accelerated Development in Africa” published in the early 1980s.

In consequence, the policy foundations tended to be largely externally generated and superficially internalized only by promise of funding and good economic management behaviour. While these have not always been bad ideas, to the contrary, many were positive and pertinent. But the case is they haven't been endogenous.

Second; much of it has been very much "aid driven" with what all that implies: limited policy space, lack of predictability and above all, inability of the leaders to make popular choices, trade-offs, sequencing policies as needed, fully accountable to their people, as to the success or failures

- but instead the incentives have been shifted mainly to try and be accountable to external governments and their taxpayers. This is best summed up in the mantra of "aid effectiveness rather than development effectiveness".

17. It is important to bear this in mind as we engage our Chinese friends and other partners from the South.

That should not be difficult, after all they have been able to transform the living conditions of their people in their lifetime- they remained at all times fully in charge of their economic policies -assuming responsibility for success as well as failure - which there was from time to time - rather than seeking to account for results for an outside force.

18. On my visit to China early this year, in Beijing, in Shenzhen, and on course my way out via Hong Kong, what impressed me most was the autonomy and independence in policy choices.

In a book I purchased during that visit, I was given to understand four pillars which guide China's people and their leaders as they chart their future. I don't know if this is the official version but it is what I read, in that particular publication:

What are those principles?

- 1. PRIDE**
- 2. STABILITY**
- 3. VISION**
- 4. LEARNING BY DOING**

19. While the first three did not surprise me; the notion that a proud, stable nation with shared vision will always go far (and the contrary holds true), I was more intrigued by the fourth - "Learning by doing" - a pragmatic- rather than dogmatic or doctrinaire approach in identifying development solutions.

20. I kept wondering about the implications for us in Africa, this pragmatic approach in identifying sources of growth, delivery mechanism and instruments, trying it first and roll it out only once we are certain it does deliver.

I must admit this is a concept I have continued to juggle with till the time of writing this text.

21. It is clear that although China and many in the BRICs have made solid progress-the journey remains long, even for them, including large numbers of poor people, social, geographical inequalities, rapid exhaustion of natural resources and the impact on the environment.

22. Nonetheless, whatever the challenges the BRICs and other emerging markets in the South have to fact, they have been able demonstrate that there are many roads to Damascus!

I want to be very clear, there is always a narrow range of policies which we can all easily recognize as bad policies for growth, which must be avoided at all costs e.g. hyperinflation. This said, the range of what constitutes good policies for poverty reduction and economic transformation must vary from country to country.

23. One of the many advantages of the G20 is that inside the Group, there are now so many models of successful economies, which did not start from the same base - nor follow- a common path. It is this new South-South intellectual policy dynamic we must seek to optimize.

24. This dynamic South-South axis fulfils a dream of people like the late Mwalimu Julius Nyerere and Manmohan Singh through the work they did at the South Centre in the 1980s -that now is beginning to take

shape – as South-South trade, investment and resource flows grow by leaps and bounds, the flow of development experience and knowledge, is equally vital to nourish this horizontal South-South in supplement to the North-South traditional axis.

25. Let me now come to the second and last part of my statement: my thoughts on prospects for sustaining Africa's current phase of growth in a context where developed countries-traditional donors finances are understandably under stress.

- (a) We have for some time fully understood that Africa's financing requirements bypass the capacity of any one source-especially that of donors-generous though they may have been in the past. We have seen how the Gleneagles failed to deliver on all its promises; in particular doubling aid to Africa by 2010.
- (b) It has also become increasingly clear too, that probably the ODA model as fashioned in the 1960s in its geo-strategic, political, paternalist, prescriptive prism – is now outdated, in both its instruments and delivery modalities.

Many of us are now on record as arguing for ODA that is a tool to leverage private capital, rather than a closed envelope to achieve a given outcome.

26. I have been frequently asked as to where we fall, between the Washington Consensus and the so called Beijing Consensus. I have always responded that we do not need one, but if we do, it already exists – the NEPAD.

That NEPAD Consensus has existed since 2001. It has clearly spelt out Africa's Vision and how to get there. It also articulated the need to strike a balance between mobilizing our own domestic resources, ODA, debt cancellation and other external inflows including private capital and remittances, very much emphasizing ownership and partnerships.

27. Today, there is a sustained effort across Africa to mobilize domestic resources. An Association of African Tax Organizations based in South Africa has been put in place- and we support it.

In 2008 alone, combined fiscal revenues in Africa reached US\$ 400 billion; in other words 10 times the volume of ODA in that year-which really gives us a perspective into the relative role of aid in the total resources deployed for development.

28. Indeed, last year the AfDB focused its Annual Economic Report on this vital issue of domestic resources mobilization.

We have a lot of potential untapped, because of inefficiencies, leakages, corruption-and of course inability (in the eyes of the taxpayer) to clearly demonstrate the link between taxes and sound public finances, which provide comfort that the monies are being put to good use.

29. Domestic Capital Markets: the potential for national and regional markets have for far too long been constrained by a number of institutional, regulatory and risk management factors.

We are launching, with African partners, a mechanism, to mobilize more effectively our pension funds and other long term savings/resources.

In many countries, the banking sector now outpaces the GDP! Sub-Saharan African banks now hold assets of about US\$ 700 billion (which compares favourably with Russia's US\$ 900 billion).

30. Today, as a result of narrow financial infrastructure (outside of countries such as South Africa, Kenya, Morocco, Mauritius and a few others) there is still too much dependence on short term savings deposits.

Here is an area we would like to learn from our Chinese friends, who, at a different scale, I understand are battling with the same issues of poor financial infrastructure.

31. Tapping into International Markets: many countries have now, or are making the first forays into the international bond markets. While the global financial crisis has put these plans on hold- still several countries are poised to return. We encourage them to do so, within a framework of sound debt management

We are also beginning to see more countries obtaining good credit ratings, as a reassessment of Africa's risk takes place, which has previously raised the cost of funds.

32. We have embarked on a programme to securitize remittance flows in some countries-where we have determined these are significant-and often even more stable than export earnings or ODA.

As we saw in the recent crisis, remittances dipped only briefly by 5 per cent, and immediately returned to the pre-crisis levels.

33. The real challenge remains identifying and mobilizing resources to close Africa's infrastructure gap - and her growing economies. It is not possible to diversify, or build resilience, or support in economies suffering such low energy availability or poor infrastructure generally.

34. You know the numbers: an annual infrastructure gap of US\$93 billion - clearly there is not one single source able to fill the gap- Indeed, only a very small share can be financed by traditional donors. We at the AfDB have significantly scaled up our investments in all types of infrastructure, from our soft window, leveraging our strong balance sheet and tapping into private sources to stimulate Public-Private Partnerships - particularly in energy.

We allocate now 60% of our commitments to infrastructure, around US\$6 billion in 2009. For every dollar from our private sector window we have been able to leverage 5 additional dollars from the private investors.

We have particularly seen good prospects in energy in countries where the regulator, the framework and the off-taker financial condition is conducive to the IPPs.

35. This is an area in which, no doubt we are keen to learn from - and find ways of collaborating more closely with China and other partners in the South.

36. We know that one of the key factors in China's rapid and sustained growth was the Government's ability to tap into all types of resources through innovative arrangements, sharing risks; and of course the creation of the China Development Bank, which enabled China to up front major investments in infrastructure thereby providing a solid backbone for the China's economy.

How were they able to finance large scale public investments such as hydropower dams, and first class railroads and airports in such a short period of time some of which are even the envy of rich countries.

37. This is the Gordian Knot we must untie - the infrastructure gap - it constraints everything we do to transform our economies.

- High transport and utility costs cut our systemic productivity by half**
- Unreliable power supply leads to industrial production loss of up to 10% turnover**
- Almost an additional 3% in GDP (which could make all the difference) is lost to low income countries, if they could at least attain Middle Income Countries power availability.**

We are therefore keen, and wish to work with our Chinese colleagues on infrastructure planning, infrastructure technology, including railroads, clean energy and financing as both we at the Bank - and China are now major players in infrastructure in Africa.

In fact you may want to know that for all infrastructure contracts financed by the Bank, Chinese companies now take up almost 36% of the market.

38. Let me conclude:

China has a long history of engagement with Africa - they are often (wrongly) called new partners, but the reality is they built the only long

distance railroad on the continent since independence – the TANZAM Railway-in the mid 70's. This relationship is growing, as China surges to become one of the leading economic powerhouses of the world.

39. You will have heard the figures today, already. In 2009 total trade between China and Africa surpassed the US\$114 billion (US\$62 billion imports from Africa and US\$52 billion exports to China).

In other words, 10% of Africa's total imports and exports, up from 2% a decade earlier.

Similarly China's stock of foreign direct investment in Africa has increased from US\$ 56 million in 1996 to US\$7.8 billion in 2008.

40. China's based entities have provided infrastructure finance amounting to US\$11 billion in 2008.

41. It is true that this remains concentrated in 7 raw material rich countries. But diversification is taking place, and today more than 35 countries are engaged with China in infrastructure finance arrangements, Ethiopia (roads, dams, telecoms) Cameroon (US\$800 million in hydropower).

The China - Africa Development Fund is using part of its US\$5 billion endowment to finance hydropower projects in Kenya and Zambia, to renewable energies in South Africa, roads in Mauritius and seven special economic zones in different parts of Africa, including associated infrastructure.

42. The numbers available to me would indicate that between 2001 and 2003, China infrastructure investments in Africa grew by 1 billion per annum. It then picked up to US\$1.5 billion p.a. in 2004-2005.

By 2006, total commitments had reached US\$7.5 billion. Information available indicated over 10 hydropower projects underway worth US\$3.3 billion, and railroads projects totaling US\$4 billion.

This has not of course, been without controversy and criticisms. A local daily paper in this region published in its October 31, 2010 edition – a story entitled: “China – a blessing or a curse?” It went on to outline complaints which you will be familiar with:

- Is this another neo-colonial relationship?

- **Poor working countries and other labour malpractices**
- **Crowding out local skills by imported Chinese Labour**
- **Limited technology and skill transfer**
- **Crowding out local products: Government to Government deals do not provide for local sourcing of material, everything is imported, putting local business at a competitive disadvantage.**
- **Unfair competition in the petty trade sector working together, I believe we can address these issues objectively, uplifting them from the populist context - but ensuring fair play and sustainability.**

These are issues of course; we must engage our Chinese colleagues in, but do so in a mature relationship, lifting them out of “populist” short term parlance.

43. For far too long, we have looked to foreign aid - as a major contributor to our economic transformation. The reality today means we must look forward to a multiplicity of sources and new qualitatively different forms of relationships.

44. It is said that the best form of aid is that one which aims at putting an end to itself, when states have outgrown their dependence on aid and are able to fund their development through own resources and attracting global financial flows.

45. We know that an agenda for dependence reduction is a long term one. The best place to begin is by learning from those countries like India and Vietnam who are now graduating from aid.

46. As we battle with reducing dependency - at a time when donors themselves are stretched - two things are critical in my mind:

First; leveraging, learning from, and taking advantage of the opportunities created by this multinational, multi-focal, multi-experience world. Learning from African experiences themselves and from other nations- as to what works - under what conditions.

Second; Unlocking Africa’s own internal potential by accelerating regional and continental integration and developing the South-South

axis in a way, which perhaps we haven't done before. Remember, the biggest lesson of all we draw from Brazil, China or India is that each one of them is one country- and we are 53 African countries. Political integration must remain an aspiration which may happen one day but that is a much more complex long term agenda.

But economic integration, region by region, must be accelerated. This is why we at the African Development Bank put economic integration at the top of our agenda; together with infrastructure, Governance, Private Sector, Skills development and supporting countries emerging from conflicts.

The North-South framework has continued to evolve - and has served well. We should continue to nurture it further-but unlocking the potential of the South-South axis is the imperative of our time. By positioning Africa in both axes - we will truly be on our way to unlock that potential of 1 billion people and a US\$1.5 Trillion GDP.

Let me again thank the organizers for this excellent event.