

African Development Bank Group



The Global Crisis and its Implications for Emerging and Developing Countries Paris Club

Round Table No. 3 New Financing Challenges in Low Income Countries

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Ladies and Gentlemen,

1. I am grateful to you for inviting me to this Paris Club meeting on the Global Crisis and its Implications for Developing Countries.
2. When this crisis started, the idea of uncoupling developed economies from those of low income countries was often mooted, but rapidly proved premature. The African Development Bank knew that eventually, the crisis would affect the real economy of our countries. The question was “when” and “to what extent”. Today, the economic crisis has unfortunately signaled its presence in several African countries earlier than expected, with quite an impact in some regions.
3. Initially when the financial crisis hit the developed economies head-on, low income countries generally benefited from falling oil and food prices. For some time, the pressure on the current accounts and household budgets of countries highly dependent on agricultural imports dropped, even as the crash in oil prices gave a breather to oil importing countries. Moreover, the embryonic nature of the financial sector, coupled with the predominant role played by sub-regional agricultural trade, helped to cushion low income countries from the early effect of the crisis. Let it be mentioned in passing that although food prices have fallen, they remain quite high in historic terms.
4. For now, the economic performance of a large number of African countries remains mixed. On average, sub-Saharan Africa will post a growth rate below three per cent. About ten ADF-eligible

countries should record growth above 5 per cent in 2009. Another ten or so countries will probably grow above the two to three per cent estimated population growth rate. At the same time, however, twenty-six countries may suffer a rather worrying contraction in per capital income in 2009, caused either by heavy dependence on the economic activity of a neighboring country playing the role of engine of sub-regional growth (for instance, South Africa's recession has had a strong impact on Lesotho's and Namibia's tax revenue and migrant remittances) or by the structure of exports and financial flows, or a somewhat limited internal reaction capacity.

5. Three mechanisms explain the heterogeneity of the impact that the crisis has had on the economies of countries in question: firstly, the importance of external trade to these economies, with the crisis impacting the volume and value of trade flows; secondly, the volume of financial flows, with impact on official development assistance, foreign direct investment and migrant remittances; and thirdly, the reaction capacity, including the pre-crisis macroeconomic fundamentals, the level of reserves, the revenue base and pre-existing institutional vulnerabilities.
6. Predictably, the trade balance of most countries that export natural resources such as oil and mining products deteriorated sharply as prices crashed. In Nigeria for instance, oil which accounts for 80% of public revenue fell by 25 per cent in early 2009, compared to 2008.
7. Capital flows to some countries were also seriously affected, especially for major infrastructure projects and investments in the

mining sector. Examples abound. In Guinea, the Democratic Republic of Congo and Zambia, investments in the mining sector were postponed.

8. Falling investment flows, declining exports and weakening migrant remittances have taken a heavy toll on the exchange reserves of several countries such as Malawi and the Democratic Republic of Congo, henceforth left with quite limited resources.

9. Hitherto a major engine of growth in such African countries as Morocco, Tanzania or Kenya, tourism is also in dire straits. In short, even the manufacturing (for instance textile in Madagascar) and construction sectors are in difficulty. For now, the main risk is that this crisis of the real economy may, through second-round effects, snowball into a banking crisis, weakening the private sector that depends on external demand and increasing portfolio difficulties.
10. The second major issue concerns the duration of the crisis, unknown so far, and the fact that the extent of its impact on African economies is perhaps still not entirely visible.
11. With few exceptions, the capacity of low income countries to face a prolonged crisis remains limited. Generally, they have little room to maneuver regarding their budget and exchange reserves, thus necessitating the deployment of rescue plans.
12. In Liberia, the full revision of the Tax Code aimed at galvanizing the private sector, resulted in a 10 per cent decline in corporate tax and revenue. Countries like Rwanda, Kenya, Uganda, Tanzania or Ethiopia recently announced major budgetary increases to raise expenditures in such key sectors as infrastructure, agriculture, energy, education or health. In Kenya, the Government floated bonds amounting to USD 232.6 million for infrastructure development, the subscription of which demonstrates the existence of a major untapped domestic savings capacity, also seen in other regions of the continent.

13. This crisis has widened the already huge gap between investment and savings. According to the Bank's estimates, to obtain the pre-crisis growth rate and fill the gap between investment and savings, low income countries in Africa need to mobilize resources to the tune of USD 27 billion. The 7% growth rate for reaching the MDGs requires additional USD 51 billion.
14. Despite this rather gloomy picture, we are optimistic about the future of these countries. The results of reforms and fundamentals for resumption of growth are still in place – thus our insistence on the imperative need to respond to the crisis, but with focus on the long term. Several African countries will obviously need strong support from their development partners to overcome difficulties caused by the crisis and pursue their long-term objectives. That is why I commend the clear determination of African leaders committed to pursuing economic reforms and preventing the business environment and infrastructure development from suffering during the crisis.
15. During its last meeting in London, G20 member countries agreed on a number of measures to boost not only the world economy but also the economies of low income countries. The African Development Bank is pleased to note the increase in IMF resources, because they will increase world liquidity and support balance of payments. To specifically support low income countries, the IMF has been urged to double the volume of its concessional loans, and has received support from the G20 members for the exceptional sale of its gold reserves to raise USD 6 billion.

16. However, these resources will be used only in the short term, and will not finance budget expenditures that could boost the economies of low income countries. Therefore, I welcome the G20 communiqué, which underscores the need to review the debt sustainability framework to ensure temporary access to non-concessional funds for deserving countries.
17. The G20 communiqué called on development banks to significantly increase their operations over the next three years, to complement IMF efforts. To that end, the G20 members indicated their desire to explore possibilities of increasing the capital of Multilateral Development Banks, should the need arise.
18. In line with this initiative and in order to support ADF member countries, the African Development Bank has developed several response facilities.
19. The first concerns accelerated and anticipated access to ADF resources. Since the start of the crisis, requests for access to ADF resources have increased sharply. Fifteen months following the opening of ADF-XI, USD 5 billion has been committed, representing 55% of total ADF resources. To meet this increasing demand, the African Development Bank is forward-loading ADF resources. As such, we project that 80% of available ADF resources will be committed by end 2009. Implementation of accelerated procedures has led to a record disbursement of USD 4.2 billion, or 33%.

20. Obviously, to continue meeting the demands of ADF member countries over the next few years, we are in consultations with ADF donors to explore the possibility of early discussions on the replenishment of this concessional window.
21. Secondly, the Bank has also restructured its project portfolio to identify opportunities, thereby improving the use of these funds within a crisis context. To date, it is possible to mobilize USD 725 million through that means. Thirdly, we are exploring other proposals to enhance the flexibility of our instruments, for instance a review of budget support ceilings. Fourthly, we are considering some types of operations, such as enclave projects and the development of guarantee instruments.
22. The African Development Bank is of the view that the economies of the countries concerned cannot be strengthened during this crisis period without more significant efforts in favor of the private sector. To date, the Bank's annual support to the private sector is estimated at USD 1.5 billion, with projects initiated in low income countries accounting for 42% of that volume. However, the Bank has limited resources. We intend to use our financial capacity to the maximum, innovate and work hand-in-hand with other organizations. Surely, the time has come to strengthen Multilateral Development Banks so that they can play a counter-cyclical role during this period of crisis, while continuing to finance development on the long term.
23. As already indicated, this crisis could destroy the fruits of efforts and economic reforms initiated over the past two decades in low

income African countries. However, it is through these reforms that Africa is better prepared than it was fifteen years ago to address a crisis of this scope. I am optimistic that if Africa stays the course and the international community makes judicious choices, the African continent will be ready for another takeoff, back on the growth path.

24. Thank you for your kind attention.

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