

AFRICAN DEVELOPMENT BANK GROUP



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"Africa and the Brave New World"

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Mr. Chairman,

Friends,

Members of the Society for International Development.

Let me begin by thanking the Co-Chairs for inviting me and for associating the African Development Bank with this memorable event.

Wither Afropessimism?

Twenty years ago, someone, I do not recall who exactly, coined the term "Afro pessimism."

Those were the days of large macroeconomic imbalances, unsustainable debt, slow or negative growth and a rather chaotic beginning to the passage from one-party states to multi-party democracies.

The lost decade is what the 1980s were labeled!

As I am sure we shall be hearing more this weekend, many African economies are still negotiating complex economic transitions. Nonetheless, it is quite an interesting exercise to compare that with what is happening in the periphery of the Euro zone at this time.

Since the turn of the New Millennium, Africa has defied pessimists, building a momentum unseen in the last half century on account of both internal factors and a favorable international climate.

But the most important, I think, has been the cumulative impact of painful macroeconomic and structural reforms executed in the 1980s

This year, 2011, Sub-Saharan Africa will grow at 5.6 percent. Projections for the next year stand at 6.5 percent. In fact, a dozen countries will attain the critical growth rate of 7 percent, which is considered to be the threshold for sustainable poverty reduction.

Unstoppable momentum

There is still a long way to go and I do not wish to fall into the trap of simplistic extrapolation.

Nonetheless, I want to share with you my firm conviction, based on the evidence I see on the ground, a belief that this momentum is unstoppable.

At the peak of the financial crisis there was a fear that contagion to the real economy, through various transmission mechanisms, could reverse the gains.

Serious impact there was, but, as a perceptive report by the IMF pointed out, that impact was “brutal but mercifully brief.”

Green shoots continue to blossom and millions are being lifted out of poverty every day—not as fast as Asia or Latin America, but a corner has been turned.

The tragedy in the Horn

The tragedy unfolding in the Horn of Africa, however, is a brutal reminder that this is a fight not yet fully won. Far from it.

In the Horn of Africa today, we are faced with ten million people in need of food aid, two million children suffering from malnutrition, and half a million in danger of starvation.

While this is a tragedy triggered by the worst drought in 60 years, it is largely about our collective failure to end the Somali civil war.

It is our failure to deal with the so called "slow moving emergencies" of which the recurring drought in the Horn is one. After all, this was not a Tsunami-which took us by surprise.

This crisis had been months in the making!

Mother Nature can be blamed for much of what is happening. But it is the errors of man, by omission or commission, which have turned this into the unacceptable tragedy that it is.

As Amartya Sen reminded us many years ago, famines are a reflection of policy deficits—in this case, the management of the Somali crisis and absence of long term planning vis-a-vis this delicate ecosystem.

We all share in the blame, especially those of us in African leadership positions. I am sure this is not the last time we shall experience this type of drought in the region.

For now the priority must be to save lives. Surely though, the most important thing is to collectively say *"drought there may be but famine there will not be."*

The Arab spring

In the same vein, the revolutions in North Africa, have been a much needed wake-up call. They have shown that economic growth which is not inclusive and which promotes "kleptocracies" and closes democratic space cannot be sustained.

The young people in North Africa demonstrated powerfully that the myth of "bread before freedom" was just that -- a myth.

Today, I want to suggest to you that sustainable development in Africa must be anchored in the not too controversial principle of economic growth that is STRONG, RESILIENT and INCLUSIVE.

On that we all agree. The issue is how we combine our efforts to get there.

But we can get there, both by internal policies and international action. Let me begin with International action:

International action beyond the short-term

Mr. Chairman, Ladies and Gentlemen,

Ever since the Lehmann Brothers' crisis and the tumultuous events on Wall Street, we have entered what truly can be described as a brave new world.

Who could have imagined that the bond of an OECD country could be relegated to junk status, lower than many low-income countries ratings!

The global economy is in uncharted waters: the fragile banking system, sovereign debt crises, and unemployment; beggar thy neighbor policies and forms of economic nationalism.

For the last few weeks, eyes have been riveted on the tremors in the Euro zone.

I very much liked the imagery offered by Italian Finance Minister Tremonti who reportedly said that on a sinking Titanic it does not matter whether you are sitting in first class or economy!

The most important issue for the Euro Zone was to stave off another financial calamity and contagion. Despite hesitations, decisive actions were taken.

Whether that works in the longer term is another matter.

As the US economy faces risks of stagflation and Europe battles with debts and public finances, the emerging markets have picked up the slack.

But here is another opportunity wasted. The opportunity of mobilizing, unlocking the potential of low-income countries and Africa in particular.

How, we all wish that the type of decisive action, vigor and sense of urgency deployed to deal with the Euro and similar challenges was called upon to deal with the interrelated global issues of today.

We must remain mindful of those issues, which indeed are critical for sustainable development, and which cry out for attention. They include climate change, global development, and of course, the Doha Development Round, which would permit poor countries to trade their way out of poverty.

These are not issues which can be put on a shelf until the current narrow agenda is completed. That would be very shortsighted.

G20

Mr. Chairman,

As we all know too well, the world has irreversibly changed over the last three years. A new architecture is said to be coming into place.

But where is the architect to put all this together, to make sense out of all these changes?

Is it the venerable G20?

In all fairness to this club, it has registered some success in stabilizing the World Economy after its first summit in London. As for the rebalancing issues, that would seem to be very much work in progress.

But the key issue for low-income countries who are not members of the Club is this: can the G20 demonstrate that it is not simply a club of the "rich and super rich" trying to repair and resurrect yesterday's system? the pre-crisis equilibrium, rather than build a system for the 21st century and address the global issues of concern to all.

Mr. Chairman, friends,

We need not only the global architect -- we also need a paradigm shift. Let me illustrate:

North South relationship

A decade ago, the Millennium Summit committed to halve income poverty by 2015. The Monterrey Conference on Financing for Development produced a compact for mutual accountability.

Subsequently, the Paris Declaration drew up a road map for aid effectiveness. And, of course, the historic G8 Gleneagles Summit pledged to double aid to Africa.

These were significant milestones, embodying the very best in advocacy and commitment at the highest level to overcome poverty in our life time.

But, now we know as we approach 2015, Millennium Development Goals will not be attained everywhere. To an extent, this was inevitable.

Much of it was predicated on the above set of commitments being met. Many partners made valiant efforts, but the overall dynamic was underwhelming, be it level of official development assistance (ODA), the Paris agenda, issues of voice or Doha.

We must intensify advocacy on all these issues. But it is also pertinent to recognize that we face a new terrain.

With major economies still reeling from the aftershocks of the financial crises and the global economy undergoing seismic realignments, it is time to temper expectations that existing commitments will be made, let alone new ones realized.

The critical mass of resources Africa needs to unlock her potential is unlikely to come from rich countries.

Previous assumptions to that effect have led to two unintended consequences:

First, such assumptions have always raised huge expectations (as was the case after Gleneagles) only to be followed by the realization that we have been too optimistic.

This has raised credibility issues vis-a-vis such pledges. Indeed, a recent African Union Summit, ahead of one of the G8 Conferences, decided that there was little point looking for additional pledges when previous ones had not been met.

Second, the assumption has led, for lack of a better term, to an "organ rejection syndrome," especially among young generations who think it undermines the factors of "pride" and "can do attitude."

A new type of discourse

We need to accept that the discourse of the last half-century founded on the assumption of ever increasing external public funding is coming to an end.

It is being replaced by a much more complex architecture combining domestic savings, foundations, remittances, leveraging emerging partnerships, gradual access to capital markets as more and more countries get credit ratings.

And this is all predicated on private sector led growth rather than extended dependence on international welfare.

From aid effectiveness to development effectiveness

Later this year, we shall be in Busan, South Korea, to assess where we are since Paris and Accra on aid effectiveness.

I expect that the African voice will be looking to an engagement on a broader development effectiveness agenda.

Busan provides that unique opportunity to redefine the discourse. And what a coincidence that the conference is taking place in the country of the "Miracle on the Han river."

At the last G20 Summit, thanks to the Korean chair, a road map of international cooperation was spelt out, which I think captured very well

what low-income countries are looking for: an opportunity to unlock the potential of Africa's internal market of one billion people, whose potential is now operating below capacity.

The expectations and hope of African countries is that we can find:

- a) innovative ways to fund infrastructure;
- b) a way to address issues around agriculture and excessive food price volatility;
- c) means of addressing the skills gap

And above all, we have to find a way to draw on the multiple, diverse, development experiences of the members of the G 20.

My understanding is that the French chair is pursuing these issues. Let us hope we can build that momentum further into the Mexican chair and beyond.

Economic Integration

Mr. Chairman, Ladies and Gentlemen

On his recent visit to South Africa, Prime Minister David Cameron observed that an African free trade area would increase Africa's GDP per annum by 62 billion dollars, 20 billion more than combined ODA .That is a fact.

This is the agenda for which the African Development Bank is in the forefront.

Our total commitments this year amount to 8 billion dollars. This is for building infrastructure, supporting fragile states and those emerging from war, partnering with and crowding in private investors and building human capital. Of this 8 billion dollars, a total of two billion dollars will go to support economic integration.

The internal agenda

Mr. Chairman,

Allow me to touch briefly on some of the key internal components of the internal agenda for sustainability.

For far too long, the intellectual space, in respect of Africa, has been dominated by a school of thought who posits that Africa is marginal to the global system. It suggests that there may be bright spots here and there, but that it will take time for Africa to converge with the rest of the world.

Several recent studies have tempered this classical view. We have seen this most prominently reflected in the now well-known publication by McKinsey, depicting a continent re-emerging, a small but growing middle class with increasing discretionary incomes.

There is a new investment dynamic on the back of economic reforms, favorable demographics and rapid urbanization.

You will not be surprised that we share the second view. We fully acknowledge the distance we have to travel but a new momentum is built.

Africa is no longer a continent battling with large macroeconomic imbalances but rather micro economic issues and how to spur competitive enterprises that create jobs for the continent's growing youth.

Nonetheless, sustainability will hinge on the following factors:

First, it is important to address inclusive growth and growing inequalities. It is equally important to increase agricultural productivity, promote small businesses, and ensure gender equality in accessing opportunities.

Other factors include compulsory primary education, providing services and opportunities for disadvantaged areas, getting governments closer to

the people in their communities and municipalities and minimizing excessive centralization.

But address the legitimacy deficit

In short, an inclusive agenda must begin by addressing those "legitimacy deficit" issues that have compromised sustainable growth in the past.

And again, as we saw in North Africa, the youth of our continent are calling for a qualitative shift in the way they are governed.

These are not simply bread and butter issues. The concept of a so called "authoritarian bargain" was discredited by the Tunisian youth who braved the harsh winter early this year on Avenue Bourguiba.

The idea that a system can deliver economic development while closing avenues for a democratic expression is not consistent with sustainability.

In short, an agenda for sustainable development must begin by addressing this "legitimacy deficit."

Second, there is issue of adaptation to climate change. The persistent droughts in the Horn, the recurrent fragility of the Sahel are reminders that we do not have time.

Third, there is the management of natural resources and the so called "curse" as, increasingly, new oil findings are announced in Africa every day.

On the basis of recent studies that I have seen, only a dozen countries do not have confirmed oil findings.

But the real challenge is not finding the oil. It is managing it, for the welfare of the people, for both current and future generations; it is about building productive bases that are not dependent on this depletable, exhaustible resource.

A fourth factor is political management of our diversities. which have far too often brutally ripped apart our societies and set us back years if not generations.

Fifthly, we must deal with the infrastructure deficit, which is now broadly accepted as a major risk to the continued growth of African economies, of the development of mass transit systems, and an impediment to meeting the needs of exploding urban populations; also of opening up the agricultural hinterlands.

Finally, I return to the issue of accelerating economic integration.

Rule of law

But, and above all, government must get organised to support and nurture the creators of wealth: private business.

Investors now flocking to Africa know that it may take some time to deal with issues of infrastructure and the provision of skills, among other things. Indeed, many investors see an opportunity in the production and distribution of energy, for example.

But the things investors expect to be in place and which we should ensure are in place are: a private sector that is not based on privileges, which is rent seeking, but which is competitive.

Investors expect to see stability, the rule of law and basic institutions that function for all.

These are essential ingredients, which only we Africans can put in place. These are not issues that are transposable. The outside world can prod and encourage but can hardly bring it about.

Today the internal ownership of the governance agenda is so strong that in fact, external prodding can actually be counterproductive.

For our part, our intimate understanding of our continent and its political economy enables us to lead the effort at risk re-profiling at this time when investors are demonstrating strong renewed interest in Africa.

Mr Chairman, Ladies and Gentlemen,

Let me conclude.

Let us just step back and recall the following:

In 1980, eighty percent of the Chinese population were poor rural peasants.

That in the mid-1980s, India was the largest aid recipient. Today, aid represents less than 0.5 percent of GDP, and indeed India is now a donor.

That Vietnam now has a GDP of 300 billion dollars, with less than 10 percent of its people living below the poverty line.

Africa too, but deal with Balkanization

I could have given examples of many African countries whose trajectory over the last decade is showing the way, to paraphrase Steve Radelet's excellent documentation on some of Africa's best performers.

I have spoken about Africa as if it were one country, and one economy. I am not ignoring that we have 54 countries, economies, with different endowments and history.

I am also not ignoring that, Sub-Saharan Africa's economy, as Nancy Birdsall of the Center for Global Development reminded us sometime back, was no bigger than that of the City of Chicago—but with 46 different borders.

Like post-war European leaders, I believe the single most important contribution that we, the current generation of Africa's leaders, can make is to accelerate economic integration.

It is not easy but it is doable. This is why, as I said, a while ago, this is very much an agenda that lies at the heart of the work of the African Development Bank.

Mr. Chairman, let me now really conclude.

Every country on planet earth was poor at some point, some not so long ago.

They have all overcome poverty by tapping into world trade and markets for capital. Africa will not be different.

Sustainable development in Africa will depend largely on what we Africans do.

It is important to promote stability, rule of law and institutions that inspire confidence.

Confidence is crucial, for investors are now looking at Africa through a different prism than in the past.

We must gain the confidence of capital markets, which are steadily opening up for African countries to tap into, but which are still charging us that rather high risk premium, and this raises our cost of borrowing.

But above all, we must inspire the confidence of our own citizens, who we do not want subject to arbitrary rule, social or economic exclusion. We want our young in the diaspora to come back with their skills, innovation and game changing solutions in the full confidence that their efforts will be rewarded not frittered away by kleptocracies.

How about issues beyond our control?

But sustainable development in Africa will also depend on what the outside world does.

Africa is looking for its place under the sun, in a system that offers a level playing field for us all, for the continent to trade its way out of poverty.

A system that does not impose unsustainable externalities, a system that is transparent, with rules and regulations that are enforceable, with resolution mechanisms that minimize collateral damage, for low-income countries when things go wrong.

A system able to deal with the global public goods such as those on the agenda of the 17th Conference of the Parties of the United Nations Framework Convention on Climate Change in Durban and RIO+20 next year, on the environment and climate change.

Mr. Chairman, Ladies and Gentlemen.

The world today lurches from crisis to crisis. There are not always straightforward solutions.

Trade-offs will always be necessary.

But if we are to truly manage the agenda of sustainable development, the time is now, to raise the bar beyond the narrow and the immediate - to those issues which make our collective actions today, sustainable tomorrow.

As the old adage says: "If you do not like something, change it. If you cannot change it, change the way you think about it". And time is now to probably change the way we think about the problems the world confronts today.

Thank you for your attention.