



AFRICAN DEVELOPMENT BANK GROUP

# Beyond Geology

## Managing Risks and Tapping Africa's Talent for Growth

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I am glad to see many of our eminent economists and policy makers here and I look forward to a fruitful exchange. Our aim as I said last year at our maiden Conference in Tunis is to deploy our convening power to enable African professionals, think tanks and their colleagues abroad to share scientific thinking on the African economic condition. I am impressed by the scope, the variety and the continental reach of the papers at this Conference in a wide range of domains. My role is to give you our total encouragement and assure you of the AfDB full commitment to this agenda.

As we convene here, there is now overwhelming evidence about the following: the performance of the African economies has improved steadily over the past five years – the reasons are both internal and external and, save for a major external or internal downturn, the prospects remain bullish for the coming year.

There is concern nonetheless that not all countries are growing; there are issues with sustainable borrowing (and sustainable lending) as well as the fact that growth, for the moment is not yet widely shared. Equally there is wide recognition that foreign direct investment flows, beyond the extractive industry – remains quite limited in other countries and the production structures of many of the economies have not changed significantly.

As we meet here today there is a feeling among some analysts that the relations between Africa and the rest of the world may be entering a new phase – rather than being a theater of control and political influence, it would appear now that economic interests are rather competing for access to Africa mineral and oil riches.

But in this rather ecstatic atmosphere there are also causes for pause and reflection. This is not the first time African economies have experienced commodity boom driven growth. It happened in the 1950s and the 1970s.

### **Areas of concern**

The risks in the global economy remain and it is self-evident that any downturn, at least after the first round effects, would to some extent affect Africa. Perhaps the risks are minimal but they exist. Just look at the succession of recent events in the financial markets. Some feel that because of our limited global integration we are relatively insulated, but to what extent are we?

Delinquencies in the subprime mortgage market, quickly spreading to markets for asset backed securities and the structured credit products. In no time the uncertainties about the real extent of exposure by financial institutions and

aversion to counterparty risk put several large institutions under stress and some Central Banks begin to intervene to inject liquidity.

Markets have demonstrated strong resilience in the past but unresolved issues remain which carry systemic risks for the global economy.

Some feel that rapid financial innovation which has served growth well also raise issues of the basics: credit quality, transparency, managing risks in the context of complex financial products, which are mastered by a few experts. All these are uncertainties from which African economies, however small, cannot be completely insulated. Disorderly international adjustments cannot leave any part of the world unaffected. This said, analysts seem to agree that demand for commodities remain strong and disorderly adjustments unlikely.

The second issue worth of attention is that the current growth phase is largely about geology and its spin off effects; it is about price effects not change in the structures of production. We now have a wealth of experience in managing commodity booms, which in the past have provoked unsustainable lending (and borrowing), weakened financial discipline and even led to what is euphemistically labeled democratic deficits.

The third issue of concern: although two-thirds of Africans now live in countries growing beyond 5%, the rest are stuck in countries whose economies are marginally growing or contracting. This is exacerbated, in the case of non-oil exporting, by the combined effect of high oil prices and now increasingly food prices. As for the populations trapped in zones of conflict, which though asymmetric and localized within countries, the slump in real per capita incomes is quite deep and poverty is widening, not receding.

The fourth issue is that of a lingering sceptical perception by investors. It would seem that despite the positive "Doing Business" improvement reports, reflecting progress and actual reality on the ground, perceptions are changing, but very slowly, which probably should not be surprising.

Yesterday, I was in Berlin meeting with the German Government officials, Banking Organization, Export Credit Institutions, and Business leaders. We were deliberating on how to accelerate Africa's growth opportunities by greater investment flows. In one of the events I happened to sit next to a gentleman, a businessperson who heads one of Europe's largest metallurgic companies. He told us, their firm's African presence is so far limited to Egypt and South Africa. Asked what is it that is viewed as a deterrent factor for the rest of Africa, not surprisingly

he mentioned in descending order: skilled labour force; reliable infrastructure; and rule of law.

To which he added, “We know so little about the rest of Africa”. As for the Export Credit Agencies, the concerns remain as they have always been: in years past; risks of: breach of contracts by authorities; inability of contract enforcement; and expropriation and/or other sovereign acts, war, revolution, civil commotion.

The conclusion one can tentatively draw at this stage is that of a continent which, though on the rise, in all aspects still has major challenges both real and perceived that must be overcome.

Today: growth is back on the agenda – although some would say it has always been! There is general agreement on the basics. We are all now advocates of the “Monterrey Consensus” (assumed to be the successor of the Washington Consensus). But where do we go from here?

Firstly, it is clear our countries will take different path depending upon their endowment, their history, their geography. Some are rich in geology others are resource poor; a number of countries are insular with small populations; some have good donor support, and a large pool of talents; while other are donor orphans, with little donor support. But to do so they will need to seize, and fully exploit the policy space: in other words, that ability to independent choices from a wide array of what are all sensible policies. But for some, it is also clear, ability and capacity to exercise policy space will, for some time, remain limited. Such are countries heavily dependent on external aid or those suffering extensive lack of capacity.

But there is also the good news: The capital markets are beginning to develop an appetite for Africa. Everything possible should be done to further stimulate these flows. Today, beyond the traditional emerging markets like South Africa, Morocco, Egypt and Mauritius; we now see strong nascent emerging economies where the markets are beginning to take notice. Among them; Nigeria, Tunisia, Botswana, Namibia, Algeria, Kenya and lately Ghana, which recently successful issued a ¾-billion bond in the Euromarkets.

On the flight to this Conference I contemplated on two articles I read recently in respect to the issue of innovation and the paths of nations to progress. Many of us may not be aware that the emerging economic behemoth of our time -China, before it was defeated by technologically superior arms during the “Opium war”, accounted for 30% of the world’s economy. There followed a period of turbulence and decline and now dramatic re-emergence.

What is it that happened to trigger this economic revolution”? This is a subject of many learned treatises and in a gathering of eminent intellectuals I will not attempt a theory of my own. I am sure you are better placed than I via your research to better understand this and similar process of change. Whatever the causal factors, I am certain they will include that constellation of elements which in the lives of nations brings about what some have called “ecosystems that fully utilize talent and encourage innovation”. It cannot be otherwise. Any nation is made by its talent not its geology in which by the way I am told China is not particularly well endowed.

As an aside, many of you will be aware that South East Asian agricultural expansion in the 1970’s and 1980’s benefited a lot from African expertise, Cocoa, Coffee, and Palm oil, etc. How come our “ecosystems” did not allow the same talent to nurture similar expansion of African agriculture in products for which Africa initially had an uncontested “comparative” advantage? There seems to be a general consensus, Africa is the next frontier on the condition that peace and stability prevails, allowing Africa’s talent to flourish and to be deployed effectively.

### **The role of higher education**

At the AfDB we are today in the process of rolling out a new policy and framework of support to Africa’s institutions of higher education, Science and Technology. After 50 years of independence, Africa’s institutions of higher learning have, under pressure of demand and benign neglect, seriously deteriorated. While in the 1950s some of them featured in the world’s top league, today hardly any of them does, and Africa’s intelligentsia is training abroad and often remaining there. In the meantime many countries continue to depend on prolonged “short term” technical assistance which though well intended cannot be a replacement of local talent.

As a Bank, we have limited means and have to make choices. Therefore, our intention is not to do so in every country but to give impetus to regional centers of excellence, in agricultural research, in science and IT, in innovation.

### **Preparing for long-term challenges**

Finally, I will not be telling you anything new if I shared with you some of the bigger challenges on the longer horizon, which Africa as a continent must face. I have asked our Chief Economist and his colleagues to embark on a multidimensional work on the big three issues which we view as those which have the highest potential to impact the African condition: demography; urbanization; and climate change.

The big three: a young growing population, which will be increasingly living in urban areas (including large slums). There is little doubt this will impact - the African society in a lasting way and I want to challenge you to help us deepen our understanding of the combined effects of the interaction and the issues involved. Yet another addition to the long list of the subjects for your consideration, but one, which you will agree with me, is worthwhile.

As for climate, we now know the facts. From the 29th the World is meeting in Bali. The earth is choking on greenhouse gases and it is poor countries mainly in Africa, those with least ability to adapt that are expected to suffer most.

According to Sir David King, Chief Scientist of the UK Government, it would seem that even with sustained global action on mitigation for the next 25 years the world will suffer continued climatic impact arising from past actions. Few of our countries have large budgets for the extensive and urgent agenda of adaptation. But action is needed and is needed now.

Perhaps the example of impoverished Bangladesh can inspire us – a very vulnerable country with 78% of the population which live in poverty below, two dollars per day. According to a report I have seen in the Time Magazine the sea levels have been rising in the Bay of Bengal, pushing salty water inland and reducing arable land for rice. With a lot of imagination farmers are adapting by replacing rice with prawn farming which is more tolerant to salty water.

We should challenge ourselves within our organizations, our research institutes, scientists in our member countries to begin an intensified search for Africa's adaptive solutions without which current progress cannot hold in the longer term.

Let me close my remarks by assuring you that the AfDB is firmly behind your, our agenda. The work of your group is important for all of us. As we refocus again fully on the agenda of economic growth driven by the private sector, trade and investments, we will need to understand how best to provide support to our countries as they buttress the rule of law, the level playing field, predictability of policies and strengthening institutions.

Equally as we intensify our activities to provide reliable infrastructure, energy, roads, connectivity, infrastructure for agriculture, infrastructure for health and education, the combined efforts of scientists and researchers helps us to understand what works, what does not, and under what conditions. As I said this morning we will be giving new emphasis to issues of higher education, science and technology and skills. We should be prepared to make mistakes and correct them.

But it is also clear that this wide array of an agenda requires to be anchored in objective, concrete evidence based undertaking.

The other example would be the greater attention we are giving to fragile states including those emerging from conflicts. This is necessary to consolidate strong, positive neighbourhood effects which magnify the cumulative impact of good performance across Africa. But it is a complex area requiring interdisciplinary knowledge which a group such as yours is well placed to provide.

Our continent is at such a momentous time of its history, its politics, and its economics, which requires all of us to make a step change in our mindset. Large avenues of opportunities have opened up. We need to keep our feet on the ground and the eyes on the big picture. In 2005 at Gleneagles the International Community made firm commitments. These have been since reaffirmed at Heiligendamm under the German G8 Presidency. Rich nations committed to a more effective partnership. Certainly the political will is there. It is our hope and expectations that geostrategic and domestic concerns will not stand in the way of a full realization of this historical agenda and this ambition.

Africa can realize its dream – but it will do so largely by means of African talent rather than its geology. A fertile, well-endowed subsoil is clearly a major advantage but it is not enough. And absence of it is not necessarily a condemnation to poverty and dependence. Heretical, perhaps, as it may sound at this stage, maybe time has come for the intelligentsia like you to begin thinking beyond aid, even though this remains for some time very necessary for many poor countries.

Time has come to recommit to developing and tap into Africa's talent. We will do so if we ensure a stable, peaceful continent in which that talent can flourish. I began off by saying that neither India nor China's geology is particularly well endowed.

But these are two peaceful stable countries with highly talented people who have put science and technology at the center of the agenda to overcome poverty. They have not overcome all the major challenges, by the way including multi-ethnicity. Millions of people in both countries still live in absolute poverty.

But they see the light at the end of the tunnel. I want to assure you that as we harness our collective efforts to tap into Africa's real potential, your Bank, Africa's Bank will be firmly at the center of that agenda.

I look forward to seeing you next year and I thank you for your attention.