AFRICAN DEVELOPMENT BANK GROUP

Africa in 2009

Moment of Resolve to go Forward

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This year marks the 44th anniversary of the Bank – forty four years of service to Africa. We have had many achievements, occasional setbacks, but, we can be proud of the Institution which over years, together we have built – a pride for Africa, an institution which has remained robust even in such difficult global times for many financial institutions.

At times such as these when Africa needs its Bank we need to continue keeping our Bank strong.

The Economic Crisis

The central issue which commands the attention of the world at this moment is the global financial crisis; what it implies for Africa, and for the work we do at the Bank.

At the beginning of this crisis, I put in place a Financial Crisis Monitoring Group. I assigned to it the mission of continuously assessing the impact on African economies, on the Bank, and implications for our work on the continent.

Together with Mr. Ping and Mr. Janneh, we convened in Tunis -- Finance Ministers, Central Bank Governors and Regional Economic Organizations -- with a view to assessing this new landscape and to make proposals going forward.

We set up a mechanism – the Committee of Ten, to keep the situation under review. I would like to acknowledge here the work done by the Committee of Ten, to which some of you participated, including making inputs into the G20 process.

At this point, no one can tell, with any degree of certainty, whether the worst for the global economy is over. There are indications in both directions. The G20 has taken steps to stimulate global demand, and to restore stability and confidence in the global system. But it is clearly too soon to gauge the impact of the measures.

For us in Africa, it is true we have not suffered banking crises or major financial sector distress. But our economies are to varying degrees suffering second round effects on the real economy through a number of channels which differ from country to country. For some, it is commodity exports and investment flows, while for others, lower remittances and tourism receipts are the main channel. Perhaps what is a cause of greater uncertainty is that most likely, and in contrast to the emerging markets, the crisis for us is still unfolding and we therefore have not yet seen its full impact.

What is certain though is that there will be, inevitably, everywhere, some contraction of those sectors dependent on international demand and hence what that means for tax revenues, jobs and especially the health of the banking sector, which would require vigilance.

A few weeks back, I visited North West Zambia, the copper belt area; and as copper prices have tumbled in six months from 8,000 dollars per ton to less than 3,500 dollars, some mines were at risk of closing, with hundreds of jobs being lost and the nation making tough fiscal choices.

Behind these numbers are people, families and countries, whose aspirations are thwarted. Aspirations of a continent which worked for decades, laboured hard on economic reforms, to turn real per capita GDP growth from negative to 7%, only to see that wiped out in six months. What took Africa a decade to build is rolled back in such a short period of time and in all probability, whenever the global economy recovers Africa's turnaround will be much slower.

There are several major risks ahead, but let me just pick a few.

The first is the return of the twin deficits.

The large reductions in the budget balances will place enormous pressures on the ability by governments to deliver basic services, let alone pursue development programs.

The second is the loss of MDG momentum – and deteriorating social conditions. While it is true that many countries in Africa were "off track" for several MDGs, such as infant mortality, there were other goals where progress was encouraging. An example is universal primary education.

The third is the setback for countries which were beginning to attract significant investment, and access to capital markets thereby reducing steadily their dependence on external aid. Much of the proceedings of those bond issues had been geared for infrastructure – power, railways, rehabilitation – so critical to the continent's growth promise as infrastructure development slows down. Access to this type of funding is now rare and onerous.

So today, I have two combined messages: a message of urgency with optimism. First, I remain convinced that the long-term prospects for Africa are still very bright. I believe, we can limit the damage and prepare for a retake-off. The problem we face today affects all countries in the world, rich countries, emerging economies and low income countries for which the world has come together in the search for solutions.

Africa is looking for no more and no less as a partner, not a supplicant, rather to be part of a coordinated global response to a crisis which is none of its creation yet for which it is a vital part of the response. I am persuaded that if we do the right things, Africa can withstand the effects of the crisis, and prepare for a retake off. And I see ground for optimism.

Let me explain: In the first quarter of 2009, in spite of the global slump, fourteen countries in Africa are holding out and still managing to grow at above 5%. Thirteen others are able to post GDP growth above population increase. This is admittedly not enough; but it means that in 27 countries, real per capita income is at least not contracting. And that is encouraging news.

In contrast, economic growth in 26 countries has fallen back below the rate of increase in population. This is alarming. The countries in question fall into four categories; in the majority of whom we are convinced the situation is reversible:

- Very open economies, strongly dependent on international demand;
- Countries dependent on oil, or a narrow range of minerals;
- Economies touched by slowdown in the regional engines of growth, or by the neighbourhood effects, so to speak;
- Fourthly, the Fragile States.

In each of these four categories it is evident that combined national and international action can turn round the situation.

My message therefore is that, in spite of the difficult gloomy conditions, I am optimistic; because Africa is the frontier market – the last frontier, and has laid strong foundations. I am optimistic because I believe in the resilience of our people, exemplified by a stamina and perseverance to painfully, over two decades, transform the economic landscape, and whose impact is durable and not about to disappear.

The story of Africa over the past 30 years has been one of episodic growth phases, followed by prolonged decline usually on the back of commodity booms and burst. But I am convinced this time round, what happened in Africa over the last decade was not a flash in the pan – it is durable if we are prepared to do the right thing.

And therefore, this should not be the moment of gloom and despondency – but one of resolve – resolve to move forward.

Let us not draw the wrong lessons. Sooner or later the crisis will be over and at that point our business climate should not be found wanting. Some have said it is an opportunity to decouple from globalization. Some have questioned the relevance of market friendly policies.

While I fully share the sentiment that globalization through raw materials has serious downside, this is not the time to walk away from globalization, it is time to seek for a qualitatively different form of integration including faster, accelerated integration with the neighbourhood, namely, regional integration.

Some have questioned whether it is not the opportunity to decouple from the market economy. That would be self-defeating and is not necessary. At times such as this we need more markets, but we also need more effective states able to fulfill their role – a role which enables rather than disables enterprise to flourish.

And for us at the Bank, what does it all mean? For the Bank and sister international finance institutions, we are called upon to scale up, optimize, innovate, complement, advocate, but I would like to add and strike a balance between the short-term crisis responses and the longer term structural concerns – the private sector, infrastructure and regional integration and governance, which ensure sustainable growth and which are at the heart of our Medium Term Strategy.

I welcome the determination by our partners to fulfill commitments, old and new. It is true the financial crisis has thrown up tight domestic financial choices for all, but we can all agree that a solution that excludes Africa is no solution. Therefore, let us take a few practical steps. Let us begin by committing to keep the ADF strong.

As we frontload and accelerate resource transfers, let us be sure of what we will do next year and the year after and thereby minimize volatility and uncertainty for ADF eligible countries. But let us also give a renewed urgency to the Paris Declaration and the Accra Agenda for Action.

Time is now to close the gap between the Declaration and implementation. Time is now to give countries real ownership, for meaningful division of labour between bilaterals, international financial institutions and among IFIs themselves.

Let these noble concepts of alignment and harmonization not remain the experts "development speak" but a framework to which I know we fully committed and do so in practice.

The G20 Summit has called for MDBs to scale up their activities over the next three years and we are. And we are ready to do more in collaboration with other IFIs. Yesterday, as part of a coordinated response, the African Development Bank, together with six sister institutions; the World Bank Group, EIB, AFD, KFW, the Islamic Development Bank, the DBSA, agreed on a joint action plan, to pool our resources and expertise for greater effectiveness in responding to the crisis.

We will commit over the next three years, 15 billion dollars in support of trade finance, liquidity program, infrastructure, bank recapitalization, SMEs, micro-finance and agriculture, a shining example of how IFIs can leverage on each other's strength, at this moment of economic need. Last year in Maputo, Governors unanimously adopted the High Level Panel Report, the Management Response as well as the five year (2008-2012) Medium Term Strategy.

That strategy projected that the annual growth in Bank lending would grow at about 14% in line with Africa's growth in nominal GDP. But that was before the onset of the crisis.

As a result of the crisis, a revisit of our lending projections has become imperative.

Our strong financial position and a generously replenished ADF 11 provide a sound platform. We have put forward several initiatives, a number of scenarios articulated in papers before you all of which imply significant scaling up and front loading.

But it also implies new instruments, some of which are fast disbursing and have the potential to consume risk capital faster than earlier anticipated. Hence, I welcome warmly the G20 decision, which spelt the need to review the capital requirements of the African Development Bank and other regional banks to enable them to better respond.

Management fully understands that for a GCI business case to be made, we will need to demonstrate:

- The nature of the needs and demands by the regional member countries occasioned by the crisis, as well as longer term requirements;

- That we have utilized our balance sheet optimally, innovatively utilizing our capital headroom;

- We are working in complementarity with other IFIs and not duplicating each other;

- How the low income countries would benefit from such an increase; and finally,

- That our internal capacity and governance are being strengthened as we scale up.

If today, Governors approve the resolution as recommended by the GCC yesterday, we will proceed expeditiously with all the analytics necessary for you to deliberate on the GCI at a moment you judge opportune.

And how the Bank and Fund address particularly the challenges of lower income countries? I agree that, the Bank must each year seek to contribute more to the ADF and development initiatives in general, but also, taking advantage of our strong capital base to do more in low income countries, including fragile states, more private sector operations, supporting enclave projects, trade finance and enhanced guarantees.

But, still, such is the level of needs thrown up by the crisis that even by restructuring our portfolio, front loading our ADF resources, virtually 68% higher than originally programmed, we will exhaust our resources ahead of time.

That is why I very much welcome the positive, constructive informal exchanges we are having at this Assembly in respect to both the capital increase and the ADF. We will need to agree on how to sequence our resource mobilization effects to strengthen the Bank, and the Fund to ensure there is no hiatus in availability of resources for poor countries.

Without prejudice to the review of all the options possible, a Mid Term Review which is also a kick-off for what one hopes might be a lighter, swifter ADF 12 exercise has a lot to commend it, as is the importance of assessing the potential, for flexibility on some of the policy limitations in the Fund architecture.

In the course of the financial presentation yesterday, you have received reports on our operational and financial results. Those reports are comprehensive and exhaustive enough, but allow me a few salient points.

The year 2008 was an exceptionally challenging one, for every institution active in the financial markets. But I am happy to report that our prudent and proactive financial and risk management practices with an overall conservative financial bias, significantly helped us to cushion against damage and in general has served us well.

Like every financial institution, in such a market with so much turbulence, there was inevitably some impairment in some of the Bank's instruments. Nonetheless, mitigating measures, proactive policies plus some offsetting factors such as reduction in loan loss provision and arrears clearance has contributed to a comfortable net outcome of around 475 million dollars. The foundations of the Bank's Triple "A" ratings remain in place and despite the difficult markets, we are still able to execute our funding programme at attractive average costs.

In 2008, we have continued to expand our operations. In the Middle Income Countries, in low income countries and in fragile states. Our total approvals are up by 14% to around 5.4 billion dollars, with the ADB non-concessional window's activities accounting for 51.2%, while the ADF accounts for 47.2%. We have continued to be focused in our core areas such as private sector, infrastructure and regional integration. Infrastructure accounts for 44.5% of our total operations.

In our support to the Middle Income Countries, we are learning better how to combine pricing, packaging our products, policy work, technical support as well as private sector operations to be more effective. Many of these are regional economic engines which drive activities far and wide.

If this crisis is showing up anything, it is that Africa will have to steadily seek ways of counting on itself – and that starts with economic integration – a core area for the Bank. I am happy to report therefore that our regional operations have grown significantly, multiplying three times in comparison to two years ago, to about 925 million dollars.

Last week I joined the Heads of State of the East African Community to inaugurate works on a 250 kilometer highway, which we are co-financing with Japan. We have provided 240 million Euros for the new portion of the trans-African highway between Nigeria and Cameroun, the rehabilitation of Lake Chad.

We continue to be concerned at the impact of poor energy costs and availability of the growth potential for our economies.

In some countries electricity costs as much as 40 cents/Kwh, and even then has remained unreliable.

We are stepping up our activities in the energy sector including development of regional power pools such as the interconnection between five countries in the Nile Basin Region.

I am pleased to announce that our new Clean Energy Investment Framework for Africa which sets out a comprehensive agenda for mainstreaming energy options, energy access and efficiency.

But as we move to Copenhagen for a new deal on climate, let us heed Wangari Mathai. It is time for carbon justice. Our forests, an inclusive carbon market adaptation and an opportunity for Africa to develop its clean energy and its economies.

Of late, there has been renewed rethinking on how best can Africa accelerate graduation from aid dependency. We are aware it will not happen overnight, but it is the aspirations of all Africans. In line with the medium term strategy, our private sector activities have continued to expand to about 1.5 billion dollars last year which is 26% of all Bank operations and 50% of the AfDB window. In this respect, I want to salute our Board's recent decision to raise global equity limits to 15%. We are learning more, every day, how to embed additionality and development impact in our private sector operations, remaining within a moderate profile risk and best practices in risk management.

Going forward, it is our intention to expand our activities in low income countries and indeed we will be setting up a new Key Performance Indicator (KPI) in respect to the non-sovereign operations to such countries.

As of March end, less than 12 months, after ADF 11 became legally effective, we have committed 45% of our resources to the core areas of the Fund's activities. It is now almost certain around ¾ of the PBA envelope will be committed by year end as we frontload resources for ADF eligible countries.

We are encouraged by the progress on the Fragile State Facility; whether in Cote d'Ivoire, Burundi, Comoros, Central African Republic, Liberia, Democratic Republic of Congo, all the three windows of the facility are continuing to support the recovery of those countries, helping them clear arrears, kick start their economies and rebuild capacity. But as we support the fragile states in their recovery, we see that the number of fragile states risk increasing if instabilities return.

Like you all, I very much welcome the evolution of the situation in Zimbabwe. I urge the Zimbabweans to implement the agreement they have signed, so that together, with the International Community, we can work with them on the road to normalization and economic recovery, and indeed in a few days. We will take to the Board our short term strategy, indicating how we intend to do so.

In the same spirit, I know I speak in your name in calling for a quick resolution of the crisis spots, which risks increasing instability in several countries to which we have committed and invested significant resources to develop their potential and human development in general. And it is equally my hope that under the auspices of the African Union and the Regional Economic Organizations, we keep at bay the spectre of the re-emergence of instability everywhere which can only weaken our economies and throw millions back into poverty.

Although food prices have generally eased, the purchasing power of millions of poor people has also declined. Last year, Governors approved resources from the surplus account to help countries affected by the food crisis. Complementing the restructuring of our portfolio we were able, as of last month, to approve close to 600 million dollars of which 360 million dollars is already disbursed.

During our response to this crisis, we stayed focused on how to provide sort-term response while remaining steady on the long term challenges in the agriculture sector. We remain convinced that infrastructure and private sector, water management, is our comparative advantage, in the search for greater productivity.

This is why in our Medium Term Strategy, in our support to the sector, we focus on these two areas, rural infrastructure and water management, to which we committed already 220 million units of account in 2008, as we do for water and sanitation, where the Bank, in some countries, has become the leader in the sector.

But also, that is why our Private Sector Department has stepped up its activities in support of agriculture, directly through funds, supporting banks active in SME agriculture – as well as financing fertilizer plant projects across different regions.

In Paris last month, I inaugurated with the French Minister for Development, a Pan African Agriculture Investment Fund, which goes exactly in this same strategic orientation to promote private investment in all sectors of agriculture and moving up the value chain.

The initial capital of the fund will be 200 million Euros with the intention of raising the amount to 500 million, which will target mainly MSMEs. I look forward very much to other partners joining us in this Fund which I expect will be fully operational in early 2010. And of course we continue to support the Alliance for the Green Revolution in Africa with whom we are working together to implement the African Fertilizer Mechanism.

But we must not simply increase productivity. It should be inclusive and shared. The youth of Africa, in rural areas, in urban areas, in fragile states look to a future that offers them an opportunity. It is in that spirit, in Copenhagen this week, as one of the outcomes of the Africa Commission, to which I was privileged to serve, we launched with the Danish Prime Minister the Africa Guarantee Fund for the Youth of Africa, as well as a sustainable energy initiative.

But we know it is not simply about doing more, it is about results and effectiveness. That is why I am pleased to report on progress in business processes and procurement and strengthening project financial management.

To that effect, we will continue to strengthen internal capacities, and the results framework, agile business practices, enhanced peer reviews and operational readiness. We have implemented a Bank-wide Action Plan for Quality and Results. We are also piloting a Readiness Review Tool to improve quality at entry and initiated an automated results reporting system that tracks progress. We have revamped the completion reporting system to provide a more comprehensive picture of the Bank's contribution to development results. Early progress is very encouraging but much remains to be done.

But we know that we have to continue building internal capacity and accountable, motivated staff, who can deliver such a vast programme. We are implementing the new performance evaluation system. 230 new staff have joined us in 2008 and we expect 300 to join before year end, of which 87 are already on board. There remain however, key areas of persisting challenges. We know what needs to be done and we are sparing no efforts to provide appropriate response.

Many of you have called upon us to decentralize faster and delegate more powers to the field. We are making steady progress. Preliminary external evaluation shows a significant impact on the portfolio.

The number of staff in the field has doubled since 2007. We have more sector experts, country programme officers and country economists. Our real challenge now is how to devolve authority and transfer accountability within a strong fiduciary and oversight framework.

To that effect, three new instruments were issued since we met; a new delegation of authority matrix issued in July 2008 and it is expected that most of the contracts will be cleared in field offices thereby increasing processing efficiency.

We are strengthening our ability to comply with our own operational policies especially as we move into large scale infrastructure projects. It is for that reason we are strengthening our Compliance and Monitoring Unit. In the same spirit, our External Evaluation Office's independence has been beefed up and our Anti-Corruption and Integrity Unit significantly boosted.

But it is not enough to do more and better, we need to communicate more effectively on our achievements and greater outreach to governments, civil organizations, the business community, the youth of Africa and our partners and we will be revamping our communication in accordance with the recently adopted strategy.

As we prepare to scale up on our new countercyclical role, we will do so responsibly, constantly monitoring the evolving pressure on resources, fully cognizant of demands on our risk capital, but also fully cognizant that you, the shareholders, the ultimate guarantors of the capital of the Bank, face increased competition in your domestic finances. We will always be aware, that the same turmoil in the global economy which dictates that we do more – calls at the same time, for prudence on our part – greater care in the exercise of our fiduciary responsibilities.

None of all these achievements would have been possible without the support of our shareholders, our Governors, our partners, our management and staff to whom I render homage. I salute our partnership with sister institutions, the BWIs, Bilaterals, UN family and the Foundations.

I have been asked several times, over the last few months, as to what opportunities are availed by this crisis. It is a matter on which I have reflected considerably. My first reflection: For the past three decades, Africa's reform agenda has produced large benefits, including greater resilience to external shocks.

But in reality, African countries have had little opportunity, no space to articulate their own national agendas. This does not mean external advice was bad, only that it oftentimes has pre-empted space for leadership to focus on domestically developed strategies.

This crisis has thrown up, for all types of economies – mature, emerging markets, low income countries, a whole range of new policy challenges for which no one has the silver bullet.

Once we agree on the need for growth which is sustained and shared, it is imperative that countries find their own path to that desired point, doing so from different angles.

Perhaps the time is now; when ideology, doctrines, long held economic truths are all open to question, for African peoples themselves, to paraphrase the former Chinese leader, Deng Xiao Ping, to find "the magic cat, white or black as long as it catches mice".

My second reflection: The economic trajectory of Africa since the 1960s has been one of episodic phases of growth followed by prolonged periods of stagnation, internal factors played a major part, but the commodity cycle of boom and burst was the driver.

For far too long, Africa's growth continues to be a function of commodity price, demonstrating thereby the limits of globalization through raw materials, which evidently will never be a driver of long term growth. Only diversification, entrepreneurship, adding value, taking advantage of new market opportunities, which inevitably, a crisis such as this, in standard Schumpeterian fashion, brings up.

In order to decouple from the raw materials based globalization, Africa must scale up its infrastructure, integrate its markets, but it must also work on the skills of its labour force, within the realm of effective state governance and a private sector-driven economy. All the elements at the heart of our Medium Term Strategy, perhaps, for the Bank, this crisis proves more than ever, the centrality of this Strategy.

As I close my statement, let me say that despite the current turbulence – I remain resolutely optimistic about Africa and its future economic prospects. I am convinced the fundamentals on which Africa's performance in the last decade was anchored – remains solid. It was not all about the commodity super cycle. If we do the right things, Africa will emerge from this crisis ready to take off once more.

Our task is to help that happen, by protecting achievements, limiting the damage and as we respond – striking a balance between short term crisis response and staying the course on long term goals of economic transformation. That is what the African Development Bank with your support is determined to do.

Thank you.