From Economic Growth to Economic Transformation

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When we met in Lisbon in June last year, our minds were very much focused on the implications of the historic events known as the "Arab Spring”. We deliberated extensively, on the implications of these events for Africa as a whole and what that meant for the Bank’s work. The conclusion was overwhelming: it was about growth, but growth that was broad-based and inclusive, that created jobs, that gave hope and opportunity for Africa’s majority, its youth.

A year later, that context remains as relevant, as urgent, as ever. And the task gets harder every day due to the reverberations of the crisis in the global economy which, far from abating, gets more sombre each day. Today and tomorrow we will reflect on what that implies for Africa, for the “innocent bystanders”.

Three-and-a-half years ago the global economy went through a near-death experience.

Much water has since gone under the bridge, but the reverberations of that crisis are still with us. The turmoil in the euro zone, one of the severest and longest recessions in living memory, weakened banks, unresolved sovereign debt and record unemployment levels. While the immediate, symptomatic problems can be addressed by a combination of fiscal consolidation and growth strategies, the structural issues seem to be quite deep and may take time to resolve. To which uncertainties we must now add the ominous signs of slowdown in the large emerging economies.

In short, the clouds are getting darker and heavier. We must therefore be prepared. In the midst of this mayhem, you will have heard much in the last few days, the narrative of Africa’s resilience, the story of Africa’s rise. We are here to tell the world: African investment opportunities are the “low hanging fruit”, part of the solution to today’s global problems.

But you will also be aware of questions from friends and cynics alike in regard to sustainability, in the light of global, internal uncertainties as well as domestic contradictions. So, where do we go from here?

The North African economies, not surprisingly, are still going through a delicate transition phase. Navigating the combined effect of revolutionary changes, the turbulence in the euro zone, at a time of very high social expectations, weak fiscal positions, a higher risk profile and a “wait and see” attitude.

It is still too early to tell which way North Africa’s economies will go in the medium term.
Much will depend on the external environment, to which they are highly exposed. But it is the policy clarity of the newly elected governments that will be decisive. Will they be able to create space for wealth and job creation? Will they be willing to demonstrate the ability to reconcile social demands and expectations, at the same time mainstreaming fiscal discipline, and an open society? For now, the jury is still out. The People of North Africa have high expectations; they have paid a high price, for better opportunities, a more equitable, open society. They deserve it.

The Bank is playing its part. We have led the Deauville partnership, a coordination platform by the bilateral and multilateral partners to support the transitions in North Africa. We are only too aware of the high expectations and how complex it all is.

On the other hand, most of the Sub-Sahara African economies continue to perform quite strongly: 5.9% in 2011 and probably 6% in 2012. A third of the countries in the region are clocking 7% growth and above and a few are seeing double-digit growth. These are not numbers sufficient to dent poverty fast enough, given the low base, population increase, and the narrow set of growth drivers, but poverty is steadily declining.

Commodity demand has been a key factor in raising disposable incomes from a growing urban middle class, supportive role. But it remains the sound economic, investment and business policies have laid a solid foundation.

Across Africa, save for a few outliers, there is much of a “feel good factor”. Nonetheless, today I want to draw a note of caution. This is no time for hubris. It is rather a moment of sober reflection. The question we must now ask is this: now that in all probability the low hanging fruits have been plucked and the harder part begins, how do we ensure the dynamic is maintained?

Today, few would contest African’s new momentum, the phenomenon now known as “Africa’s rise”. But why do I say this is no time for hubris?

Firstly, one cannot say enough about the risks posed by the internal socio-political setbacks. Look at the dramatic situation in Mali (the return of the military, the democratic reversal and the threatened partition of the country), the chronic instability in Guinea Bissau, the 22-year mayhem in Somalia, the desolation in the Sahel and the Horn. These are certainly isolated cases, but they are an indication of some of the potential risks on the way.

I referred earlier to the shocks in the euro zone and the slowdown in the major emerging markets. Until a few months ago, the impact of the euro zone turbulence was rather muted. However, information now available indicates that already some
of the smaller countries are beginning to experience problematic access to trade finance. Several frontier markets have postponed the launch of sovereign bonds, as borrowing gets costlier, and harder as European Banks retrench, deleverage. The possibility is real that this gets worse not better.

In short, there are heavy dark clouds on the horizon – the lagged effects of the recession in Europe, the uncertainty about how the BRICs will fare in 2012 and, hence, the implication for investment flows and demand for our exports.
Vulnerability to shocks

The second reason for caution: in 2008, when the financial crisis was at its apex, Africa was in a much stronger position to withstand the external shocks. This time around the resilience is not as robust – the shock absorbers, the fiscal space – is weaker. In some countries double-digit inflation is back. Reigning in subsidies and counter-cyclical spending in some countries is proving to be politically challenging. The task is much more complex this time.

Thirdly, it is essential to make the important distinction between “economic growth” and “economic transformation”. Many African countries have posted impressive headline growth statistics, but the structure of the economies have hardly changed. Much of the growth has come from a very narrow range of traditional commodities exports, not sophisticated products that come from innovation and diversification. Not surprisingly therefore, the strong headline growth has not commensurately translated into jobs, opportunities for the young and visible improvements in people’s lives.

Oftentimes, governments have attempted to go around this conundrum by adopting unsustainable fiscal policy choices. An example of such a policy choice would be that of subsidies on products such as petroleum or major food commodities. There is everything to be commended for targeted safety nets. Indeed, they must be part of any sensible inclusive growth agenda. Unfortunately, the type of untargeted welfarism implied in product subsidies has not succeeded. It has only served to undermine public finances, breed corruption, and capture by the elites.

Lessons learnt

As we seek to sustain Africa’s momentum, these are some of the inescapable issues we must address. Nonetheless, we have reason to be confident: African economies, in their majority today, are managed by “mature reformers”. They know what to do.

Lessons that were learnt in the 1980s and early 90s, and the reforms put in place, are proving to be lasting. In many areas, such as structural reforms, debt management, fiscal policy and the banking sector, Africa is showing the way. And results are beginning to show, such as the dramatic decline in infant mortality. As the risks and cost of doing business reduce, investors are reassessing their continent risk perception and the opportunities she offers. Provided we do the right thing, a new era for Africa could be truly on the way.
Maintaining the dynamic

How to sustain Africa's new dynamic is the issue on the table today and tomorrow. A number of areas appear fundamental:

- Rebuilding capacity to absorb external shocks;
- Focusing resolutely on job creation;
- Managing smartly our natural resources;
- Investing in the skills at all levels for a modern economy, including “the missing middle”;
- Energy, connectivity and regional corridors; and
- Food security through growth, trade and investment.

Let me pick up some of these points briefly. African citizens have high expectations. We must quickly bring to them the benefits of economic growth. I am not ignoring the complexities; I am not suggesting there is a quick fix. I am only saying that there are choices in public policy that are possible and feasible, from agriculture and food security, to small businesses, to resolute focuses on gender, to financial inclusion.

A critical element of such an agenda is the vital importance of breaking the inter-generational cycle of poverty by ensuring children of the poor have access to quality education. Here we have an opportunity to learn from best practices combining robust safety nets instruments and access to education by children of the poor. The Bank will continue to mainstream these issues into its work.

I am very pleased that at this conference, together with Denmark, we will launch the African Guarantee Fund (AGF). We will also launch a fund of funds for agriculture known as Agvance Fund. These are small but very important initiatives. The AGF will target businesses by young people and promote the access to finance. The Agvance Fund will target agriculture business along the entire value chain.

If there is a domain where a shift in public policy can lay the ground for a prospering Africa, it is management of the newly found wealth – oil, gas, minerals, and so forth – which is now the case for nearly two-thirds of the countries on this continent. There is no controversy here. A broad consensus exists. Lessons have been learnt:
- The resource curse can be avoided;
- Inherited wealth can be transformed into real wealth;
- Management models are well known; and
- It is the political will to be galvanized.

Bank staff calculate that Africa has in excess of 122 billion barrels of proven oil reserves and deposits of natural gas equal to 500 trillion cubic feet. In net present value terms the potential revenue stream is said to be around 605 billion dollars. To which one must add a whole list of proven non-oil mineral wealth: platinum; phosphate; nickel; iron...the list is long.

The recent “discoveries” have oftentimes led to a lot of excitement in the general public. It is our responsibility to manage and temper that exuberance. The starting point is a recognition that these are after all finite resources. They must be utilized not for consumption but investments that take us from economic growth to economic transformation. If that is not done, the risk of the resource curse, resource nationalism and even outright war is real.

Africa’s real hidden treasure is not oil, not gas, not rare minerals, but its youth, its demographic dynamics. In Southeast Asia, in the 30-year period from 1970-2000, much of the economic growth was driven by the same demographic dynamics. Africa can reap that dividend by investing the rent from natural resources – the “inherited wealth” – into “real wealth” through quality education, healthcare, quality infrastructure, skills, innovation, especially in science and technology. This is what will attract firms that seek to delocalize from the emerging markets where costs are rising.

We need to be ready with skills, infrastructure, industrial parks and the right regulations. It is the way to the future. This is what will unlock Africa’s potential. That is why this is at the heart of our Medium Term Strategy – skills and infrastructure. That is why 60% of our investments are in infrastructure both national and regional. That is the reason regional integration is such a strategic imperative.

It was a pleasure for me to drive from Nairobi to Arusha on this brand new highway which the Bank is financing, as we are doing in five regions of the continent. Certainly the gap in financing requirements, compared to the needs, is large. Attempts at innovative finance in the context of the G20 have not yet yielded fruits. We must continue to pursue these ideas on how to recycle some of the resources of emerging market surpluses into high yielding African infrastructure programs.
As we seek to unlock Africa’s potential we are keen on the prospects offered through greening the economy, and the enormous opportunities that will be created. Next month the world will reconvene for the Rio+20 Summit to discuss sustainable development, including the vision for MDGs post 2015. The Bank is strongly engaged in the Rio process as it articulates the green growth strategy.

At this Annual Meeting there will be a presentation on Africa’s ecological footprint, water, marine resources, forests, impact of climate change, an important piece of work done with the WWF and Africa’s approach in transiting to green growth.

**The Long Term Strategy**

This afternoon Governors will begin discussions on the Bank’s Long Term Strategy for the next decade. I look forward to that conversation. Our Medium Term Strategy 2008-2012, coming to an end this year, has served us well. It enabled us to make the right strategic choices and maintain focus while retaining the ability to respond to crises and external shocks. As you discuss the LTS, you will no doubt be encouraged by the strong operational, financial, and institutional performance of the Bank.

The financial presentation, the Annual Development Effectiveness Report laid before you, testifies to a strong institution. Beyond the impressive numbers, you will be happy to hear that our emerging business model – that of a decentralized institution with 35 offices in all regions of Africa, including our pilot Regional Centres in Nairobi and Pretoria – is making headway.

Recently, in Bangui and two days ago in Nairobi, I have met our staff in the respective regions and I am encouraged by progress so far.

**The Bank's crisis response**

Over the past four eventful years, dominated by the triple crises of food, fuel, and finance, the African Development Bank had to step in a counter-cyclical way to minimize the damage while avoiding strategic drift. The Bank performed its duty. At the height of the crisis, our counter-cyclical action brought total commitments to 12 billion dollars.

It was always clear though, that gradually we would wind down the counter-cyclical response and return to our traditional activities. That is what we have done in 2011: total commitments have returned to around 6.5 billion dollars. We fully understand that the turbulences in the global economy require that we remain vigilant. That is
why we are already bolstering up our trade finance facilities. That is why our programs for the Horn, and support to the transition in North Africa, are carefully crafted.

The new Long Term Strategy cannot be but a demand driven one. We want to be a truly listening Bank – to our Governors, our partners and stakeholders – on how we can better fulfill our mandate in a radically changed landscape. The growing franchise value of the Bank and the demand for its services require that Africa’s premier development institution remains always a strong Bank.

We can all be proud of the fact that, despite turbulences and uncertainties around us, this is a Bank that is very robust, that, over time, has built up incredible resilience. The Bank has withstood sudden relocation from Abidjan, the revolution in Tunisia, the 10 years of operating from temporary facilities and location. The Bank has not only withstood these challenges, it has continued to provide first class services to clients, gaining your confidence, which you reaffirmed by tripling its capital base two years ago.

I must commend you, Governors, that in spite of tough fiscal choices many of your face, the implementation of the General Capital Increase is on course. In turn, you will be pleased to hear that the Bank is fulfilling all the commitments made: strengthening risk management; a new income model; bolstering the anti-corruption in our projects; managing for results; and so on.

You will be pleased to know that despite the turbulence in the markets, the Bank retains its very strong financial position and triple-A ratings. The Bank is able, in spite of tough market conditions, to access capital very competitively – a demonstration, if any was needed, of the confidence which the Bank commands in the capital markets.

I must add that our rigorous regular stress testing always returns a considerable risk bearing capacity. In short, this is a Bank that Africa and its partners can be proud of and confident about. We fully understand our obligation to sustain institutional reforms, maintain sound financial health and go for results. I know there are several areas where it is still very much work in progress. However, I am confident that when we meet in Cape Verde for the ADF Mid Term Review, we will have a solid report card.

As I come to the end of my statement, let me reaffirm that at this moment of Africa’s economic resurgence, together we can be proud of the contribution we have made through our strategic choices, the way we manage our operations – and ourselves as an institution.
I cannot end this statement without acknowledging our indebtedness to the Tunisian People who, for nine years, have offered us their hospitality. At this summit you will be considering the roadmap for our orderly return to Abidjan, our headquarters. An orderly return in optimal conditions that ensure the Bank can continue to deliver uninterrupted first class services to all its clients in a secure environment.

That the Bank has been able to operate successfully from temporary locations for such an extended and uncertain period attests to the resilience of this institution. And to the distinguished team of men and women whom I am proud to lead – staff and management of the Bank, always devoted to their duty, even during those challenging times – to our Board of Directors for being reliable partners in guiding the work of the Bank.

We have achieved this together with our partners across the globe in the private sector, sister institutions, CSOs and, above all, the shareholders – the countries you represent who have been, and remain, a bedrock of support for the Bank.

Let me conclude.

The African Development Bank has over the years demonstrated its legitimacy, leadership and effectiveness. In these times of rapid global change, Africa and its people have the right to look at the Bank for leadership. Together we must be determined to prevail.

Thank you for your attention.