Deepening Africa’s Internal Market

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At this time of a global recession, much has been said about Africa’s resilience and her potential as the next pole of growth. If ever there was a moment to seek ways of boosting, re-dynamizing our internal market, that moment is now, when global trade is contracting.

Let me begin with the good news. Historically, African trade has been more outward-oriented than any other continent. What is encouraging is that we at the Bank estimate that intra-African exports in 2010 were 16% of our total trade – 6% higher than the often-cited 10%. In value terms, this translates to 57 billion dollars in 2011.

Moreover, over the past decade, African exports to the rest of the world have grown at only two-thirds of the rate of intra-African exports. In 2011, exports and imports combined stood at 70% of Africa’s GDP. There is no doubt that trade could grow even faster if the global economy was healthier than it is today and if a level playing field were in place.

In addition, the continent’s physical infrastructure, while improving, continues to undermine our competitiveness and trade growth, to which I must add “soft infrastructure” constraints such as restrictive regulations on movement of goods and people, non-tariff barriers, poor logistics services and, of late, trade finance that is hard to access, is costly and not good tenure.

In the few minutes that I have, let me concentrate on two key issues: trade finance and trade-related infrastructure.

Finance is the engine that drives trade. Since the financial crisis on Wall Street three years ago, firms in some countries are struggling to secure trade loans. Before the crisis, trade finance products that were amply available have now become prohibitive, scarce and short tenured. I am reliably informed that in at least a third of African countries, businesses are paying roughly a 10% premium on trade loans on top of cash collateral requirements, which may be as high as 50% of the loan’s face value. These developments are threatening to slow trade at a time when African exports are fuelling growth across the continent.

We at the African Development Bank have attempted to provide a robust response to the crisis by setting up a temporary Trade Finance Initiative of one billion dollars in 2009. This timely initiative did throw a lifeline to hundreds of businesses across Africa, saving thousands of jobs and generating millions of dollars in revenue for firms and their governments. It also kept trade flowing at a particularly challenging time in the global economy.
Today, as a result of the ongoing turbulence in the financial markets, and to minimize damage to Africa’s trading capabilities, the Bank is establishing a full-fledged, in-house Trade Finance Program. We have also worked in tandem with the World Trade Organization’s Expert Group on Trade Finance, and sister development banks – in particular the Asian Development Bank – in sharing experiences and expertise.

In addition, our experts have been very active within the G20 process to evaluate and proactively deal with any possible "unintended consequences" on trade finance of the new Basel II and Basel III financial regulation package.

While these new banking regulations are meant to prevent future banking crises, there is a legitimate concern that those same tighter regulations could restrict the flow of capital in general, and that of trade finance in particular, especially to low income countries.

Let me now briefly turn to the question of infrastructure development.

The Programme for Infrastructure Development in Africa has set the right tone and helped clarify issues of prioritization. Good progress is underway.

The challenges are twofold: bringing those projects to bankability and mobilizing the requisite resources. In this respect, the African Development Bank has stepped up its role in financing major infrastructure in all the five regions, ranging from transport, energy, ICT connectivity, water and sanitation and associated services.

In the past five years alone our combined commitments in infrastructure totalled 12 billion dollars. Many of those projects are mentioned by President Zuma and Mr. Miyaki – the list is long.

Still, Africa’s 94 billion dollar infrastructure financing gap is a formidable challenge and the situation requires us to be creative and look beyond traditional means of financing.

Even though the African Development Bank, together with other Multilateral Banks and new partners, such as China, India and Brazil, has stepped up infrastructure financing, a substantial gap remains. That gap is unlikely to be closed by conventional financing including ODA.

Proposals of all types regarding innovative financing abound but have largely failed to take off, as is the case with climate financing.
On the other hand, as Prime Minister Meles pointed out last time, there is this growing surplus in Asia, the Gulf region and other emerging countries. Sovereign wealth funds alone are predicted to hold 10 trillion dollars by 2015.

The *Financial Times* reports that the 20-year US Treasuries are yielding only 1.4% interest. So there is little doubt these Sovereign wealth funds would be looking for more appealing investments, provided security and good returns are assured.

The question is: how can we tap into those resources? Could multilateral banks and ODA be leveraged in this effort as a conduit between the terms in which resources are borrowed from sovereign wealth funds and the terms on which they are lent to lower income countries? The technical issues here are straightforward:

- How to devise a mechanism that reduces risk for providers of finance such as sovereign wealth funds?
- How to mitigate risks for borrowers such as African countries?
- How to devise a mechanism that takes care of the spread between the cost of borrowing (interest payments to sovereign wealth funds) and interest payments by African countries?

This is technically possible, although it will require a paradigm shift by the ODA providers to accept that a part of the ODA can be utilized as subsidy, as well as a guarantee for borrowing. This is not an insurmountable problem as we know well that these guarantees are unlikely to be called.

As you recall, these matters were put to the G20 High Level Panel. A proposal for creating an infrastructure fund that could be housed at the Bank (along the lines of other funds we manage) was also put forward to the G20 High Level Panel established to look into these issues. As you also know, the High Level Panel did make some proposals vis-à-vis leveraging private financing.

We intend to continue pursuing this idea by asking the High Level Panel to extend their work to publicly financed projects and how a mechanism can be put in place. It provides a genuine win-win solution for all: to ensure those surpluses in emerging markets are invested in high return infrastructure projects in Africa, which, in turn, generates growth, jobs in Africa and elsewhere at a time when the world and our youth need jobs and growth.

I think the proposition by President Pohamba for a special session on domestic resources is welcome. We should continue to explore the possible expansion of other instruments, such as infrastructure bonds issued on local currency bond
markets. We are prepared to deepen our engagement with you in these areas, as some of your countries are already doing.

Needless to say, the success of such instruments requires continued financial market reforms, the appropriate regulatory framework and institutions that provide investors with confidence, such as pension funds, to look favourably at infrastructure bonds.

Before I close, I would like to recall the centrality of so called “soft infrastructure” enablers – if I can call them that – such as trade facilitation, integrated border management, greater financial integration, increased openness in services, improving the quality of transport and logistics, the free movement of our citizens and harmonization of policies and systems.

I am aware that much has been accomplished. However, all our efforts that go towards improving intra-African and our trade with the rest of the world need to ensure that we fully exploit the twin pillars of hard and soft infrastructure in order to attract investments that can help develop a dynamic internal African market for goods, services and talent.

Let me end where I began. If there was ever a time when we should focus all our attention on unlocking the dynamic of Africa’s internal market, deeper and faster!

Finally, I cannot emphasize more the point made by the Special Representative for Africa on the MDGs and post-2015.

That time is now!

I thank you.