The Global Economy
Rebuilding Resilience in SADC and Africa

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I would like to be brief. In the few minutes availed to me this morning, I want to share with you our assessment on two issues:

- First, the global economic outlook, its implications for the SADC region and Africa’s growth prospects;

- Second, financing Africa’s priority infrastructure – how can we raise additional finance given such a difficult global economic context?

**The Global Economy**

The crisis is not over; it has only changed its locus. The world, to use the expression in *The Financial Times*, “is still cleaning up the wreckage and debris of the last three years”.

The world’s largest growth zones, the US and the euro zone accounting for 68% of the global economy (33% USA, 35% Eurozone), have entered a period of synchronized slowdown and weak growth pulses. The euro zone is still muddling through, repairing the banks’ balance sheets, national debt, deteriorating credit conditions and seeking to reassure market confidence. Apparently, market sentiments, unimpressed by the different measures taken so far from austerity and firewalls to the governance structures of the euro zone, continue to impose the price. There seems to be a residual feeling that the future of the euro is not yet fully secured and a clear conclusion by the markets, that structural reforms are needed, from the welfare state, to labour markets, training and innovation. This takes time and there are no quick fixes.

Of greater concern is the slowdown in the large emerging markets such as China, India and Brazil. So as not to confuse issues: these economies are still growing, very strongly, but the slowdown is clear. We understand they are working very hard to unlock the internal demand, but that takes time. There is also evidence that at least two of these large emerging economies may have entered what is often called “the Middle Income Country Trap”.

Essentially, such countries initially grow very fast, but as soon as they reach a per capita income of 10,000 dollars per year, a number of constraining factors kick in – issues around inclusion, income distribution and lack of innovation. Overall, systemic efficiency also begins to constrain sustained rapid growth. On the other hand, there is a third tier of countries in the middle income category still performing quite well: Indonesia; Vietnam; Turkey; South Korea; and others.

So, what are the implications for SADC and for Africa as a whole?
First, Africa as a whole has so far managed to avoid the contagion in our banking sector. It is time to salute our central bankers and regulators for ensuring well-capitalized, strongly regulated banks with the ability to continue financing the economies. The new banking regulations being proposed to strengthen the capital and liquidity positions of global banks have not impacted capital flows to low income countries as originally feared.

There is, however, still a risk which seems to be under control. In the face of the turbulence, Africa’s resilience remains real:

- Sub-Saharan Africa will see growth of 5.5% in 2012-2013;
- But if South Africa, which accounts for 35% of Sub-Sahara African economies, is excluded the region’s growth rate will be 6.3%;
- The SADC region will see a sustained 5% growth; and
- South Africa will probably bounce back to 3.5% next year.

Africa’s external debt to GDP is now less than 20% compared to 60% in the 1990s. Our debt service is now at a modest 12.5%. The share of trade with new partners has doubled in 10 years. Poverty head count continues to decline, not rapidly enough, but has declined from 52% to 37% in 10 years. Maternal and child mortality have witnessed dramatic improvements. Mobile telephony and internet penetration have seen the most rapid development as compared to other regions. The demographics and urbanization are shifting spending patterns. Household consumer spending in Africa’s five largest cities – Cairo, Lagos, Johannesburg, Cape Town and Alexandria – is now at par with New Delhi or Mumbai.

Nonetheless, despite this impressive performance, three areas in our assessment require closer attention. First, greater vigilance in the face of external uncertainties, as well as oil and food price volatility. The top priority now must be rebuilding each country and each region’s economic shock absorbers to rebuild those buffers that enabled our countries to withstand the 2008-2009 global shocks.

At this time, compared to four years ago, fiscal and external balances are now weaker, debt levels slightly higher and foreign exchange reserves much lower. Just a few numbers:

- Africa’s overall fiscal balance has swung from 4.6% GDP before the crisis to minus 3.6% last year; and
- The external account balance has mirrored the same trend, swinging from 6.3% of GDP before the crisis to minus 0.6% in 2011.

In short, the fiscal space to withstand new external shocks to deploy countercyclical action is much limited this time around.

At the recent G20 Summit in Mexico, agreement was reached to increase the firepower of the IMF in case the euro zone and/or European economies needed support from the IMF. That was the right thing to do, given the systemic impact and contagion risk. But the question must be asked: does a similar firewall exist for low income countries?

The reality is – apart from underfunded traditional vehicles – no such facility exists if contagion becomes a major problem and low income countries require support. It is now needed more than ever. Until then, vigilance is needed.

Chair, let me not be misunderstood: many of our countries are still in very good shape. However, restoring public finances must now be a priority.

The second area we must now resolutely focus upon is around the nexus: jobs, inclusion, and safety nets – all things that ensure economic growth brings benefits for the people and provides social protection which is fiscally sound.

There is now a growing set of examples of safety nets from Brazil and Mexico to Ethiopia and Vietnam – how safety nets, sometimes in terms of subsidies, can be designed to be progressive, targeting those in need, designed to be effective and which do not undermine public finances in the longer term.

I consider this to be a major issue in the SADC region and in many African countries – to ensure strong growth which is fair, equitable and sustainable.

But, at the end of the day, we will ensure inclusive growth if dependence on commodities, often the extractive and capital intensive sectors, leads to economic transformation – from growth on the basis of a narrow set of primary products to sophisticated goods based on innovation and manufacturing.

On this point, contrary to what is often perceived to be a zero-sum game with Asia’s manufacturing centers, Africa could be on the brink of a breakthrough because of the competitive wage differential with rising labour costs in Asia, where Africa is posting a fifth of the wages in the Far East.

Noteworthy also are a second generation resource boom, favourable demographic dynamics and a risk re-profiling for Africa’s assets.
This brings me to my last point: deepening, accelerating and financing economic integration. The last African Union Summit reaffirmed the need to pick up speed on economic integration, flow of goods, capital and talent.

I know you are making progress on the Tripartite Free Trade Area: half a billion people and one trillion dollars GDP. I fear though, that for far too long, economic integration has remained very much a function of donor support. Fifty years of aid – or development cooperation as it is sometimes called – must have taught us many things, most important of all: Africa’s future must depend on its ability to fund its development from a whole range of sources.

As we meet here, overseas development assistance, not surprisingly given the global financial problems, has declined for the first time in real terms in a decade. There is general agreement that overseas development assistance should now be used to unlock and to leverage Africa’s own internal potential; domestic resources now provide 10 times more the volume of aid. I am certain that with better fiscal administration, a wider tax base, a diversified tax mix and, above all, the promotion of private sector investment, this would bring in even more resources.

This brings me now to infrastructure financing. Over the past five years, 45 billion dollars has been invested in Africa’s infrastructure. We ourselves have put in 11 billion dollars. I welcome the SADCC Master Plan on Infrastructure. We will give it maximum leverage and support.

I started by saying that time has come for Africa to examine the new global landscape carefully. Countries, individually, have done much in funding infrastructure through domestic revenues and local bond markets. Others have, after obtaining credit ratings, accessed capital markets. The price paid has sometimes seemed to incorporate a large “knowledge and unknown risk premium.” But that is changing.

We will need to examine all options on the table and leverage each one of them: domestic revenues; domestic capital markets; and international capital markets;

We can do more! Get credit ratings, get advice and test the market appetite. In the meantime, I have a proposal: to request each African Central Bank to invest, only 5% of its reserves with us for an “AFRICAN INFRASTRUCTURE BOND”.

African Central Banks, collectively, now hold about half-a-trillion dollars of reserves. I understand today these are invested in ultra-secure but very low return instruments. At this moment the benchmark 10 year US Treasury is around 1.4%
In addition, investment guidelines tend to be very conservative and understandably so.

However, the African Development Bank is a triple-A rated body. In this proposal, we can design, ensure security and return and liquidity. I fully appreciate that there are many technical issues which would require a lot of technical preparations. But this is not insurmountable. As we continue to work within the G20 to tap into surpluses of emerging markets, let us begin at home. If ever there was a time, that time is now. The 5% proposal would in the first year generate 22 billion dollars.

Closing Africa's infrastructure gap can no longer be done by traditional instruments, especially not donor funds which must now be used more as leverage. If this proposal were successful we would then agree within PIDA, between REGs, as to the priority projects for SADC. At the moment within PIDA there are four categories of projects:

- Those that are already attractive to private capital, such as IT, submarine cables, etc.;
- Those that can be attractive to private capital or PPP after adequate credit enhancement and risk management, mostly in the energy area;
- Those that can be financed by private capital but require sovereign guarantees; and
- Those that cannot attract private capital and must be funded from public resources, including grants.

The proposal I put to you today is meant to focus on high impact, high return projects only and can be packaged to accommodate different central bank risk appetite profiles and investment guidelines.

We will be refining this proposal further for discussion with finance ministers and central bank governors at the Annual Meeting of the IMF/World Bank in Tokyo mid-October. Either way, it's a win-win for our central banks and the infrastructure needs.

Let me conclude. Africa, though resilient, cannot be an economic island. The slowdown across the global economy will no doubt affects us, mainly via lower export earnings as we can already see from products such as cut flowers, fish and timber. Each country will of course be affected differently given its economic structure, its endowments and so forth.
But at the end of the day, the interlinkage between the economies of Africa, both formal and informal, means that we have to, as they say, hang in together. We have challenges on resilience, on job creation, on safety nets and on infrastructure.

As the world gets more complicated, multilateral solutions get weaker and weaker and we need more home grown domestic solutions. But Africa united is on the brink of a breakthrough. That is the task awaiting – rest assured that the African Development Bank will be with you all the way.

Thank you.