



AFRICAN DEVELOPMENT BANK GROUP

# Remarks to the Opening Session of the African Economic Conference 2012

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First point: why another conference? You would be right to ask the question. After all, there are numerous, endless seminars, workshops, symposia on a whole range of African issues, events which many of us in this room are condemned to attend.

You would be right to question the "value added" of yet another such event costing much time and resources, often to say the same things rather than getting down to implement the resolutions of such previous gatherings. When the idea was mooted to me in 2006 by Bank staff, I was not particularly enthusiastic. I was looking for a demand-driven event, not a supply-induced one. Over the years however, I have come around to accept that this conference could be an essential part of the type of strategic conversations Africans must have. On condition: that we step out of the box and question existing paradigms.

The fundamental question we will be addressing at this conference will be how to translate economic growth into economic transformation. Transforming economies do create jobs: they spread benefits and inclusion.

You will have heard the story that, at the height of the banking crisis, Her Majesty the Queen of England was visiting the London School of Economics. She pointedly asked the question: "But where were the economists?" Gathered in this room this afternoon are some of our finest minds, from the think tanks, the financial institutions (or "do tanks as they call themselves"), universities, development institutions, etc.

It is only right that public opinion expects of such a distinguished gathering to ask the right questions, questions of the new economic trajectory, about the global systems and governance, questions about Africa's strategic response and the historical responsibilities of its elites.

A few days after the collapse of Lehman Brothers, when a sombre mood had descended on all of us, the narrative was that Africa would be severely affected. I recall that I then called in Bank Senior Management Team to assess what it all meant for us.

Naturally, my first worry as Head of a very large international financial institution was the security of our own investments. Beyond that our major concern was the impact on African countries, and the prospects of undermining the momentum then underway. Roughly, this is what we knew – African Banks would generally be fine for four basic reasons:

- No exposure to toxic assets;
- The macroeconomic fundamentals were sound;

- Regulators had done a good job on enforcing prudential rules; and
- Capital, liquidity requirements looked reasonable.

However, we were not sure about the second round effect on the real sectors, through reduced demand for Africa's products, lower investment flows, etc. After a few phone calls, we decided to convene, in Tunis, Africa's economic managers for a brainstorming: finance ministers, central bank governors, heads of RECs, sister continental organizations, AU, ECA as well as colleagues from the BWIS. We calmly assessed the situation, agreed on what to do, but also what not to do and defined a policy stance and a counter-cyclical response.

We, ourselves at the Bank, doubled our grants and lending and came up with innovative instruments to fill the gaps in trade finance and liquidity support. Working together, we were able to adopt a policy stance that minimized the impact of the financial crisis on African economies. As a crisis response goes, I believe we can all be proud that we did what was necessary, on time and in right measure.

Now, four year later, we need to go beyond crisis response. We need to look at the long term and the implications of the new landscape. Beyond short term crisis management, crisis responses, what are the lessons that we should draw from this crisis? The global economy must still work through the consequences of 2009. Rich countries are very much concentrated on their own immediate problems to fix.

As we can see from the trade and climate negotiations, there is limited appetite for the multilateral solutions so we need to trade our way out of poverty and deal with the impact of climate change.

There are of course, many lessons we can draw at this time. I would like to pick just two:

- The need to search for internal solutions to financing our development; and
- The need for less dogmatic and doctrinaire approach to policy making, instead favouring pragmatism and learning by doing.

Let me explain. The bullish lexicon about Africa is now familiar. Despite weaker fiscal positions compared to 2009, Sub-Sahara African growth momentum has been maintained:

- Renewed appetite by the capital markets at price which beats Spain;
- Growth which, for the first time, exceeds population growth;

- Decline in poverty head count;
- Massive gains in human indicators;
- Reduction in death of children; and
- Remarkable success in combating HIV Aids, malaria and tuberculosis.

Indeed, if you exclude the Middle Income Countries, Sub-Saharan Africa will grow at 6.5% this year. And the prognosis is good going forward. Of course, the first thing we must do is guard against hyperbole and be wary of simplistic extrapolations.

As we will hear today and tomorrow, much of recent growth has been riding on the commodity super-cycle, the third in the past 100 years. With strong commodity prices have come higher revenues but also higher volatility, higher social expectations. Sometimes these revenues have been invested in infrastructure and human development, oftentimes not. Sometimes the balance between consumption, investment and savings has been the right mix, sometimes not.

But we also know very well that almost everywhere the extractive sector has created very few jobs and/or even destroyed existing jobs, as in agriculture. Of late the issue of natural resource management has generated hundreds of events reports and recommendations. We can only all welcome that renewed attention. A month ago I was making a detour in five West African countries: Senegal; Cape Verde; Guinea; Liberia and The Ivory Coast. With the exception of Senegal and the Cape Verde, which have been relatively stable for a long time, this is a region recovering from years of bloodletting and/or prolonged military-political crises.

But this is also a region now attracting huge interests in its extractive industry because of its mineral wealth, iron ore, oil, and bauxite. In terms of the GDP, some of these countries are registering very strong growth headline numbers. But what I saw was massive unemployment, dilapidated infrastructure and accelerating youth urban migration. I was not surprised to see early signs of the "Dutch disease" and, even more alarming, as last week's issue of *Time Magazine* carried in its cover page, a rapid growth in the narcotics problem. The region has now become a major traffic route for Europe-destined, Latin-American-originating narcotics. In some countries it has fed into institutional instability.

It is therefore most likely that unless proactive policy options are adopted, we will see strong economic growth coexisting side by side with massive poverty and exclusion.

That is not, anywhere, an ingredient for sustainability. But it does not need to happen that way. The resource curse is not preordained. It is a result of public policy choices. The best practices are well known; so are the best practices on inclusive policies. These are well established, from getting children of poor people, of both genders, to quality school, to targeted safety net programmes, to agriculture and small businesses. We have many excellent practices to learn from, in Africa and elsewhere.

Indeed, it is quite fitting that we are discussing this matter in Rwanda. A country which has made a remarkable economic turnaround and demonstrated that inclusive growth is not only possible, but it is also a good investment. What Rwanda has achieved, sometimes under difficult circumstances, is a common, shared investment by the Rwandans themselves and the international community. That is why steady, predictable, uninterrupted support to countries such as Rwanda, Ethiopia, Ghana and many others making progress on inclusion, on MDGs, is in our common interest, in the context of the Accra Agenda for Action and Busan undertakings. Disruption of those achievements comes with a high price tag and should be avoided. Multilateral institutions in particular have a major role to play given their role as the glue in the system.

So, what do I mean, when I say we should focus resolutely upon a meaningful search for African solutions? The first reason is that the external uncertainties are real:

- Recession and problems of the euro zone;
- The risks of fiscal cliffs in the USA;
- The "relative slow down" of the BRICS; and
- What looks like the end of the commodity super-cycle.

These are phenomena over which we have no control. However, we do have a responsibility to analyze them adequately and design appropriate responses.

Let me give an example I shared recently with the Pan-African Parliament in Midrand. At this point, the total external reserves of African countries are about half-a-trillion dollars. Needless to say, some have more than others, these reserves are invested in very secure, liquid but very low return investments in the rich countries.

We have put forward a proposal, of how we can mobilize a small part of those resources for investment in infrastructure, at the same time meeting the stringent

investment guidelines of those fiduciary institutions. The AfDB is a triple-A rated institution. We propose to mobilize only 5% of those reserves. We would then put in place an Africa Infrastructure Bond to finance high return infrastructure projects in Africa. In this way, we have a 'win-win':

- Our Central Banks get a better return;
- Our reserves are managed by an experienced institution offering the same level of security as the current investments; and
- We build infrastructures that open up Africa for trade and Investments.

Bank staffs are working on these proposals which I discussed with African ministers in Tokyo recently. We are aware of the whole range of technical and legal issues to get the Africa Infrastructure Bond going which have to be resolved.

The second aspect the current global turbulence that may have provided an opportunity to think about our problems differently relates to the whole arena of policymaking. Someone has said that the two most important events of the past 50 years have been (A) the collapse of the Berlin Wall, and (B) the collapse of Lehman Brothers

In the former case, the futility of a command economy and its failures was brought to an end rather dramatically. In the case of Lehman and Wall Street, the limits of unfettered, free markets light touch regulation finally came to light with disastrous results.

This is what, in an earlier conference in Addis Ababa, I called the end of "ideological economics" which provided an opportunity for thinking through the opportunities and challenges we face much more objectively. As I did mention at that same event, we know there is no escalator to development. We have gone via phases of search for the magical solution: the resource gap in the 1960/70s; getting policies right in the 1980s; strengthening capacity in the 1990s. Now the mantra is institutions and governance. This reality is important, has always been and will always be.

Since there is no escalator, the only solution is a hard slog up the stairs, ready to fall back and try again if need be. Learn by doing, identifying that which works or, to use China's leader Deng's famous saying: "Cross the river by feeling the stones."

At the end of the day Africa's trajectory will not be different from that of other regions of the world. It will be via tapping into global trade and capital markets. At

this point, the credit markets are awash with liquidity looking for yield. With an improved risk profile for African markets we are encouraging our countries to tap these opportunities, cautioning, at the same time, of the necessary imperative of building strong domestic debt management to avoid the repeat of what happened during the Asian financial crisis of 1997.

My colleagues from the AfDB who are here with me will share with you our new approach to all these issues, including our new 10 year strategy. We bring to the table our long experience, our AAA ratings, our strong capital base which was tripled two years ago, financial commitments in different regions of Africa that at this moment are equal to 32 billion dollars with an additional 26 billion dollars to be committed in the next three years.

Our core activity remains infrastructure, which takes up 60% of all our resources. For we believe no inclusive development is possible without energy access, broadband, transport and sound logistics. Combined with an educated population, this is what all successful nations before us have done.

The 2009 financial crisis was a landmark of major significance. The world can no longer be the same. Professor Mohamed Erian has coined the term the “new normal”.

I hope at this conference we can together chart the way forward on many of the issues Africa faces today and in the years ahead.

Thank you.