AFRICAN DEVELOPMENT BANK GROUP

Address to the Board of Governors of PTA Bank

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You have requested me to share with you this evening our assessment of the global economy and Africa's Development. Let me step back to that fatal date September 15 2008, when Lehman Brothers filed for Chapter 11 bankruptcy Protection: the financial equivalent of "Pearl Harbor" which brought the global financial system to near-death.

You will have heard this story of HM the Queen of England visiting the London School of Economics at the height of the Financial Crisis and pointedly asking the question: "But where were the economists?"

Gathered in this room this evening are some of our finest minds from the financial world in this region and beyond. That you have been asking the right questions I have no doubt. That, beyond asking the right question, you have also been battling with some of the answers is not in doubt either.

Indeed that is what the general African public expects of us: to provide answers, to draw the lessons and chart the way into the future.

Managing the Crisis

In those few days, following Lehman Brothers collapse, as Head of an international bank my first concern was the security of our own investments, our exposure and the preservation of our capital.

Immediately and in parallel, however, I was concerned about the impact on African countries. Roughly, this is what we knew: there was little immediate risk on African Banks. There was no exposure to toxic assets:

- The macroeconomic fundamentals were sound;
- Regulators had done a good job enforcing prudential rules; and
- Capital, liquidity requirements were reasonably fine.

However, the impact of the so-called second-round effect on the real sectors through reduced demand for Africa's products, lower investment flows, was less clear.

Indeed, a few weeks later I was here in Zambia. I visited mining firms in the copper belt; copper had crashed from over 8,000 dollars to 3,000 dollars a ton. I visited a mine called, I believe, Luanshya and the skies were very dark and heavy. In Zambia, it was copper prices; in other countries it was the declining demand for cut flowers, fish, diamonds, timber etc.

After a few phone calls I decided it would be useful to convene in Tunis Africa's economic managers for a brainstorming session: Finance ministers; Central bank Governors; Heads of RECs; and sister continental organizations.

We calmly assessed the situation. At the end of it, we agreed on what to do but also what not to do. We defined a policy stance and a countercyclical response for each country depending on how much fiscal room they had. We ourselves, at the African Development Bank, doubled our lending from eight to 15 billion dollars in one year, signalling a first major countercyclical response in the history of the Bank. We came up with innovative instruments to fill gaps in trade finance and liquidity support.

Working together with many of you in this room, we were able to minimize the impact of the financial crisis on African economies. Together, I believe our crisis response was first class.

Today, the reality is that the world is still muddling through the aftermath of the crisis.

The global economy must still work through the consequences of 2008. We do not know how long that will take. Rich countries have their hands full with their own immediate problems to fix. Large emerging markets are struggling with how the internal demand model can primarily replace an externally, export driven model. As we can see from the trade and climate negotiations, there is limited appetite for the multilateral solutions we need.

This crisis has taught us all many lessons. Tonight I wish to refer to what I consider the next important agenda: building resilience.

In that framework of going beyond crisis to building resilience, I want to focus on five elements of that agenda:

- First, managing the current natural resource boom;
- Second, building Africa's internal market;
- Third, reducing dependence – getting Africa's finance to work for Africa;
- Fourth, strengthening Africa's institutions;
- Fifth and final, taking full advantage of the policy space.

Let me begin with the first point. The bullish lexicon about Africa is now well established and familiar. There of course remain diehard pessimists, sceptics, those who would only see despair in Africa. The global economic slowdown cannot but affect all of us. Nonetheless, despite weaker fiscal positions compared to 2008, sub-Saharan African growth momentum has been maintained on the back of exports and internal demand:

- There is a more realistic appetite by the capital markets at price which beats the Mediterranean rim countries;

- Growth which, for the first time, exceeds population growth;

- Decline in poverty head count;

- Massive gains in human indicators, the most important of which is death of children younger than five; and

- Reduction in 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 positive.

It is necessary, however, to guard against hyperbole. We should be wary of simplistic extrapolations; instead we should plan today on how to manage in a highly uncertain global environment. With strong commodity prices have come higher revenues but also higher volatility and higher social expectations. But, as no doubt you have heard before, the commodity super cycle, the third in the past 100 years, may be flattening out.

We must acknowledge that in the past these revenues have not always been invested in infrastructure and human development; and instead were sometimes lost in white elephants. Sometimes the balance between consumption, investment and savings has been the right mix; often times, it has favoured immediate consumption.

Two months ago, I was making a detour in five West African countries, in the Mano River Area. This is a region still recovering from years of blood-letting and or prolonged military-political crises in Sierra Leone, Liberia and Guinea. But this is also now a region attracting huge interest in its mineral wealth, especially iron ore, oil and bauxite.

As a result, the countries are registering very strong growth. Amidst this boom and, despite valiant efforts by the governments, the region is still battling with:

- Massive unemployment;
- Dilapidated infrastructure; and
- I was not surprised to see early signs of the "Dutch disease", a real estate bubble and extensive youth urban migration.

And, even more alarming, as *Time Magazine* reported a week later, a rapid growth in the narcotics trade. The region has now become a major traffic route for Europe-destined, Latin-American-originating narcotics. Not surprisingly, in some countries such as Guinea Bissau, that is feeding into institutional instability.

Mr. Chairman, Ladies and Gentlemen,

Yet the resource curse is not preordained; it is a result of public policy choices. The first lesson of the current global crisis is that of building internal economic resilience by proactive policy options, which ensures that strong economic growth does not coexist side by side with massive poverty and exclusion. That must begin by managing the current natural resources boom differently. That, in turn, increases shock absorbing capacity not only economically but also socially and politically, and is thereby an ingredient for sustainability.

The best practices on such inclusive policies are well-known, from getting children of poor people of both genders to quality schools, to targeted safety net programmes. We have many excellent practices to learn from in Africa and elsewhere.

The second: building the internal market. Just an example: several of these large emerging economies, until recently, were posting strong growth on the back of an export-led model. As demand from Europe and elsewhere weakens because of recession, countries such as China are now focusing on internal demand, the internal market. This is why I salute what this region is doing on the Tripartite. That is how we will build additional resilience to global economic shocks. The global economic crisis is a phenomenon over which we have no control: its origin, its trajectory and its solutions.

Third: how to get Africa’s finance working for Africa is now more urgent than ever. It is possible. It is doable; if all our resources – natural, human and financial – are managed and deployed differently.

At the last IMF meeting in October, in Tokyo, we discussed the proposal for the Africa Infrastructure Bond. The idea is to invest a very small part of the external reserves of African countries, now about half a trillion dollars, into high return, carefully selected infrastructure projects which are also a priority for Africa. We fully understand restrictions on investment guidelines for such resources, in line with strong fiduciary frameworks. I can understand, therefore, why at this point these reserves are invested in very low return investments in the high income countries, due to a search for security and liquidity.

However, the AfDB is a triple-AAA rated institution, with a strong long standing reputation in the markets. Bank staff is now at work to produce a technical proposal which I hope can be a win-win situation:

- Our Central Banks get a better return;

- Our reserves are managed by an experienced institution offering a world-class level of security; and

- Infrastructures that open up Africa for trade and investments are able to access finance.

In short, Africa's finance works for Africa and its future.

As I said, a proposal of this nature and magnitude poses a whole range of technical and legal issues which cannot be minimized. However, between now and our AGM in Marrakech a proposal will be on the table.

Let me now come to my fourth point. Someone said that the two most important events of the past 50 years have been the collapse of the Berlin Wall and the collapse of Lehman Brothers.

The collapse of the Berlin Wall exposed the futility of command economy; its failures were brought to an end rather dramatically, with the failure of communist socialist economic models, which, in the past were attractive to a number of developing countries including in Africa.

The collapse of Lehman Brothers, on the other hand, showed in a dramatic way the limits of the unfettered, free markets version of the new liberal model. It proved to be a disaster for which the whole world is still paying the price.

This end of what I call ideological economics of both left and right is an opportunity to rethink the policy paradigms which have dominated African policy stance for a long time. Until recently we were passive consumers of external economic paradigms. There was little policy space or policy independence.

Let us recall the cycles the development industry has come through:

- 1960/1970: resource gap;
- 1980: policies – get the free markets to work and the state off the economy;
- 1990: capacity;
- Since the 1990s: governance, weak institutions, etc.

Of course, all these factors have always been, and continue to be, vital. But none on their own can provide the solution.

Addressing an audience recently in Uganda, I indicated that there was no ready-made solution, no escalator to development. The only solution is a hard slog up the stairs, ready to fall back and try again if need be. Learning by doing; what the former Chinese leader Deng Xiaoping called: "Crossing the river by feeling the stones." Indeed Jeffrey Sachs, writing in the Financial Times yesterday, said: "Our world is not amenable to mechanistic rules, whether they are Keynesian multipliers, or ratios of budget cuts to tax increases…we instead need a tract of our times responding to the challenges of globalisation."

At the end of the day Africa's trajectory will not be different from other regions of the world. Every nation on planet earth was poor at some point, some in our lifetime. What made the difference was tapping into global trade and capital markets. That is what many of you are doing at this time. That is the way to go.

As long as we do it right in two ways: first, strengthening domestic debt management to avoid the Asian financial crisis of 1997; and, second, investing well, investing those borrowed resources into productive assets, infrastructure and investing in people – the real asset.

Finally, and fifth point: building Africa's own institutions. Thanks to the will of its shareholders, the African Development Bank is today a world class institution at par with sister international financial institutions. The African Development Bank is able to bring to the table that experience, resources, our capital strength and our triple-A rating in support of Africa's economies. This region is one of the largest recipients of our support.

In response to the global recession, and following on the recent tripling of our capital, we have scaled up our lending. Our total commitments at this moment equal 32 billion dollars. In the next three years we will commit an additional 26 billion dollars. That means we will be managing total investments of around 50 billion dollars and 30% of that will be private sector lending.

Our core activity remains infrastructure at 60%, in accordance with demand and in accordance with our shared conviction that no inclusive development is possible without energy access, broadband, transport, sound logistics, functioning water and sanitation systems, etc.

However, as an institution covering the entire 54 countries, we cannot do it alone. That is why we need sub-regional strategic partners who are strong. That is why the African Development Bank has initiated and nurtured institutions like AFREXIMBANK, and Africa Re. That is why we are strategic shareholders in the PTA Bank, DBSA, EADB, BOAD, BDEAC, etc.

The PTA Bank is a vital strategic partner for us in this region. The AfDB is a major share-holder in the PTA Bank. We have provided equity, debt and capacity-building in areas like risk management, IT, and treasury. We are pleased to see the bank profitable and stronger with a growing balance sheet. With its new management under Admassu building on the very strong record of Michael Gondwe, the PTA Bank has the potential to be a powerful partner of the EAC, COMESA, SADCC and Tripartite. Indeed, I understand PTA Bank will play a strategic role in the COMESA Fund.

For it to do so, however, it will have to overcome its relatively small core capital of 300 million dollars, of which only 10% is paid in, is not enough. We want this bank to play its role, and, for that reason, I believe a General Capital Increase is due.

I look forward to working with you to mobilize more capital from existing and new shareholders, in the context of the five year plan for the Bank you will be discussing here. This will boost the PTA Bank’s credit ratings, which is essential for the bank to meet its vision.

As you march forward on the Tripartite agenda you need a strong sub-regional financial institution. My presence here today indicates the strong intention of the African Development Bank to accompany the region in that process.

I thank you again for inviting me, even if you have heard nothing new.

Thank you.