Annual Statement to Ambassadors 2013

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A l’occasion de l’année nouvelle qui commence, je veux avant tout exprimer à chacune et à chacun de vous ainsi qu’à vos familles, mes vœux ardents de santé et de prospérité. Je le fais non seulement en mon nom personnel, mais aussi en celui du Conseil d’Administration, de la haute Direction et de l’ensemble du personnel de la Banque Africaine de Développement.

A travers vous, je pense aux Souverains et aux Hauts Responsables des Organisations que vous représentez ici en Tunisie. Je souhaite vivement que l’année 2013 nous permette de marquer de nouveaux jalons dans notre quête continue pour un monde de paix, de stabilité et de progrès partagé.

Il me plait de relever et de saluer la qualité des relations de coopération et de partenariat qu’entretient la Banque avec vos pays et institutions.

Pour notre pays hôte, la Tunisie, dont les autorités et le peuple continuent d’œuvrer pour l’aboutissement de la transition, je veux leur renouveler le soutien actif de la Banque. Dans le même esprit, j’adresse mes meilleurs vœux de réussite continue à la Côte d’Ivoire, notre pays siège, dont je salue les premiers fruits de la reconstruction économique et sociale. Suite au regrettable incident qui a engendré la perte de nombreuses vies en ce début d’année, je tiens à exprimer notre profonde et sincère compassion.

Certes, nous sommes ici pour sacrifier à la traditionnelle présentation des vœux. Mais il me donne aussi l’occasion d’évoquer avec vous les temps forts qui ont marqué l’évolution économique de notre continent durant l’année écoulée, ainsi que certains aspects de la vie de la BAD.

**The Bank and Africa in 2013**

In today’s global economy, we are all interrelated, interdependent. Decoupling is not possible. A 2% slowdown in the global economy implies a 1% decline in Africa’s annual growth. The ongoing crisis and concerns about economic recovery preoccupy every African country. We follow with keen interest efforts in the rich countries to restore financial stability and rekindle global growth.

We applaud the strategies adopted by the large emerging markets to stimulate internal consumption to pick up the slack of lower demand for exports. As the world grapples with this crisis, new poles of growth are a key part of the solution. With its growing young, urbanizing population, Africa is the low-hanging fruit in terms of infrastructure investment, agribusiness, IT and more.
Africa’s story

Africa has shown remarkable staying power since the global crisis began in 2008. Some sceptics would contend that this is another commodity-driven flash in the pan. They would point out Africa’s GDP, at almost 1.9 trillion dollars, is only half of India’s and a quarter of China’s. Even Africa’s largest economy at 400 billion dollars is just about half the size of the Turkish or Indonesian economies.

However, to praise Africa’s new dynamism is not to ignore the massive poverty.

To recognize Africa’s new momentum is not to mask the huge problem of growing inequalities, unemployment or exclusion.

Nor is it to overlook the large infrastructure gap, inadequate human capital and issues of governance and institutions that hamper business and investment.

To extol Africa’s new resilience is not to ignore its internal and external vulnerabilities.

To acknowledge that Africa’s growth now outstrips population increase is not to turn a deaf ear to the fact that Africa is 54 countries of different endowments, problems, performance and outlook.

To celebrate Africa’s stellar economic growth over the past decade is not to refuse to see that, while economic growth is necessary, economic transformation is what Africa requires.

No. On the contrary, we understand the need to go to the next level. Africa’s leaders and her people appreciate the need to build a broader agenda for Africa’s economic transformation: from dependence on a few raw materials to a range of sophisticated products and from a narrow to a diversified production base.

Today, I want to share with you our view on what African countries must do to reach that next level and the role of the Bank in doing so.

Economic transformation

Over the past decade, the Bank has worked towards three interrelated objectives:

- First, creating wealth through economic growth, trade and investment;
- Second, steadily reducing reliance on foreign aid by tapping into the global markets for capital and making Africa attractive for investments.
Third, unlocking our considerable domestic market of one billion people through greater integration aimed at reaping a demographic dividend.

To this end, our strategy has been anchored in four areas:

- Reducing the cost of doing business;
- Lowering the risks to business;
- Expanding the size and diversity of Africa’s internal markets; and
- Investing in human capital.

And we have pursued this through a further four interrelated operational areas:

- Infrastructure, both national and regional, in areas such as energy, transport and connectivity;
- Regional economic integration, removing both man-made and physical barriers to trade;
- Promoting the private sector; and
- Tertiary technical and science education.

But we also fully understood that Africa competes for capital with other parts of the world. A stable continent is the absolute prerequisite for this. Our mandate requires us to minimize the risks of doing business for Africans and foreign investors alike. Because we have no political mandate, our role focuses on:

- Promoting good economic governance and sound institutions, or what has sometimes been called “the capable state”; and
- Helping the fragile states, such as those emerging from conflicts, to rebuild their economies and stabilize over a period of around six years.

Broadly, this is what we have been doing over the past decade.

A recent independent study we commissioned confirms our strategic choices were proper. For the next decade, in consolidating that strategy, infrastructure (which accounts for 60% of our commitments) will remain central to our operations. Infrastructure is at the core of it all...

It is not possible to expand education opportunities for our youth and provide jobs without access to electricity, broadband and connectivity.
It is not possible to ensure food security and move up the agricultural value chain without access to reliable transport infrastructure that will help in reducing post-harvest losses.

Africa’s growing cities would be uninhabitable without clean water, adequate sanitation, reliable and affordable electricity supply and mass transit systems.

That is why the Bank’s private sector window has grown so fast and now accounts for 30% of the roughly eight billion dollars we commit each year.

**Going to the next level**

In pursuing these priorities we must contend with four emerging challenges:

- First, support inclusive and broad based growth while reducing inequalities and creating jobs.

- Second, provide financing for development when the fiscal position in donor countries is tight, while also finding other sources of finance.

- Third, make Africa’s resources work for Africa – its natural resources, its capital markets and its domestic revenues.

- Last, deal with depleting natural capital, adapt economies to climate change and seize opportunities the Green Economy creates.

Within Africa’s diversity, we customize our approach to each country, taking into account each region’s endowments and specific dynamics. To simplify, let me categorize Africa’s countries as follows, this time under five headings:

- The North Africa Region;

- Middle Income Countries;

- Oil- and mineral-rich countries;

- Low income Sub-Saharan African countries;

- Fragile States, including those in conflict or emerging from conflict.

**North Africa**

First, let me speak about North Africa. Here we find natural resources, a fast-growing population, high unemployment and limited integration as the region navigates a delicate historical transition.
Transitions of this type hold great promise but exact a heavy short-term economic cost. The combined effect of the slow-down in the global economy and weaker domestic performance is turning the high expectations sour. This at a time when domestic economic shock absorbers and buffers are much eroded.

All the challenges I see in this region revolve around jobs, jobs and jobs. These challenges are: macroeconomic stabilization; well-targeted safety nets for the poor; consistent long term policy direction; and growth-oriented reforms. After a revolution, rebuilding confidence takes time. We know the full extent of the challenge – politically, socially and culturally. It needs sound implementation of agreements reached with the international finance institutions.

As we meet now, Egypt is talking with the IFIs, including us. I am pleased with the progress made in the negotiations and the Egyptian Government’s commitment to go forward. Equally, I would like to applaud the strong cooperation between IFIs and Tunisia, as well as Morocco. I know some of the measures and policies are not easy. But, although possibly unpopular in the short-term, they are necessary.

North Africa accounts for more than 48% of our total portfolio. That is mainly Morocco, Egypt, Tunisia and Mauritania. Libya and Algeria remain non-borrowing members of the Bank. We have, from the beginning, accompanied this region in its transition and provided significant budget support to Tunisia and expect to continue to do so. In the past three crucial years of turmoil, our total approvals for this region are 5.1 billion dollars.

**Open, large MICs**

Second on my list of five categories is emerging markets that are very open and well connected to international markets – South Africa, Morocco, Mauritius, Namibia and a few others. They suffer from turbulence in the global economy through diminished portfolio investments, trade, FDI and tourism.

The key issues here are how best to craft countercyclical policies in the short term and implement structural reforms and competitiveness in the longer term. Like the North African countries, each of these has to tackle issues related to acute inequalities, job creation and education.

**Oil- and gas-rich countries**

Third, let’s look at the oil- and gas-rich countries. Whether north or south of the Sahara, many countries are blessed with rich natural resources, and more are being discovered. Despite the global slowdown, prices and export volumes remain historically high. This has generated huge windfalls, which have lifted (statistically
saying) many of these countries into Middle Income status. In order to promote broad-based growth, these countries must now ensure sound management of their revenues, diversify their economies, build infrastructure and invest in human capital.

The so-called "Dutch Disease" is a result of bad policies. It is not pre-ordained.

Through instruments such as the African Legal Support Facility the Bank is providing advice and support to these countries, from contract negotiation, to oil and gas management models. I thank those governments who have contributed to this Fund and call on those of you who can to do so.

**Sub-Saharan LICs**

My fourth group is the low income developing economies of Sub-Saharan Africa, some of whom are now emerging as the new frontier markets. Here, we have a general story of stamina – stamina due to sound policies, robust internal demand and exports to the emerging markets. Here growth is projected at up to 5.25% in 2013. If we exclude South Africa momentarily, growth is actually above 6%.

Nonetheless, issues of inequalities, inclusion and jobs remain a concern. Equally, some are battling high and rising inflation and weakening reserves due to high food and oil prices. Many are making their first forays into capital markets and the response has been good. This could be a potential game changer, provided the proceeds are well deployed and debt management strengthened.

These countries face a range of external shocks: failure of the multilateral system to deliver a trade deal and, even more worrisome, a climate deal. Much of Africa lives off its environment. Adaptation funding is inadequate and negotiations on climate finance are slow. This is a serious matter for all countries, but particularly for the low income ones closely tied to nature.

**Fragile states**

My last group is fragile states. There is a group of African countries where progress is elusive and, in some cases, poverty is deepening. Through a dedicated window of the African Development Fund, the Bank has been able to support them. These are the fragile states and those emerging from conflicts Mali, the Great Lakes, Central Africa and the Mano River group of countries and, hopefully, shortly the Horn of Africa.

Indeed, we have just rolled out a unique programme for the Horn of Africa. As specialized humanitarian agencies provide emergency short term support, we
ourselves will build resilience for the long term. Last weekend I met with the new Heads of the African Union Commission and the UN Economic Commission for Africa at the AU headquarters in Addis Ababa. We discussed how to strengthen our cooperation on this and many other issues.

The time is right for me to express our deep appreciation for those of you who are members of, and regularly contribute to, the African Development Fund. The ADF has been the vehicle we have deployed over the years to finance infrastructure development, strengthen responses to climate change, integrate economies and enhance food security and human capital development for the 39 low income countries that are eligible.

Next month we will begin to mobilize resources for that Fund for the next three years. I fully understand the fiscal challenges of the moment. However, I remain confident that, just two years away from the 2015 MDG target, we can marshal a special effort to enable the Bank to carry forward its mandate of transforming the lives of millions of people on this continent.

**Return to Abidjan**

Before I conclude, let me now share with you our plans to return to Abidjan, our headquarters. For 10 years we have enjoyed Tunisian hospitality. The Tunisian People and Government have spared no effort to enable the Bank to fulfill its mandate. We are eternally grateful.

As I mentioned to Your Excellencies last year, now, with the return of normalcy in the Ivory Coast, we are preparing our return. Once we receive the green light from our Governors at our Annual Summit in Marrakesh in May, the move will start in a phased and gradual manner. Fundamental for us are security, staff welfare and business continuity. Ours is a very resilient institution and I assure you the exercise will be conducted with a high level of professionalism.

As we go forward in the New Year, we can be proud of the Bank we have built together – an institution that knows what to do, whether it is making strategic choices, responding to crises or addressing the future. Despite the crisis in the financial markets, the African Development Bank remains very strong. You will be pleased to note that the Bank’s earnings, its liquidity and risk-bearing capacity remain robust. We maintain our Triple-A status – no mean achievement. It could not have been possible without the support of your countries, shareholders of the Bank.
I take the opportunity, once again, to wish you all the very best in 2013 and look forward to continuing our excellent cooperation in the months and years ahead.

Thank you.