AFRICAN DEVELOPMENT BANK GROUP

Africa’s Hour
Seizing the Moment

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Your Excellencies, friends, last weekend Africa's leaders gathered in Addis Ababa for the 50th Anniversary of the African Union. It was a time to assess the journey of the last half-century and look forward to the next 50 years.

For the first time in a generation, there is consensus that Africa has defied the pessimists. Exceptions being made for a few countries at war or in transition, economic output is back to the levels before the financial crisis.

As you will have heard this week, despite the slowdown in the global economy, Africa reports 6.6% growth in 2013. Sub Saharan African growth alone stands at 5.7%. And if you exclude the region's largest and most complex economy, Sub Saharan Africa's performance is actually 6.7%.

Export performance remains strong; inward investment is strong. Contrary to popular perception, intra-African trade and investment has been growing. Our cities are booming behind strong retail demand for goods and services. Real GDP has doubled in 12 years. And remember that a number of countries - like Ghana recently - are in the process of rebasing their GDP, to reflect more accurately their much bigger economic size.

For the first time, Africa's per capita GDP has crossed the 1000 US dollar barrier. Infant and maternal mortality is down by a half. Life expectancy is up from 40 to 60 years. There are more children in school than at any time in recent history. Seven out of 10 Africans own a mobile phone. Absolute poverty is on the decline.

Africa's young talent in the diaspora is returning in large numbers. Somalia is on the mend and the crisis in the Sahel is on the way to containment. Four-fifths of the peoples of Africa are living in countries where there is peace, stability and strong economic growth. While that reflects only 36 countries out of the 54 countries of Africa, it is where Africa's population is concentrated.

Investors' risk appetite has changed in a significant way. They have learned to assess the real risks – whether political, economic, or social – on the basis of evidence and not on in-built bias. They measure the reality in Africa just as they do everywhere. They have learned how to price and mitigate for those risks.

For far too long, this continent was viewed from the prism of the apocalypse. Corrosive clichés were not challenged, creating that superficial image of Africa which oversimplified the much more complex reality of a mosaic that constitutes the 54 states and the five regions of Africa. The continent has been caricatured by the image of:

- A starving child with flies on its face and a hideously swollen belly;

- A desperate, imploring mother begging to feed her baby;
- A boy barely in his teens in army fatigues; and more.

In a way, Africans' reluctance to challenge this debilitating narrative made this a shared responsibility. At the end of the day, the peoples of Africa have the same aspirations, hopes and fears as people everywhere.

But a reality, too

However, beyond the perception there is also a reality...a painful reality which demands our undivided attention. An issue which is very much at the center of our discussion this week in Marrakech.

It is true that economies are growing, but the rate of growth is still lower than the 7% which is needed and which must be sustained for probably two decades. It is true that our economies are growing, but so is our population. Between 10 and 12 million young people enter the labour market each year. We have booming cities, skyscrapers, but also millions of destitute people, eking out a living in teeming slums and shanty towns.

We have hundreds of young, energetic, diaspora returning home, but also fleeing migrants in rickety boats making the often merciless journey across the Mediterranean Sea.

We have entrepreneurs and creative artists displaying their talents, but also desperate unemployed young people who are educated but who have little prospect of a decent job.

We have a growing middle class, but also peasants still farming with the back-breaking hoe, much as their grandparents did.

Fewer than 25% of Africans have access to financial services. Africa is a continent which has cut its infant mortality by half, but which still has 52 million children out of primary and secondary school in Sub-Saharan Africa. It has a huge infrastructure deficit and an equally large skills gap.

As if that were not enough, on top of the two decades crisis in Somalia, we now face new types of threats in the Sahel and chronic instability in the Central African Republic.

Those are the challenges we must face squarely. That is the reality.

A changing narrative

The way to begin to respond is to listen to what ordinary people are asking. “Yes,” they say, “the economies are growing, but where is the money in my pocket?” The jobless young undergraduate who can’t find a job. The small businessperson, bankrupted by unreliable electricity. The farmer whose livelihood is crippled by the unpredictable weather.

To all these people, the technical answers about demographics, ‘the low starting base’, ‘the narrow range of growth drivers’…these are not answers they find convincing and especially when they see opulence and growing inequalities all around.

They need answers. Answers on how Africa’s current strong economic performance is translated into jobs, opportunities for all and a reduction on the reliance on a narrow range of commodities.

Nothing summarizes our conundrum more than the story on mobile phones. In a recent World Economic Forum discussion in Cape Town, I recalled a comment by Larry Summers, made last month in Boston, that Sub Saharan Africa has more cell phones than North America and Europe combined. My good friend Mo Ibrahim, who knows a lot about telephones and who is here in this room, confirmed the figure was true. However, he also reminded us of another related fact: that is, that none of the thousands of the components of those cell phones were made in Africa.

In short, while the volume and the value of our raw materials have increased – thereby generating more revenues to invest and to spur public investment – the structure of our economy has remained the same. For the large majority of our countries, what they produce is still missing from the higher global value chains. The consequence is less job opportunities, because the transformation of our economies is still a long way off.

That is why the conversation this week is so critical. It is a conversation about the two main issues confronting Africa today: the quality of growth and the sustainability of growth. That is the heart of your discussions this afternoon at the Governors’ Forum: how to ensure that Africa takes advantage of the current internal and external dynamic to create jobs for its people and to reduce dependency.

Our new Ten Year Strategy

That is also the essence of the Bank's new Ten Year Strategy, which you are requested to endorse at this Summit. It is a strategy that targets not simply impressive growth in GDP terms, but a growth that creates jobs, and builds trust, hope, and thereby sustainability. Economic growth that is socially fair as well as environmentally sustainable.

It is a strategy that ensures that, in all our countries, our mothers and daughters have the same rights to property as their brothers and that they can inherit and have equal access to land and assets.

A strategy that ensures that all regions, and all socio-economic categories, participate fully in and benefit from the growing prosperity.

Lastly, for a continent whose ecological footprint has grown by 250% over the past 50 years – and where the desert is encroaching and marine and forest resources are diminishing – it is only logical that we seek a growth path that is environmentally sustainable and which draws maximum advantage of Africa's great green potential to create jobs.

This month, here in Morocco, in Ouarzazate, we commissioned the world's largest solar facility, which we have supported financially through the ADB window and our climate funds.

In the same vein, in East Africa (in Northern Kenya) the Bank – through our private sector window and ADF guarantees – is supporting what will be Africa's largest wind power project.

Whether it is hydro, geothermal, solar or wind energy, the potential of our continent is still to be fully tapped. That is the essence of our new strategy. It is for transformation; it is for jobs; it is for sustainability.

Focus, not strategic drift

In drawing up a strategy like this, we are also conscious of the need to stay focused on our areas of our comparative strength and to avoid strategic drift. Our new strategy retains the focus, avoids strategic drift and retains three areas of concentration in which the Bank has built a credible track record – especially infrastructure, regional economic integration and private sector development – as well as its work on governance and accountability and skills and technology.

At the same time, it gives due emphasis on three cross-cutting areas: support to fragile states; gender; and agriculture and food security.

A strong Bank for execution

But any strategy - anywhere - is only as good as the people who implement it and the health of the organisation that delivers it. The various reports before you – the financial presentations, the Development Effectiveness Report – will have assured you of the strength and resilience of this institution.

Despite the turbulence in the markets, the financial position of the Bank remains very strong. For the year 2012, we report fairly comfortable earnings and a robust risk-bearing capacity. Our stress tests show that, even in the most challenging circumstances, the medium-term financial outlook for the Bank remains quite good.

However, in line with our prudent financial management, we remain very attentive to turbulence in the global economy and within our clients' economies. That is why, in the light of the negative outlook in the markets and the transition in parts of North Africa, we have decided to bolster our financial position by significantly increasing our reserves. Indeed the proposal before you is to allocate an additional 175 million dollars (nearly half of all our net income this year) to the reserves.

The People

A good strategy is indeed about sound finances, but it is also about our most important asset: our people.

The African Development Bank has one of the highest concentrations of exceptionally skilled staff on the continent. That is why this Ten Year Strategy is accompanied by a forward-looking People Strategy, to ensure that we continue to have the best people, who are empowered and stimulated to deliver for our countries.

The systems

A good strategy is also about robust systems. It's about an institution that is responsive, nimble and results-driven. I am happy to report that the Bank has continued to make progress on all these areas, from strengthened internal controls and vigilance over corruption in our projects, to greater disclosure and reinforced oversight organs.

Nonetheless, in view of the new Strategy, and to strengthen our capacity to deliver, I have commissioned the consultancy firm McKinsey to work with us on these issues, with a view to identifying areas of strength and weakness which require action.

In this respect, let me underscore the central role of decentralisation. We understand this to be a new business model, not simply an exercise in de-concentration or devolution. Decentralisation is a costly exercise, but – as we all appreciate – if and when it is successful, the dividends will be high.

Our 33 offices and our two pilot regional centers cost about 60 million dollars a year to run. That is 14% of the entire administrative budget. We must therefore seek maximum value for money through a stronger portfolio and stronger on the ground coordination. That is why 36% of our staff are now in the field, managing 42% of the portfolio.

The General Capital Increase and confidence

If the Bank is so financially and operationally strong, it is in large measure thanks to your confidence. I am truly pleased to report that despite the budgetary tight position many of you face, it is a vote of confidence that nearly all our countries are fully paid up on the recent General Capital Increase.

ADF

I also want to acknowledge and thank the African Development Fund State Participants for the stellar performance of the last three ADF replenishments: ADF 10, 11 and 12. Despite budget cuts, some of you have even been able to ring-fence the Overseas Development Assistance allocations. As we look to concluding the 13th ADF replenishment, let us work together to make the Fund even stronger. The Fund has proven its worth. Its track record is a very credible one. From the fragile states with particular needs, to regional integration, to leveraging the private sector, the Fund has done a remarkable job.

As we approach the 2015 MDG target, let us resolve to make that great effort over ‘the last mile’. This is why I am so pleased that Australia is completing the proceedings to join the Bank and the Fund.

I also welcome Libya’s decision to join the Fund.

I would like to commit here that the Bank itself – subject to the principles of our new income model – will in turn seek to do more for the Fund. That said, going forward, you will agree that the challenge will be that of innovation and leveraging the scarce resources of the Fund.

In this respect, we are putting forward very concrete proposals in the course of the ADF 13 negotiations.

Financing Africa's development

Next year, 2014, we will celebrate our Jubilee: the Bank's fiftieth anniversary. There will be much to celebrate: our achievements; Africa's journey. But there will also be the projection into the future. One of the most vital questions we must answer is: how will Africa's development be financed in the next half a century? That becomes even more important as we contemplate the post-2015 development agenda.

The quest to meet the MDGs has seen significant progress, especially in countries that have experienced very strong sustained growth or innovation. However, many of those achievements have been donor-financed. By way of example, donor financing in the health sector in the last 10 years saw a ten-fold increase. The result has been a dramatic reduction in infant mortality and gains on the HIV front – especially in mother-to-child transmission and access to anti-retrovirals. Now, as that external funding declines, there is the issue of sustaining those gains through domestic financing and getting value for money.

In the same vein, on the infrastructure front in key areas such as energy, it is now self-evident that external grants and concessional loans will not be sufficient to bring infrastructure funding to scale. I want to acknowledge and commend the efforts that many countries have made to optimize domestic revenues. In sub-Saharan Africa alone, three-quarters of the 464 billion dollars of government expenditures now come from domestic resources. Remittances now account for 3% of Africa's GDP, which is 20% larger than ODA.

In the same spirit, I want to encourage more countries to get credit ratings and access to capital markets. The only proviso I can add here is to urge prudence and strengthened domestic debt management and to ensure that the money is spent wisely. We have the Asian Financial Crisis of 1997 from which to learn. At this time, markets are awash with liquidity.

Africa has many deserving projects. The real challenge – which we are now addressing – is one of getting those projects to bankability, and managing the associated commercial, political and regulatory risks in order to attract the fund managers, the sovereign wealth funds and more.

Our private sector window has realised many such projects in the infrastructure domain. The Bank has accumulated experience in project finance for this type of venture. Over the past five years, the infrastructure spending need (if one excludes natural resource-backed projects) has been put at 93 billion dollars per year. Of this amount, the public sector and Development Finance Institutions have provided 45 billion and the private sector has accounted for just under 10 billion.

That leaves a gap in Africa infrastructure financing needs of about 50 billion dollars a year. It is time to change gear. We must get to scale.

The Africa50 Fund

In Tokyo, last year I outlined to you a proposal on how we could bring infrastructure financing to scale for transformational bankable projects, by mobilizing Africa's own domestic resources. Since then, Bank staff have been hard at work on developing the idea. The result is the Africa50 Fund which we believe, can transform the infrastructure financing landscape, operating on a purely commercial basis.

It will unblock what have been Africa's weaknesses in attracting private capital in infrastructure, namely its ability to bring projects to bankability, and its ability to manage associated risks – commercial, political and regulatory.

It will benefit from the Bank's long experience in this domain, which has enabled us to fund infrastructure to the amount of 5.6 billion dollars over the last six years, with a leverage power of between six and nine. We will discuss the outline of that proposal, today and tomorrow.

It was Victor Hugo who said that there is nothing like an idea whose time has come. The time is now. And it was John F Kennedy who asked 'If not now, when?' and 'If not us, who?'

Africa's priorities are well outlined in the Programme for Infrastructure Development in Africa, PIDA. So now we must get down to implementation. In this, Africa's 50th Anniversary, this is the only way we will bring infrastructure funding to scale. And increased funding will go hand-in-hand with careful planning, better governance and maintenance and risk management at the regulatory level.

Natural resources

This week we have spoken at length about Africa's natural resources. The last seven years have seen quite a powerful pulse in natural resource-backed infrastructure. Provided that Africa's natural resources are carefully managed, they provide a huge opportunity for financing our development – not only infrastructure, but also our human capital development.

We are all familiar with the issues. The resource curse is not a pre-ordained problem: it is a political problem. It is one of governance deficit. It is avoidable. Natural resources should be a blessing, not a curse.

This month, in a landmark report which all of you will have seen, the Africa Progress Panel raises the alarm over the pillage of Africa's natural resources. Multinational companies – through lopsided contracts, complex ownership models, transfer pricing and all types of legal subterfuge – have deprived African countries of their rights by evading paying what is due.

I expect that this report will lead to collective action, to put an end to this plundering of Africa's resources, which our countries badly need for their people. The Africa Legal Support Facility – an important vehicle for ensuring that African countries get what they deserve from their resources – will play its part. I would like to acknowledge countries who support this Facility. I look forward to other countries joining in, so that together we can put an end to these rent-seeking activities and improve the governance of our natural resources.

Fragile States

I cannot end my remarks without returning to the issue of fragile states and the impact that they have on Africa's chances of success. While Africa is on the march, there are parts of our continent which are sinking deeper into misery and crisis from the Sahel, to Somalia, to the Central African Republic.

These are crises which simply do not remain contained within countries. The spillover across borders is often the most destabilizing factor. The Somali crisis has impacted not only the Horn, but the Greater Eastern Africa Region. Kenya is said to house the biggest refugee camp in the world – bigger even than the country's third largest city. Equally, the Mali crisis has had far-reaching consequences in West Africa. The countries and peoples of Central Africa are paying a high price for the recurrent troubles in the Central African Republic.

This is one area where the African Development Fund has done a remarkable job and where it remains relevant and very much needed. Through the Fund's 600 million dollar Fragile State Facility, we have done our utmost to support the recovery of the affected countries. The Bank has a stellar record here. I want to seek your support in the context of the ADF 13. There is much to do.

With the help of President Ellen Johnson Sirleaf and a group of experts, we are crafting a new approach to help such countries to recover much faster and to minimize the impact on the neighborhood.

This is an area which must remain central to the Fund's work. As Somalia staggers back to normality, we will bolster our support. That is how, for the last three years, we have been able to help Somalia to put together the basics of a financial management system. We were one of the very first institutions to do so.

That is why, at the recent London Somalia Conference, I was able to announce a 20 million dollar, three-year programme, to help the country rebuild its capacity to manage its own resources and those of donors. We are prepared to do more for Somalia's reconstruction and that is why – as soon as security gives clearance – we will move fast to open our office in Mogadishu. In London, I urged a quick resolution of Somalia's modest external arrears, so that the country can re-engage with the international Community. I would like to repeat that call here.

In the same spirit, at the recent EU-sponsored conference on Mali, we committed 240 million dollars over this and next year to support the country's recovery. This is a country in which - prior to the crisis - we had a robust portfolio, especially in infrastructure, water management, irrigation and food security. We are poised to and will play our full role in Mali and in the Mano River area, in line with our Regional plans. And in respect to the Central African Republic, we stand to be guided by the countries of the region on how best we can help.

Weak institutions, narcotics, organised crime

One of the major spillovers of this type of fragility and weakened institutions is the threat of narcotics and organised crime. Organised crime is now taking advantage of those weak institutions, and countries with limited defensive capabilities, to bring narcotics into Africa. While the Mano River area of West Africa is the region most at risk, the problem extends elsewhere and far beyond. It is a menace for all. And now it is threatening Africa's wildlife.

This is a phenomenon which has reached alarming proportions. Two-thirds of Africa's elephants have been exterminated in the past 10 years alone. It is no longer a case of isolated poachers. It is well armed and well-funded international criminal gangs who are decimating our fauna. There is evidence that the gangs are often connected to terrorist financiers and narco-traffickers, who prey on weak governments.

I want to acknowledge and thank President Ali Bongo for his tireless advocacy on this issue. He has raised the alarm and deserves our support. Today, with President Bongo and the World Wide Fund for Nature, we will launch a special initiative – a rallying call from here in Marrakech.

International treaties exist and have been signed, but they are violated with impunity. Those protocols are only being observed by their breach, in this criminal but apparently lucrative trade. Every country has a role: the countries of destination and the authorities of the maritime ports of origin.

This is not simply a matter of wildlife conservation. It is our ecosystems which are at risk; it is the economies of countries which are heavily dependent on tourism which will suffer. It is the financing of criminal activities which is the issue; it is the livelihoods of entire communities which are at stake.

Return to Abidjan

Before you today is a resolution – proposed by our Governors' Consultative Council – to approve the Roadmap for our return to Côte d'Ivoire, after 10 years in our temporary relocation agency in Tunis. We fully understand that this is a complex exercise, which needs to be managed carefully.

The fundamental aim of the Roadmap is an orderly return. The overall objective is to ensure the security and welfare of staff and their families and to minimize the disruption on the Bank's operational capacity during that transition.

As soon as you give the green light, we will execute that Roadmap to the letter. We will do so in close collaboration with our host country, Côte d'Ivoire, as well as the Government of Tunisia, which has offered us its great hospitality for 10 years. If all goes well, next year – 2014 – we will celebrate our 50th Anniversary back at our Headquarters in Abidjan.

Note of thanks

I cannot end my remarks without expressing my appreciation to Senior Management and staff for a job well done throughout the year. I thank the outgoing Board of Directors, who have been vital partners in these challenging times, working with me and my colleagues to navigate sometimes choppy waters. I look forward to welcoming the incoming Board, and assure them of my own full collaboration and that of my staff and management.

There is much to do in the weeks and months ahead, in the Bank's internal and international obligations:

- Returning the Bank to its HQ;

- Ensuring the delivery of the Bank's financial as well as its operational plans;

- Overseeing the implementation of the new Strategy;
- Implementing the commitments made under the General Capital Increase;
- Concluding the Replenishment of the African Development Fund;
- And many others.

Conclusion

Let me end by thanking you, Governors, for your support. Thank you, partners, for your collaboration. Thank you, former Bank Presidents, for your friendship and advice when that was needed. Thank you, sister institutions, for working with us. Thank you, all of you here, for keeping faith with us.

Now let me end where I began: this is an exciting time for Africa. The problem of the global economy today is that of weak, anaemic growth. It is largely the emerging markets that are giving the necessary push. So the world needs Africa and Africa needs the world.

The African Development Bank, with your support, will continue to strive to be that pole of excellence which Africa needs on that journey and of which it can be proud.