credit extended, and therefore there is not much to be withheld.

Domestic investors have not entirely disappeared. Togo-based Ecobank announced in mid-February that it had raised $550m in a share offering that targeted mainly East African bourses, proving that the appetite among domestic investors is still there, even if international investors have vanished.

**PICK A WINNER**

The question is the same the world over: private-sector banks are running scared, but there are good businesses and projects out there that need financing – how then can governments pick winners? For Deverajan, there is a role for Africa's central banks and finance ministries in Africa: "If there is a good infrastructure project that had already been designed, appraised, is ready to go – perhaps a public-private partnership – and the private sector pulled out just because of the current crisis, then there must be some way that the public side of the financial sector can provide some guarantee, some leveraging instrument, so that the private sector can come back. Maybe not an equity instrument, maybe a pure debt instrument. This is certainly a discussion we are having at the Bank, whether we can be involved at this level."

Companies will not be the only ones to suffer from a drying up of credit, but governments will too. Western stimulus packages will call upon large sovereign debt issuances, which will crowd out developing-country issuers, both public and private: "Many of the institutions that have provided financial intermediation for developing-country clients have virtually disappeared," points out a recent Bank paper, estimating the financing shortfall for developing countries at between $270bn-$700bn.

> Poverty makes the financial crisis's impact on Africa much graver

The numbers are perhaps abstract, but the effects will not be. While debates in Britain revolve around bankers' bonuses, and the US is faced with difficult choices about which banks to nationalise, economists suggest that the violent economic deceleration in Africa will have grim consequences. Based on similar downturns in the past, the impacts will not be limited to the economic sphere. With the levels of poverty that are found in Africa, past growth decelerations like this one have led to a stark increase in child mortality. The World Bank's Deverajan argues: "People need to wake up to how Africa will be affected. There will be 700,000 more children dying before their first birthday". ●

INTERVIEW

# DONALD KABERUKA

President of the African Development Bank

VINCENT FOURNIER / JA

**THE AFRICA REPORT: What are Africa's prospects given the world economic situation?**

**DONALD KABERUKA:** Economic growth for Africa will be at the maximum 4.5%. My colleagues at the IMF are putting the figures at below 4%. We are experiencing a fast-evolving situation and I'm sure that the numbers will be revised in the next three months. But we are concerned about the burst in the commodity bubble – all commodities. We are concerned by the decline in investment and the contraction of the private sector and what that means for macroeconomic balances.

**Which sectors do you think will be worst hit?**

The sectors which will be affected the most will be those which depend on international demand – minerals, oil, soft commodities and tourism. The second sectors which will be affected are those which are beginning to attract significant investment – this is mainly infrastructure, power generation, road construction and so on. But there is something in economics we call the 'backward loop' which means that once we have the key sectors of the economy contracting, then they impact on the financial system and a vicious circle begins. So I fear that the contraction of the real sectors of the economy could also affect the stability of the financial system, as companies are no longer able to service their loans and so on.

**What can the AfDB do to help weather the effects of the crisis?**

Number one, we need to accelerate resource transfers so that money goes to projects and to countries quickly. President Ellen Johnson Sirleaf said that it is good to have all these resources but that we need to accelerate their transfer. Secondly, it is important to allow trade to continue functioning. Trade finance has dried up and we are putting in place a trade-financing facility for banks and exporting and importing houses to continue financing trade. Thirdly, we need to set up an emergency liquidity facility for institutions which may face a liquidity problem or companies that may wish to terminate projects because there is no liquidity. And fourthly, we should mobilise additional resources by developing quickly the continental markets so we can give fluidity to regions with excess reserves to assist regions with less reserves, for the benefit of both.

**What effect do you think that the financial crisis will have on the stability of African currencies, and how will this affect trade?**

Already, the crisis is affecting us through equities, export revenues, and to some extent, currencies. As external revenues decline, our balance of payments position will weaken and, of course, currencies will depreciate. We don't have enough reserves to defend our currencies if they are under strain. If you take the whole of Africa together, our foreign reserves are less than $400bn. Now that is less than Norway, one country of 4m people. This shows you the limited capacity of African countries to intervene in the markets if our currencies are under strain. So I hope that we can manage. ●

Interviewed by **Elissa Jobson**