

**THE AFRICAN DEVELOPMENT BANK GROUP**

**THE FUTURE OF INTERNATIONAL DEVELOPMENT**

*Africa in the Changing Context*

**Statement by**

**Donald KABERUKA**

President – African Development Bank

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# THE FUTURE OF INTERNATIONAL DEVELOPMENT

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## Africa in the Challenging Context

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1. Let me begin by thanking Douglas Alexander, Secretary of State, and the UK Government for the warm welcome, for this initiative and for affording me the opportunity to share with you our African perspectives.
2. I believe it is also in order to applaud here the efforts of the UK Government, the People of the UK at different levels of society, individual citizens, business people, CSOs, for the consistent role they have played in mobilizing support for international development and the crusade against poverty in the World. In these times of gloom and despondency it is all too easy to underestimate the achievements made since the 1997 White Paper – “Eliminating global poverty”; especially in respect to scaling up ODA, debt cancellations and aid effectiveness.

3. This morning I would like to accomplish three things
  - 3.1 Share with you what this economic crisis means for Africa, its impact, its implications, our fears and apprehension going forward.
  - 3.2 The expectations of Africa and its People in the context of the global search for durable solutions within the G20 process.
  - 3.3 What we, at the African Development Bank, as part of the multilateral system, and together with other African Institutions, have been doing so far on this question.
  
4. The economic crisis facing Africa today and originating in the global financial turbulence could not have come at a worst time for the Continent. In the last decade, many African countries were turning the corner - not all - but the majority
  - economies were growing, fuelled by export demand, internal reforms, stronger international support especially on debt cancellation
  - investment climate was improving everyday
  - stability and democratic, accountable governance was deepening

5. But of course, Africa's monumental challenges were far from being overcome

- Massive poverty remained persistent as population continued to increase
- The improving economic conditions bypassed some countries, some regions and sections of the population within countries
- Inequalities were growing in some cases quite rapidly especially rural-urban but also among urban dwellers sometimes generating significant social tensions

6. To complicate the story further, the structural weaknesses of the economies remained largely intact or changing very slowly

- 6.1 extreme dependence on one or a narrow range of commodities
- 6.2 weak institutions
- 6.3 the high number of fragile or conflict affected states

This said, nonetheless Africa was in its best form in 30 years after the "lost decade" of the 1980's, and the subsequent years of structural adjustment; thanks to its own efforts, international support, private sector inflows, and foundations. Many countries were no longer going from crisis

to crisis but consolidating achievements. For over about six years economies were growing above 7%, implying an increase in real per capita increase in incomes of around 4%. Suddenly, the Continent is hit by the two successive “tsunamis”, food prices and the economic impact of the financial crisis. Although much unlike in years past, the Continent was in a better shape to withstand the exogenous shocks – not of this nature – nor of this magnitude. So now in all probabilities real per capita increase in incomes will be zero or marginal. We have gone from a budget surplus of around 3% in 2008 to a deficit of the same magnitude, from a current account surplus of 3.8% to a deficit of 5.8%.

7. The way countries have been or are being affected varies significantly depending on the transmission channel;
  - exports – whether oil, minerals, flowers or other soft commodities
  - equities
  - trade finance
  - fdi
  - remittances
  - tourism
  - access to capital market

Mines are closing, investments scaled down or cancelled, stock markets and currencies falling and sectors dependent on international demand shrinking faster than anticipated.

8. As the shake up in the banking system of wealthy countries accelerate, trade financing lines have dried up – and many international firms find it difficult to source finance from their banks; some have turned to local institutions – with two immediate consequences
  - Crowding out local private businesses
  - In some cases generating serious liquidity problems
  
9. Over the two decades of economic reforms and structural adjustments, Africa demonstrated its capacity to painfully adjust, often at a very high social cost. But there are only a few countries with adequate fiscal space to make the necessary adjustments to such a massive exogenous blow and in such a short period of time. As tax revenues shrink and export receipts decline Governments will have of course to cut on expenditures; Infrastructure projects will be the first “casualties”. This will have far reaching implications for growth in the future. African Governments and their peoples are asking: “We did all the right things – most of us at least. Now the risk of reversal stare us in the face. Is this what globalization was meant to offer us”?

10. I fear that, since the onset of the crisis; given the crowded domestic agendas in developed countries, these issues of survival for Africa, for low income countries, have not received due attention. They understand that the stability of the international financial system and its ramifications must be addressed but they also legitimately expect
  - i. To be part of that search for solutions
  - ii. To have their broader concerns put on the table

This is what would provide a comprehensive, global, coherent solution in all its dimensions; resources, voice processes, and global governance.

11. This is a crisis whose ramifications we are still trying to understand, so fast moving that, performance metrics change everyday. We are trying to collate data from different sectors and countries to better understand the impact. As soon as the crisis broke out, we at the Bank set up a Financial Crisis Monitoring Group – to assess, to monitor what the impact on African economies would be.
12. We convened Finance Ministers and Central Bank Governors in Tunis, where the Bank is located, for consultations. We constituted what we call the Committee of Ten – which met last month in Cape Town and will meet

again this week in Tanzania. Early this month, the Heads of State and Governments of the African Union deliberated at length on the report of the Committee of Ten and chartered a way forward. The key issue of particular concern was how to ensure Africa's voice in the G20 process. I must in this respect commend Premier Gordon Brown and other friends of Africa for strongly advocating for and ensuring that Africa will be at the G20 in London on April 2<sup>nd</sup>. This is a significant achievement.

13. Let me, before concluding share with you what we at the African Development Bank have been doing. We understand that in this crisis, international financial institutions will have to do more and to innovate. We bear in mind, of course, that we are a financial institution and have to operate within the confines of sound banking principles. But it cannot be "business as usual". We have articulated response scenarios to double lending with the possibility of reaching 11 billion dollars by 2011.

14. We have examined carefully what our countries need at this time; which is support to ensure Africa does not slip back on its recent achievements – and in doing so we took a hard look at what sister institutions were doing in order
  - (a) to accelerate resource transfer to poor countries
  - (b) to ensure our processes – designed for normal times - but not for abnormal times can be adjusted to provide speed of response
  
15. We have taken steps to
  - (i) frontload our allocations and speed up disbursements
  - (ii) restructure portfolio to release dormant project resources into sector budgets
  
16. It goes without saying that this by itself does not provide additional resources. I therefore hope that in the G20 process we can put our heads together and generate momentum to mobilize additional concessional resources in these exceptional times. This is why We, Heads of Regional Development Banks, support Robert Zoelick’s proposal for a 0.7% Vulnerability Fund. But we need to go further and examine the issue of reforming how we do business. We need also to simplify negotiations for IDA and ADF, reduce transaction costs of the rather drawn out process and

probably a longer replenishment period with interim reviews.

17. We have, taken two additional steps
  - (i) a two phase 1 billion dollar trade finance package to keep trade moving
  - (ii) an Emergency Liquidity Facility of 1.5 billion US Dollars.

These are necessary steps, which also compliment what our colleagues in other institutions are doing. But, of course, they consume our risk capital quicker. We are prepared to utilize our balance sheet to its full potential within sound prudential strategic limits. I very much welcome the willingness, the commitments to ensure that Multilateral Development Banks remain strong, access enough capital – for they will henceforth be called upon to play a bigger role. An agreement within the G20 to positively consider discussions on the General Capital Increases will give our institutions the capacity and the wherewithal we need to be able to respond even more robustly. This is the time for strong Multilateral Development Banks.

18. Let me conclude by making the following additional observations. The reasons why Africa is seriously affected are straightforward
  - Our dependence on commodities
  - Our limited fiscal space
  - Our demographic/ urbanization challenges
  - Pre-existive vulnerabilities including fragile states
  
19. I have been surprised at how quickly even those countries who have done all the right things including Africa's large economies – the Regional engines so to speak were affected. It is paradoxical that, we who are so marginally integrated into the global economy, who benefited so little from its benefits, now stand to feel the worst of its negative side. I have been wondering as to what lessons in economic policy that will imply in terms of allowing each country to chart its path – or sequence thereof within of course the overall paradigm of market friendly policies.
  
20. The next G20 in London offers us all – the opportunity to ask big questions – address the financial issues – and the broad questions of interest to global citizens at large, including and especially its poorer inhabitants.

21. This is a crisis which is still unfolding, we still do not know its full ramifications on the global economy, on employment, on poverty in the World. We will not overcome by tinkering at the margin. We will not succeed if the voice of the poor countries, their concerns and interests are not fully addressed.

Africa and its People legitimately expect that her voice will be heard on issues such as ensuring there is no going back to the 2005 Gleneagles commitment, on climate change, reform of the international financial architecture, and ensuring that lessons learnt from crisis management this time round enable the global community to put in place a lasting stable architecture – which promotes and ensures globalization benefits all global citizens.