Financing Africa’s Development
A Time for a Step Change

Dr. Donald Kaberuka
President
I want to begin by recognizing eminent persons in this room. Thank you all for making me feel so welcome and for the kind words said about me this evening. It is always a pleasure to visit your great country Nigeria, a nation taking leadership on many issues affecting our continent.

Nigeria is the leading shareholder of the Bank and our partnership grows stronger every day. We are firm supporters of the ongoing economic reforms in Nigeria, from the power sector to oil governance, agriculture and more. As you will have heard me say before, nearly 50% of all Africans live in seven countries, Nigeria and Ethiopia leading. It is self-evident that if we are to make a dent on transformation in Africa, what happens in those seven countries will be critical. From where I sit this great country has come a long way and is set for a great future. I do not for once want to underestimate the many challenges Nigeria faces; only to recognize that many of them are generic to all of us in Africa and are not peculiarly Nigerian.

As we gather here tonight I do feel truly humbled to be selected as the "African of the Year" by this prestigious publication, the Daily Trust, and by such an eminent group who constitute the prize committee. Thank you to the Media Trust Limited, to Malam Kabiru Yusuf, to the Prize Committee and the sponsors. In accepting this honour, I am only too aware that there are many other Africans, less known, perhaps, here in Africa and the diaspora, indeed in this room, who are probably more deserving than my modest person. So indeed are our unsung heroes, the millions of African men and women, toiling on our farms, factories, offices, informal sector, working so hard overcoming so many obstacles. These are not only our true Africans of the Year but “Africans of all time” who command our respect. I see in this award, a call to action, a commendation of the work of the African Development Bank in support of African countries in their quest for economic prosperity. My colleagues and I at the Bank are so proud to be so recognized at a time when the Bank will shortly be celebrating its 50th Anniversary.

I just said that this prize is a call to action at a critical time for our continent. At the dawn of the New Year we see a continent that, in most countries, has made substantial progress from the economy to human development. Africa, of course, is 54 countries: a mosaic of endowments, demography, history, political economy, etc.

Not surprisingly, therefore, performance will be variable. But, with the exception of a few countries experiencing political instability, the story is one of optimism. Just look at the massive decline in the premature death of African children under five, school enrollment, etc., reversing the decline from the so called “lost decade” in the 1980s and years of Afro-pessimism – the 1990s. I am often asked whether the glass is half full or half empty. My answer is: my priority is to contribute in filling the
glass. Speaking at Brookings some time back⁴ and asked the same question, my view was that Africa has reached a turning point; it is not yet at the tipping point.

The journey remains long and arduous from poverty, inequalities, weak institutions, unemployment, bouts of instability and bloodletting. Everywhere we are witness to the fact that strong economic growth is not translating into economic transformation and, too often, not sufficiently broad-based or sustainable. That is where jobs are created as our countries join the higher links of the global value chains. In the face of these challenges, one thing is very clear: while the continent has been able to reverse the past decline, while much of Africa is registering economic growth higher than that of population, five percent is credible but not adequate to make a dent on poverty. Many countries are still falling short of the critical seven percent required.

So what is it that constitutes the obstacle to seven percent? As we embark on the New Year what could be some of our key priorities to get there? I see three.

First, peace and stability. Our continent has made so much progress that we cannot afford a return to such events as we now see in South Sudan or in the Central African Republic. Even though much of Africa is at peace, the spillover effects of the violence, the suffering of the millions in those countries, the impact on Africa’s perceived risk profile is quite damaging. It is urgent we now build robust early warning mechanisms to manage tensions proactively before they turn into bloodletting such as the truly unacceptable violence we now see in South Sudan and to which we must now add the new threat of jihadists and their many offshoots and variations from Al-Shabab to Boko Haram.

Second, tackling the question of inclusion and inequalities. I do not believe there is anyone today in Africa who does not agree that a sea of poverty amidst plenty and opulence is a recipe for disaster. Lack of inclusion and inequality is not only a source of political and social tensions, thereby undermining long term sustainability, but exclusion and inequalities mean that an economy is operating below its full potential. Africa is now second to Latin America in terms of inequalities as measured by different metrics. But there are also many lessons we can draw from Latin American attempts to tackle this issue. That is why I must commend some of the things you are doing here in Nigeria to pilot conditional safety nets linked to education and primary health care.

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Remember, the most effective tool to promote inclusion and reduce inequality is to get the children of poor people into good education thereby ensuring they do not inherit the poverty of their parents.

Third, this is about jobs. This is the Damocles sword hanging over every African country. While I do not agree with those who say the current phase of rapid growth in Africa is “jobless growth”, I fully concur that we need now to lay a special emphasis on those sectors that generate more jobs, including and especially in agriculture, including from a more effective harnessing of natural resources to plough back into job creating sectors.

I started off by reaffirming what everyone in this room could agree upon: Africa will not create enough jobs at five percent growth. Economies have to grow faster. Economies will have to grow faster especially in those sectors that create jobs. But this is the crux of the matter. Whether you are a small vehicle repair garage owner in Kaduna, a small business in Nairobi or a large industrialist in Addis Ababa, it is that unreliable power, overly expensive electricity, costly access to the Internet, poor rail or port logistics and dilapidated transport systems that stands in your way to prosperity and job creation. No country in the world has been able to transform fast until the infrastructure – at least the minimum required – is in place.

Infrastructure remains a truly limiting factor to transformation and job creation. This is no-brainer. For a long time infrastructure finance was largely dependent on external partners. In the past decade China has played a major role. Of late several countries are making important sorties into the capital markets. Domestic resource mobilization for that purpose is on the increase. Increasingly, where policy reforms have clarity and predictability, private investors are able to turn these obstacles into opportunities. That is how the deregulation in the 1990s led to the revolution in the telecom sector. That is why I fully support what countries such as Nigeria are doing to open up the power sector to private investment. That has our full support. Indeed the Bank is participating in this exercise through a partial risk guarantee of 200 million dollars.

Still, even with all these efforts the continent can only finance about 48 billion dollars for infrastructure each year, leaving an annual gap of about the same magnitude. Now, while the gap of 45 billion dollars a year may seem daunting, it is quite a modest one compared to internal African savings or global pools of savings looking for a good return. The missing link has been lack of a suitable intermediation mechanism, an appropriate tool for de-risking the infrastructure projects, including bringing them to a point of readiness. So now is the time to think out of the box, time for a step change. Fifty years after independence it is time for that step change – a step change with Africa taking ownership, mobilizing its own
energies and resources, putting those savings toward building Africa’s infrastructure and in the process getting a good return. That is the genesis of the Africa50 Fund.

Before I say a few words on Africa50, let me straightaway agree with the proposition that hard infrastructure on its own is only the beginning. That must be accompanied by infrastructure governance that ensures maintenance, removal of non-physical barriers to regional trade and movement of people to which all African Governments are committed. During my tenure at the Bank we have done quite a lot on regional infrastructure. But we must now turn principles into practice in removing barriers to the movement of people. We cannot find solutions we need only inside our borders. At a time of global slowdown, Africa’s potential and the dynamism of its internal market of a billion people will be realized only if Africans can move freely within their continent unconstrained by colonial-era borders.

I salute those countries who are moving in that direction, making it possible for visas to be obtained on arrival. I commend those countries implementing Schengen-type agreements. I look forward to the day of a common African travel document as staff of the African Development Bank do have.

As you have heard tonight, Africa50 is about African nations putting in place a fast moving, flexible, commercially viable vehicle for delivery of Africa’s infrastructure. The necessary technical and legal work to get the Africa50 Fund rolling in the first half of this year is almost done. We are keen in particular to ensure project readiness… projects that are commercially viable and transformational.

Discussions with potential investors are ongoing. The response is very encouraging. I look forward to African countries’ financial institutions showing leadership and ownership. Let us put Africa’s own savings to African development, not as charity but as investment. The African Development Bank, through its equity investment, will take such a lead.

I have called on our Central Banks to commit five percent of their reserves. This modest call is because we are aware of the limitations of how much they can do given their mandates. We are making a pitch to sovereign wealth funds and non-bank financial institutions. We are working together to overcome some of the legal challenges inherent in their mandates and investment guidelines. I remain convinced that this is about the strategic choice Africa needs to make to overcome this debilitating infrastructure gap nationally and regionally. It is about a paradigm shift. It is about taking charge of our future. Africa50 is about an African solution to a major African problem.
Thank you again for this prize. By this prize, you have responded to the call for action. I have no doubt together we can prevail to keep the momentum on our continent.

Thank you all for your kind attention.