AFRICAN DEVELOPMENT BANK

The Role of the African Development Bank in Assisting Member States to Cope with the Global Financial Crisis

Tripartite Workshop on the Impact of the Financial Crisis on Finance Sector Workers in Selected African Countries
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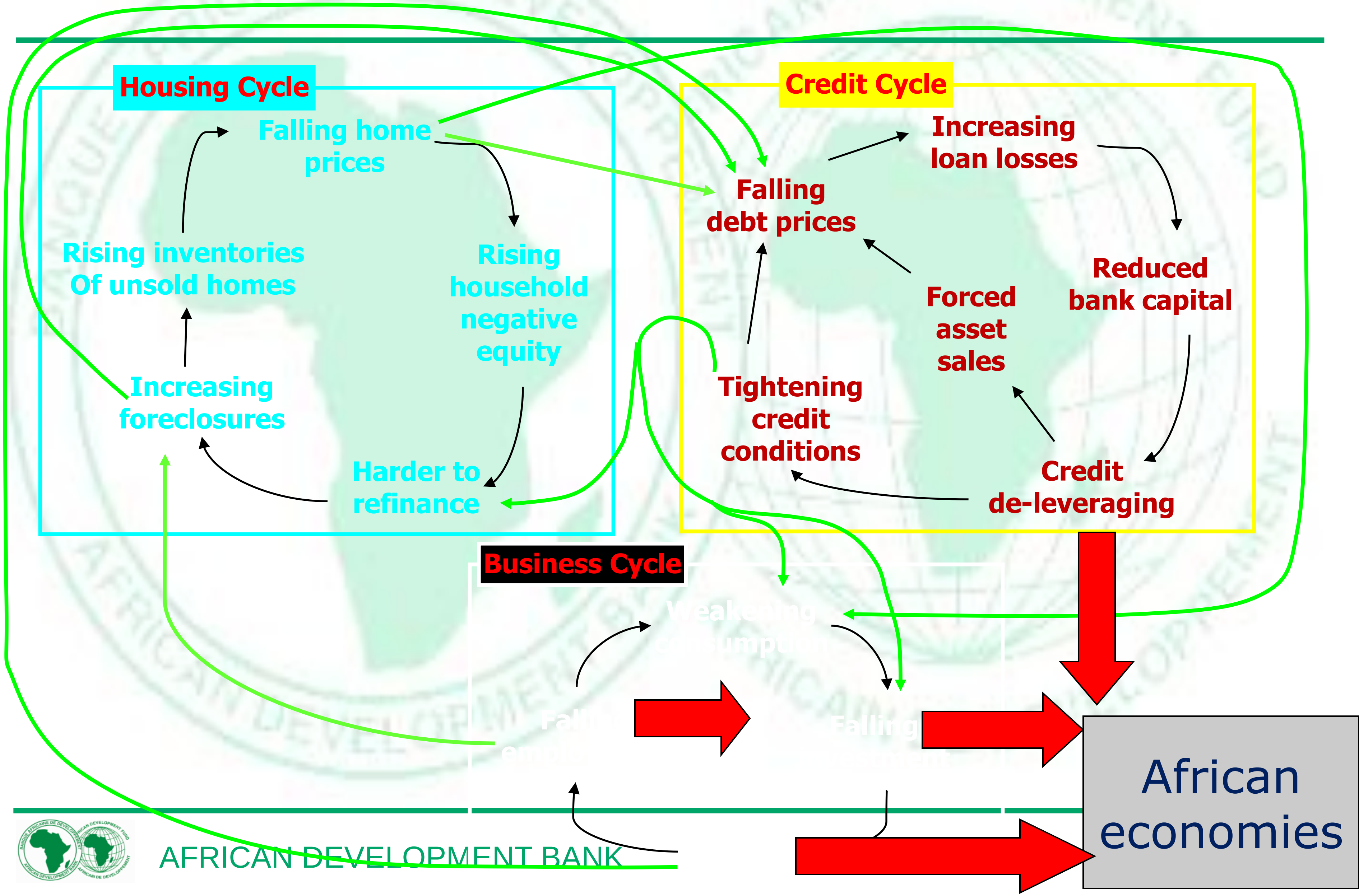
Background

- During past decade Africa grew by over 6% per year—raising per capita incomes and lowering poverty.
- Inflation was in single digits for many countries, while currencies stabilized.
- FDI increased tenfold to about USD 70bn
- Remittances rose fourfold to USD 40bn.
- Prospects for reaching MDGs had improved for many countries.

Recent Growth aided by Policy Reforms

- Structural and macroeconomic reforms have been key.
- Regulatory and tariff reforms changed the business environment.
- Public sector reforms have improved institutional capabilities, with positive impact on fiduciary risk.
- Social policy reforms have led to Universal Primary Education and better health care.

Spillovers and Transmission channels to Africa



Impact of Crisis- Economic Growth

- Differentiated impact on growth African countries. Overall growth of 1 ½ -2 % expected in 2009.
- Middle-income countries and oil exporters have experienced the strongest negative impact.
- LICs not reliant on mineral exports continue to growth strongly, albeit at lower levels than before the crisis.
- Fragile and post-conflict states, particularly those that rely on primary commodity exports, have been negatively affected,

Impact of Crisis - Trade

- African exporters are suffering from the decrease in global demand.
- World trade is projected to shrink by more than 12 % in 2009; first since 1982 and deepest since World War II.
- Global trade could drop even further due to if countries react to the economic crisis by enacting additional trade barriers.
- There is additional risk that the global recession will spark new attempts to restrict imports and protect local producers.

Impact of Crisis - Capital Inflows

- Before crisis, private capital flows was about 6.5 times global foreign aid of $8.5 billion (2000-2007).
- FDI which peaked in 2008 accounted for 2.5% and 5% of annual GDP between 2001 and 2007.
- The contraction of capital flows to Africa has been sharp leading to significant job losses in the financial sector.

Impact of Crisis - Remittances

- Global remittance levels projected to fall by as much as 8% in 2009.
- In Africa, remittance levels are projected to fall by close to 5% in 2009. Recorded remittances to Africa totaled about $19 billion in 2007.
- By total recorded flows, Nigeria and Kenya receive the highest value of remittances.
- Remittance levels could fall further if continuing economic dislocations in advance countries cause destination countries to tighten immigration restrictions.

Impact of Crisis – Development Aid

- ODA flows to Africa since the Monterrey Consensus increased from $21 billion in 2002 to about $39 billion in 2007-8.
- There is downward pressure on aid budgets that is now forcing some developed countries to trim ODA flows to Africa.
- African countries are highly vulnerable to reductions in ODA flows since ODA accounted for more than 10 per cent of gross national income over 2000-2007.
- Liberia, Burundi, Guinea-Bissau, Sierra Leone and Eritrea are particularly vulnerable with extremely high ratios of ODA to gross national income (ECA, 2009).

Impact of Crisis – Employment and Poverty

- The World Bank and IMF project that the global financial crisis will reduce Tanzania’s economic growth from over 7% in 2008 to 4-5% in 2009. With over 40,000 Tanzanian jobs lost already, the poor are invariably hardest hit by economic shocks. Check with ILO for latest Africa projections

AFDB's response has been timely and flexible

Four new crisis-response initiatives introduced :

- A $1.5 billion Emergency Liquidity Facility (ELF). AfDB Board within 10 working days.
- A $1 billion Trade Finance Initiative (TFI) launched a new line of credit of $500 million.
- A framework for accelerated transfer of African Development Fund resources to eligible countries; and
- An enhanced policy advisory support.

Demand for AfDB resources has soared

- Africa’s financing needs have grown rapidly in recent years.

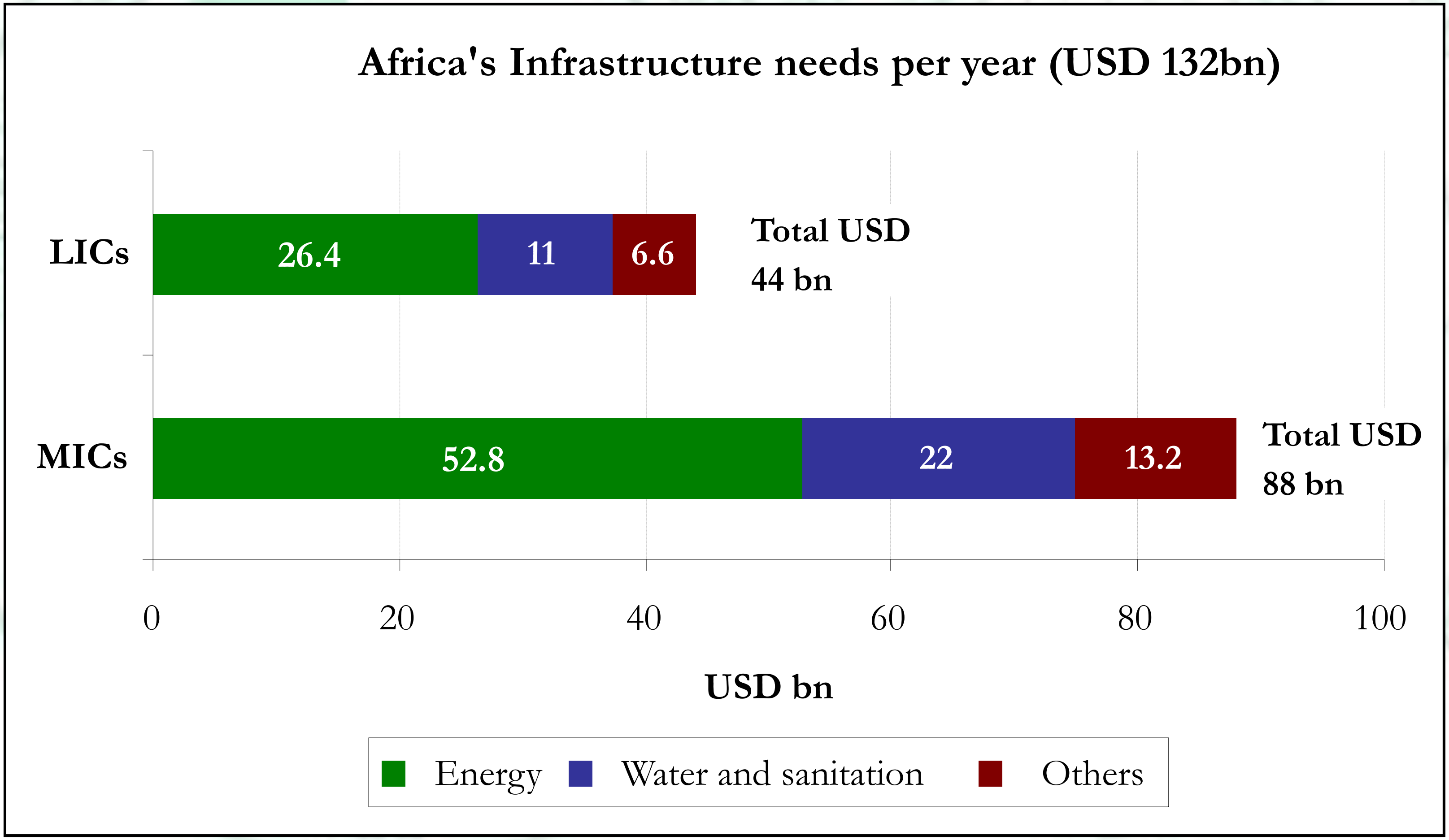
- Key demand drivers are:
  - Infrastructure
  - Private Sector
  - Higher Education
  - Governance
  - Regional Integration

- Medium Term Strategy projected a General Capital Increase by 2012 but high demand has pushed the date forward.

Demand for AfDB Resources

- Investors on Africa's emerging Stocks Exchanges have "flown to safety".
- New borrowing requests from countries are much bigger than in the past.
- Demand for Bank resources is now estimated at about UA 8bn per year i.e. a trajectory much higher than in the recent past.

Demand for Resources - Infrastructure

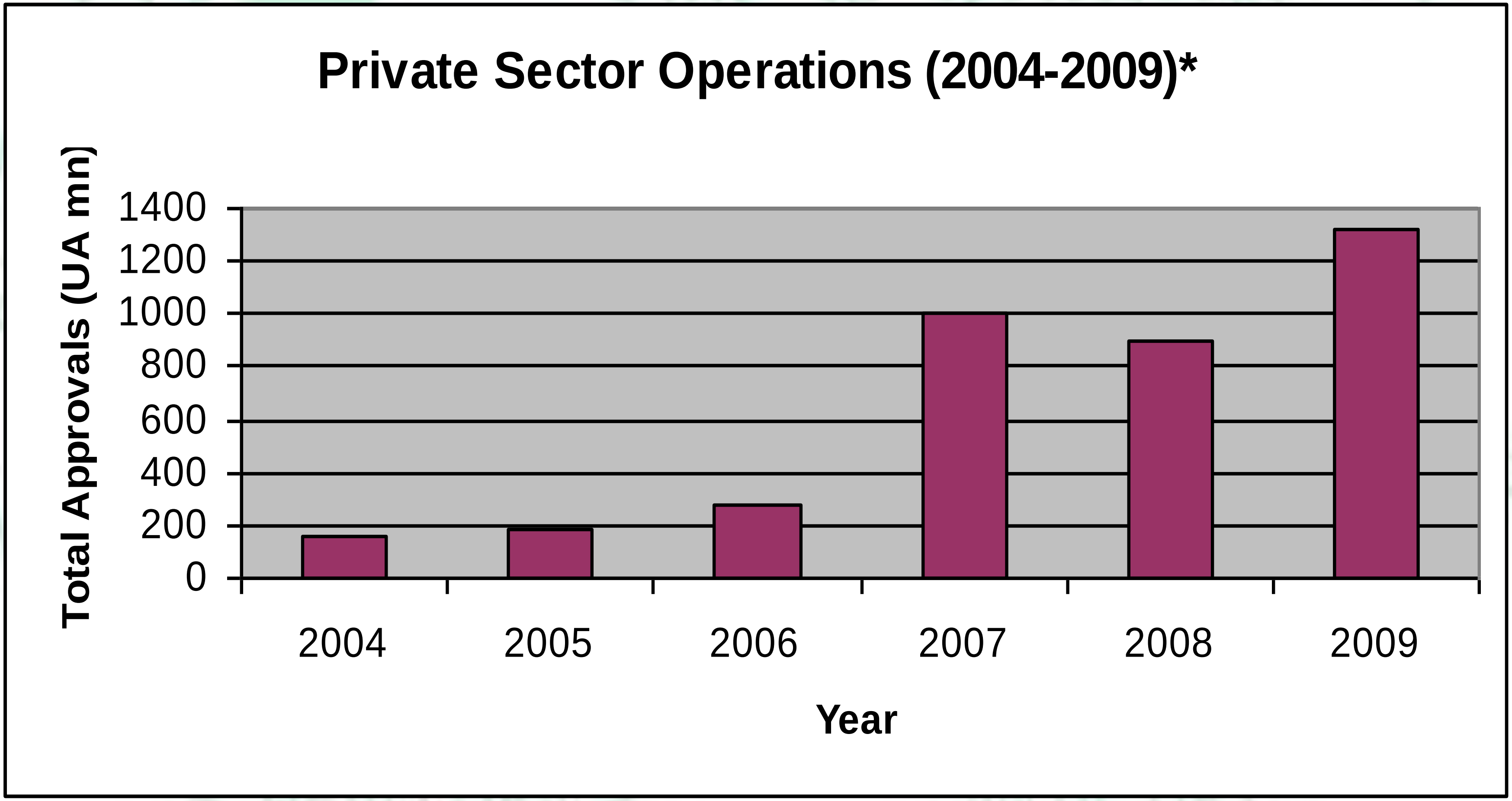


Source: World Bank and ADB

Demand for AfDB Resources

- Selected examples of increased demand to finance infrastructure:
- **Tunisia**: Over USD 3bn per year up to 2020.
- **Morocco**: USD 3bn required during 2009-2011.
- **Nigeria**: Estimates of USD 65.15bn for 2009-2012.
- **Botswana**: Medium-term requirements estimated at USD 1bn.

AfDB Lending to Private Sector



Source: ADB ***Note: The total amount for 2009 is a projection as of October 2009**

Bank Lending to the Private Sector

- Bank lending to the private sector has averaged about UA 1bn per year in the last three years.

- The share to LICs has been between 50-60 percent.

- Operations include microfinance (Liberia, Tanzania and DRC); deep water port (Cameroun); cement factory (Ethiopia); port (Djibouti); and wind farm (Kenya).

The AfDB is Rising to the Challenge

- Supporting areas critical for Africa’s transformation.
- Operating in a high risk environment with limited resources.
- Convening power and effective advocacy to facilitate early and sustained support to RMCS.
- Introducing new innovative instruments, fast tracking implementation and frontloading commitments.
- GCI is crucial to sustaining Bank’s continued support to RMCs.

Thank you for your attention

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