

**EXPORT – IMPORT BANK OF INDIA**  
**COMMENCEMENT DAY ANNUAL LECTURE: 2016**

**“PROMOTING AFRICA-INDIA INVESTMENT IN THE NEW GLOBAL LANDSCAPE”**

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1. Good Evening. I am pleased to be back to India, a country I have had the pleasure of visiting on many occasions.

I want to thank Chairman Yaduvendra Mathur for the honour to deliver the Exim Bank Commencement Day Annual Lecture for the year 2016.

It has been privilege to work in close partnership with Exim Bank over the years during my tenure as the Head of the African Development Bank.

2. A few months ago the India-Africa Forum Summit was held in Delhi

That Summit provided yet another opportunity for our two regions to deepen the mutual cooperation and to review the global landscape and the implications on the growth prospects.

3. As many of you here will know quite well, India- Africa economic links go over a thousand years.

In the post-independence era, India and the countries of the African Continent have developed a multifaceted relationship, at official level, people to people and business to business.

Trade and investment flows continued to grow, even in the aftermath of the global financial crisis.

Africa-India trade stands today at about 76 billion dollars, from 38 billion dollars in 2008. with a portfolio in excess of US\$ 14 bn, and is set to grow.

In my own country, I have seen an incredibly effective project on Nyabai... River, a hydroelectric which is helping to close the energy gap.

Exim Bank is active in more than 40 countries from energy, agri-business, to financial services

African students continue to come to India in large numbers as I witnessed when I visited Bangalore a few years ago.

I am told Mumbai is now a major center for cooperation in the field of medical care, where many patients came here to take advantage of India's excellent capabilities.

4. It is true that African exports to India are still dominated by raw materials especially oil. It is also true that, India's investments in Africa are still concentrated in a few countries especially Mauritius, South Africa and Morocco.

However as both regions continue to register fast growth, I can see, I see already opportunities for diversification at both country and sectoral levels: agribusiness, IT, financial services, healthcare and of course Infrastructure.

*Chairperson, Ladies and Gentlemen,*

5. Despite global slowdown, India and much of Africa continue to register strong growth. Today the African economy is five times its size in 2000, adjusted for real 2000 dollar the size is three times.

Although some economies growth has slowed due to commodity prices, the large majority are still growing at above 7%.

I understand India's growth in 2016 is projected is more than 7 per cent, a credible performance given the global slowdown.

The two regions do share the same mega trends notably, the demographic dynamics, a young growing population, rapid internal migration and urbanization; with all the challenges and opportunities that the phenomenon presents.

The end of the commodity super cycle is an issue for many countries around the world and as I will be pointing out in a moment, adjustments will be needed.

The two regions must confront issues of inequalities and promoting an inclusive economy and especially how to spur rural incomes.

However, I do not buy into the doomsday scenarios that, the growth prospects are compromised in the longer term.

6. The last fifty years, especially the last part of it, has been phenomenal in global economic history. Billions of people have been lifted out of poverty by advances in the globalization, which has reduced the cost of doing business, increased inter connectedness and provided opportunities around global value chains for all countries.

Some have compared this to what happened in the World around the 15th century, while noting almost the same downside of globalization and its unintended consequences.

7. Today, both India and Africa face a global landscape rather different from the one we have known since the turn of the Millennium.

This is not simply about the global economic slowdown, turbulence in energy and commodity, equity markets or currencies.

It is about what the last World Economic Forum meeting in Davos called the "*fourth industrial revolution*" with its new opportunities but also disruptions in traditional business models, advances such as in artificial intelligence.

It is also about the new elements in geopolitics, where it seems the problems are increasingly global and long term but the political actors have remained focused on the local and the short term thereby creating a major disconnect.

8. Today I want to make two points:

First: I am convinced that both our two regions economic prospects remain bright.

However nothing is pre-ordained.

It will require hard work, imagination, innovative policies, flexibility especially in light of far too many unknowns in the global economy and the multilateral system.

It will require willingness to deepen, rather than delay much needed reforms, at the macroeconomic level, institutions and structural bottlenecks.

Second : Taking note of the fact that the multilateral system born of World War 2 is no longer fit for purpose ,from trade to migration, epidemics, terrorism , refugees, climate change the two regions must determine how best to mitigate for the downside while taking advantage of the opportunities. I want to suggest that the best way is for the two Regions to deepen cooperation and seek ways of creating a zone of prosperity across the Indian Ocean.

9. Let me begin with the first: economic prospects:

In recent months, the financial press is all doom and gloom on emerging markets, let alone Africa.

It is all rather reminiscent of the premature pronouncement to the end of the Asian miracle during the Asian Financial crisis in 1997.

There is a sense of deja vu.

Let me give you an example, recently a rather large European Bank decided to quit Africa, after a century.

There is speculation that this may all be due to its new corporate strategy to focus on the home market, or even to conform to new regulatory requirements.

What is certain: this has nothing to do with the performance of its African units, although an impression is created to that effect.

As for the commodity story: the reality is that Africa's recovery predates the commodity bull run, in fact only a few countries are fiscally dependent on commodities.

African economies, after GDP rebasing, have determined that their service sectors are actually much bigger than initially believed.

But if you are skeptical, you are not alone.

After all Africa is such a mosaic, of countries, 54 countries, so similar and yet so different from each other.

10. Nonetheless if the economic performance of recent years has to be sustained both India and Africa need to take a number of key measures:

These are broadly four:

MACROECONOMIC Stance

STRUCTURAL Obstacles

INSTITUTIONAL Challenges

and finally EMERGING SECURITY landscape .

Let me begin with the macroeconomic stance:

In the late 1980s and early 1990s India and Africa went through a tough macroeconomic tough period.

In the case of Africa; a very high price for its ill-advised policies of the 1970s and 1980s was paid.

Combined with political instability, military takeovers, the African economies took a battering.

OVERVALUED EXCHANGE RATES THAT UNDERMINED AGRICULTURE AND EXPORTS GENERALLY.

CENTRAL BANKS THAT WERE INDEPENDENT IN LAW, BUT NOT IN FACT AND PRONE TO PICK UP GOVERNMENT DEFICITS WITH ALACRITY

IMPORT CONTROLS THAT MULTIPLIED OPPORTUNITIES FOR RENT SEEKERS.

HIGH TARIFFS THAT ENCOURAGED EXPENSIVE INSUFFICIENT IMPORT SUBSTITUTING INDUSTRIES WHILE LIMITING REGIONAL TRADE

## COSTLY STATE ENTERPRISES THAT WERE A DRAG AND A BURDEN ON THE FOCUS AND ECONOMIES AS A WHOLE

But here is the good story, that tough period led to tough policies that paid off handsomely.

In the current global slowdown, commodity price crash, there are fears that some countries would be tempted to go back to those command policies; there are concerns about a return to macroeconomic instability and excessive debt.

The policy stance of some oil exporting countries has done nothing to allay these fears.

Let me be very clear:

Adjustments in all oil exporting countries are necessary and should not be delayed.

That is true for Nigeria, Angola, Zambia, as it is for Russia, Saudi Arabia, Venezuela etc

- Buffers need to be rebuilt
- Expenditures rationalized
- Alternative sources of revenues identified
- Exchange rates managed realistically
- Import controls avoided, except on temporary basis
- Safety nets targeted, and blanket subsidies avoided.

Debt must be carefully managed, avoiding currency or asset mismatches investing wisely and building debt management capacity.

In some of the countries recent policy stance is not consistent with what I am saying here.

Delays in adjustment send the wrong signals and only delay the pain.

At a time like this, policy consistency, policy predictability has a huge premium.

11. Let me now to the second element: structural issues

Everyone agrees that economic growth in the last decade and half in Africa has been very strong, but there is also acknowledgment that economic transformation is still work in progress.

The structures of the economy have seen a rapid expansion of services, but contraction in agriculture and manufacturing.

With it, have come limited job creation, inequalities, and minimal integration in global value chains which remains an issue.

I am told that here in India the Government's new budget is putting emphasis on agriculture and infrastructure.

Many countries in Africa are doing exactly the same.

The challenge we face is that funding infrastructure with public means, leaves a 50 billion dollar annual gap.

PPPs, BoTs have worked well in some geographies, such as Kenya and Côte d'Ivoire.

I do understand that here in India too, PPPs have often not been without their complexities, but there are lessons both good and bad, we can all learn from. I am convinced that with the right policies we could extend the telecom revolution in other sectors especially energy.

So both our regions must work together to innovate in the area of infrastructure financing. The African Development Bank who is a leader in infrastructure finance in Africa has pioneered a number of instruments, so has Exim Bank, India.

In the last ten years when I was in office we put in close to 22 billion dollars in infrastructure while often reaching a leverage of 1:3

I expect that this is an area where Africa and India will continue to work together leveraging the knowledge of Institutions like the AfDB and the Exim Bank.

Unlike India which is a single market, Africa still grapples with numerous national fragmented markets, although I am told this is not a wholly resolved issue in India either, as there are several different policies between the states.

This is a well-recognized bottleneck by investors.

Much progress has been made in the movement of people and merchandise, in cross border infrastructure, tariffs have been significantly cut but non tariffs remain an issue.

12. Let me now briefly turn to institutional challenges:

In years gone by, the risks for an investor were mainly were mainly political; nationalization, restrictions on ownership or on dividend repatriation.

I believe India, in the past had to deal with similar obstacles.

At this point the risks are concentrated in the domain of poor infrastructure, costs of doing business, regulatory issues and weak delivery capabilities at administrative levels.

You will remember the famous mantra taught at business schools: that good policy must meet three criteria:

- Technical soundness
- Political feasibility
- Administrative delivering ability.

I am sure that even here in India you will easily recognize the challenge of policies that may be technically sound, but get stuck at political tradeoffs or weakness in delivery.

To be fair, there has been all round progress, for example in dispute resolutions, commercial courts, arbitration chambers, etc.

I would acknowledge that, for example in the energy sector progress of ensuring energy that is available, affordable, accessible would be easier if policies on tariffs, subsidies, off taker balance sheets were much clearer.

There is no doubt that private investment in energy production and distribution would be enhanced to close the much needed gaps in this sector, if we could get the PPP framework right and regulatory institutions in shape.



13. Finally, let me refer to a new type of threat which is a big drag on economies and investments.

Although Africa is now much more stable than it has been in the past, we must now deal with the emerging security threats from extremism, jihadism.

International terrorism that feeds on weak or semi failed states such as Somalia with Al Shabab or AQMI and Boko Haram in the Sahel

Some of these groups feed on local grievances of exclusion, political, economic or social, which must of course be addressed. They also sometimes take advantage of embryonic political developments, rent seeking crony capitalism, poor management of natural resources etc., as in South Sudan

These are challenges some of our Regions face, but which I believe would be better dealt with through a robust multilateral architecture and cooperation.

14. Which brings me to my last point, how do we together India and Africa mitigate for the downside in the current global landscape while taking advantages of its possibilities.

I go back to where I began: Africa and India share longer term mega trends especially the demographic dynamics growing population, younger ,more educated and connected and increasingly higher disposable incomes.

The two regions are set to leapfrog on some new technologies and other disruptive innovations.

I believe therefore that as older economies continue to adjust and repair the damage of 2008, as China goes through the famous "triple transition" there will be jobs relocating to both India and Africa due to competitive conditions favoring our two regions.

While nothing is preordained, that is the law of economics; this is what has happened throughout history.

15. In a recent book Stevsn Radelet "*The great surge-the ascent of the developing World*" he said

*"we live at a time of the greatest development among the global poor in the history never before have so many people in so many developing countries made so much progress in so short a time "*

16. When it comes to Africa people, many often find it hard to believe the rapid and often dramatic changes that have taken place in the last 15 years.

If you are a sceptic, you are not the only one, Africa is judged by the cliché of the day, the sound bite that excites the Editor, the narrative that fits the mindset.

But remember what the cognoscenti were saying about India in the 1970s.

An investor on the other hand I believe looks beyond the hype, the short term tactical issues and looks for the longer term trends.

Together India and Africa have come a long way.

The new global landscape demands that we deepen that relationship to create a zone of co-prosperity across the Indian Ocean through cross investments innovating around new investments to promote industrial development and service both way.

17. I end by commending the Exim Bank of India for an excellent job well done promoting investments between our two Regions. There is much more we can do together from infrastructure to medical care to cross learning on PPPs.

A great African statesman of our time, Madiba said:

*"It always seems impossible until it is done"*

*"After climbing a great hill, one only finds that there are many more hills to climb"*

Thanks for your attention and I am happy to take a few questions.