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A NEW AGENDA FOR AFRICAN DEVELOPMENT FINANCE IN THE 21ST CENTURY:

A CONVERSATION WITH AFRICAN DEVELOPMENT BANK PRESIDENT DONALD KABERUKA

Washington, D.C.

Thursday, October 10, 2013

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P R O C E E D I N G S

MR. KHARAS: Good morning, everybody. Thank you all for braving this horrible weather outside and coming over to Brookings. My name is Homi Kharas. I'm the deputy director of the Global Economy and Development Program here at Brookings, and it is a great honor and privilege for me to introduce the President of the African Development Bank, Donald Kaberuka, to come and talk to us today about a new agenda for African development finance.

You all know that Africa now is a region which is growing very rapidly. Its economies are growing very rapidly. Its population is growing very rapidly. Its cities are growing very rapidly. And so consequently, its needs for infrastructure are growing very rapidly.

The World Bank estimates that Africa needs something like upwards of $93 billion per year in infrastructure spending, capital and maintenance. It currently spend about $25 billion a year. That leaves a gap of around $68 billion a year. Where is the money going to come from? President Kaberuka will tell you.

(Laughter)

He's really made it part of the mission and drive of the African Development Bank to position themselves to play a major role in the financing of infrastructure as well as a whole range of other development activities in Africa. There are a number of new initiatives. They've just gone through a replenishment of their concessional funding window. I'm sure he'll talk about that and about the issues in today's world of trying to mobilize finance.

And I think that he has demonstrated that multilateral development agencies can be very effective channels for funneling funds to the region. Along with my colleague, Nancy Birdsall from Center for Global Development, we have for a couple of years now put out an assessment of development agencies, multilateral and bilateral. I have to say that the African Development Bank always does extremely well in those rankings. That has led to comparisons with other development banks, and I found that doing rankings is always a dangerous business. It makes you one friend of those who come out on top, and I'm thankful that our friend is here. But it also creates a number of even more enemies of those who do not come out quite so well.

President Kaberuka was formerly the Minister of Finance and Economic Planning for Rwanda between 1997 and 2005. We all know that dealing with the recovery from situations of conflict will be one of the great challenges for the big goal of ending poverty that I think the global community is coalescing around. So he has experience in that. He has experience on the multilateral side. I think we're all extremely lucky to have him speak to us today.

President Kaberuka?

MR. KABERUKA: Good morning. Thank you, Homi, for those kind words. It's a pleasure to be back at Brookings to speak on African development.

You know, the English have a saying -- something called carrying coal to Newcastle. It always feels like when I come to Brookings to talk about development because so much work has been done in this prestigious institution on development. So, Homi, I wanted to thank you for inviting, but I don't know what is it that you don't know already. But my thanks for all of you for finding the time. I look forward to hear from you, your thoughts, suggestions, on what we can do better or differently.

So let me confirm what Homi says. This is truly a unique moment in Africa's economic history, economic trajectory. However, I do not wish to enter the rather sterile debate as to whether Africa is rising or not. It's a debate I follow sometimes with a lot of amusement. Each side of the divide can find evidence for whatever they are looking for. It is rather like the debates it was whether the end of the emerging markets.

I recall –- at the World Economic Forum saying that when it comes to Africa, the standards of the pendulum swing in all directions. It has gone from a moment of high hopes and optimism to despair and back to ebullience. At times, it was even coined. They called it afro-pessimism, all in one generation.

Now, I'm not here for that kind of debate. I'm here for something different. I'm here to talk about sustainability, the sustainability of African countries' current performance. I'm here to share with you my thoughts on what it takes to get to the next critical level, the stage that matters most for every country -- that is, transformation -- and what an institution like the African Development Bank can do. I'm here to try to provide an answer on what it takes for Africa to meaningfully join the global value chains where opportunities and jobs are created. What will it take to turn Africa's demographic advantage into a demographic dividend?

Now, it has taken some time for the lexicon classifying the world into developed and developing countries to give way to a more meaningful classification, which recognizes a much more complex multiple economic structure. Ideally, the same should happen when it comes to Africa.

African countries do indeed share quite a lot in their destiny because of balkanization and fragmentation. However, for analytical purposes, it would be more objective, to move away from Africa's monolithic picture as opposed to a complex mosaic which the continent is. From large middle income countries to frontier markets, fragile states, small island countries, landlocked states, natural resources rich. I could go on.

This kind of taxonomy is what would, I believe, help shape a more scientific assessment of the changes going on in each of the 54 countries in Africa at this time. That said, I would like to begin by picking up four trends or mega trends, as we call them, which are shaping and each and every one of the 54 countries of Africa. They do so in different ways, but they do so everywhere.

The first, the emergence of this multiple politic economic world and opportunities which that has generated, a source of investment, technology, and export designation. The second, the demographic dynamics of which should be familiar, a young continent where the young people are increasingly urbanized, the growth in the number people with disposable income driving domestic demand.

I'm aware of a rather interesting debate -- Mwangi, I'm sure know you know this -- as the reclassification of who the middle classes are. Are they really middle class or just strugglers to use a phrase, or the floating poor in the African Development Bank preferred in the publication. But that is for another day.

The third, the discovery of hitherto unknown natural wealth. The continent as a whole is said to have 122 billion barrels of proven oil reserves, 500 trillion cubic feet of gas reserves, 85 percent of the world's platinum. The fourth opportunity is to leap frog in some technologies, such as the mobile phone, which is having a deep and lasting impact on service delivery and cost of doing business.

Now, these mega trends are shaping, influencing the countries of the continent of Africa in a way which will influence the future trajectory of other countries. They do so at a time when two decades of economic and political reforms and increased economic integration has built a strong shock absorbing capacity, but also exposing new vulnerabilities. They do at a time when the global landscape is in flux and so many uncertainties around the globe.

But before I go back the issue of sustainability, let me make two quick observations, especially because (inaudible) is here. Last week at the UN there was a coming of minds of sorts on what the post-2015 landscape would look like in the context of this agenda. Much work has been on issues around financing, especially by Homi and his team. Indeed, the heads of international financial institutions, me included, have made a submission on how our organizations see things and those of our institutions.

Naturally, I concur in those recommendations which have been made, from greater domestic resource mobilization, issues around Smart 8, leveraging the private sector, fair deal from natural resources, curbing capital flight, and so on. Again, I know Brookings has done tremendous work in these areas. Indeed, I do recall that the last time I was at Brookings or at Aspen, we were discussing the new international global architecture and what that meant for the future.

Now, the second quick observation I must make is that although I'm emphasizing finance, there's not a suggestion that capital or finance alone is the most important answer to development. All of us in this room can agree that until sound institutions are right, financial usefulness will be limited.

Many people do regularly ask me whether the current momentum in Africa can be kept given international uncertainties and domestic challenges. My answer is always, yes. I do agree that there's a whole range of internal and external factors which have seeds to potentially reverse progress of African, no doubt about it. They vary from country to country. They are old; they are new. Not the least, the current security problems in the larger Sahel, from the Somali coast to the Atlantic coast.

However, there is one binding constraint which is common to all the African countries from the middle income to the low income, from the natural resource rich to the fragile states, which, if not adequately resolved, has the potential to stagnation. And that is infrastructure.

Africa did not transform by growing at five percent. Africa transformed by growing at more than seven percent for several decades. Now, poor infrastructure is shaving off two percent gross in GDP every year. So only if we could resolve some of the infrastructure issues, it will be from five to seven, and that would be a good beginning. We all know that sustainability of Africa's achievements is only possible if opportunities are widely spread and jobs created. And in order to get jobs, you must anchor yourselves in the global value chains and that, for a number of things, is key. Of course, it's key labor force, a minimum of sound, hard infrastructure, logistics or soft infrastructure, and, of course, clusters.

Now, the proposition that such an immense gap in African infrastructure, that even in the best of times it could not be closed by public means alone, whether it's internal or external. So what is the alternative? While it is true that Africa's needs are large financially speaking, that is if you compare to public resources, not if you compare to private capital resources. But also know that private capital does not easily flow to infrastructure.

These types of projects, financing is not easy everywhere. There are too high transaction costs, there are too many political unknowns, there are not that many projects ready to go. Over the last few years, the two major players have been the IFIs, international financial institutions, China, and lately the capital markets. The African Development Bank itself commits 60 percent of all its land in infrastructure.

Chinese deals, though seemingly easy to mount, have taken place mostly in resource rich countries, although in a limited way as well in places in Kenya and Ethiopia. International financial institutions, on the other hand, have stepped up land in infrastructure, but they are regularly criticized for delays and for onerous costs. Indeed, (inaudible) said, "I will always go to the international financial institutions as a last resort."

So if private sector is not so much interested in infrastructure, if it has been limited, how do you explain the telecom and IT-related infrastructure sector revolution in the 1900s? What is it that made it possible for IT companies, telecom companies, to enter the sector in a big way? It is true the issues are not the same to an extent, the cost of entry and the whole panoply of risk. But what are the lessons?

Increasingly, energy companies are looking for opportunities, especially where the policy and regulatory framework are attractive, such as sound PPP frameworks, independent regulators, and world (inaudible) smart subsidies. Indeed, when President Obama was visiting Tanzania at a meeting I attended, business people told him, Mr. President, energy is a sector waiting to explode after (inaudible), as long as governments get systems in place. And yesterday we had a meeting indeed on this initiative. We've got to try and make those things from Nigeria, to Liberia, to Ethiopia, to Kenya and other countries in poor Africa.

But let me try to recast this at a broader level. At the immediate level of financial structuring, risk mitigation instruments can be put in place. The bank itself has had several instruments for the past and we have just added to some of them. We're deploying more of such instruments to comfort investors, to increase access to capital markets, to make it possible to do projects in high-risk low-income countries. With a total value of $1 billion, we estimate the leverage of capacity of one to six. That would be quite significant.

But this is what is most significant about it. This is money raised from donors in the context of the replenishment of our softer window, the African Development Fund, the equivalent to IDI. This is a very smart way for donors to use their money. This is what we call Smart Eight. It is (inaudible) edges, but we want to encourage that direction of trouble.

Confronted with large infrastructure deficits, many countries have taken advantage of the current international market conditions to borrow at attractive conditions. Access to capital markets has picked up from Ghana, Kenya, Tanzania, Senegal, Rwanda, and several others. The exceptional market conditions have been helpful, as has been their assessments of risk in Africa, which investors now know is no worse or no better than other parts of the world.

It is again a direction we need to encourage on two conditions: that we manage debt well and that we invest wisely, including choosing projects carefully. Done well, this can complement domestic resources where again the countries are trying hard to effectively mobilize those resources and illuminate linkages.

But even if we deploy all these instruments and the channels are utilized, African countries will not be able to close the remaining gap. Two rounds of thinking seem to me the low hanging fruit, and this I want to conclude by putting these ideas to you.

First of all, many well managed African economies can go to capital markets today and borrow money competitively. The same countries, however, are not eligible at this stage to borrow from the World Bank or the African Development Bank. This is a policy which dates back to 25 years. It was right then, but is it right now? That is the first question we have to ask. Conditions have changed dramatically.

Access to international financial institutions concessional window or non-concessional window would have two distinct advantages. The first, it is more competitive. It is cheaper. But second, it comes with supportive policy instruments, including choice of projects, good debt management, which will ensure that these countries don't accumulate non-sustainable debt in the future. But as it is now, they are being driven to the capital markets where they're borrowing more expensively and there are no supportive policies to accompany that borrowing.

The second line of thinking is one related to how African countries themselves can mobilize and more optimally use their own pools of savings. The current commodity super cycle has led to a huge accumulation of a vast amount of surpluses. The combined reserves of African central banks now goes to half a trillion dollars or slightly more. Now, all this money is invested outside Africa in instruments deemed to be safe, liquid, and giving a good return. I hope so.

Sometimes these amounts are quite significant. Now, there's another suggestion that central bank reserves are available for infrastructure. It is a bridge to cross. Central bank reserves serve a particular specific purpose. We know that. But there are other pools of savings which are in that same lake. Now, not every African country has such large surpluses, but for those who do, an opportunity to invest in Africa through a credible African vehicle would be a win-win proposition.

That is why the African Development Bank has proposed a special vehicle for that purpose. We call it Africa 50, of which I'm happy to share further details. This would be deployed to finance transformational projects, which are bankable and can give a good return, providing the same conditions which was found and now find outside Africa.

The African Development Bank, which is a founder, will be an investor and will have a service level agreement with the vehicle so that it can enjoy our track record and our knowledge. We consider this an incredible opportunity for African countries to take charge of their own development at a time when global conditions no longer allow them to depend purely on public resources from outside.

Now, just imagine, to complicate the story, if the donors of IDI or the ADF could agree that a small amount of money they now give as a closed envelope could be used as equity in this vehicle. We have just completed the fundraising for the African Development Fund for 2014-2016. Our colleagues in IDI will be completing in December.

Believe me, I've been in this business for a long time. This has been my third replenishment. Donors tried very hard, but I could see they were really struggling, countries like Portugal and Spain, the United States, Canada, Italy, and many others. Not because they don't want to, but because they are facing huge challenges on the fiscal side, that they have to explain to their own constituencies.

Now, an agreement that part of the money available, even if a low amount, is invested in a fund like Africa 50 will be truly the smart way to support Africa's efforts, while reducing burden on their own taxpayers. But I know using aid money to leverage private sector investment will require a huge ideological bridge to cross. Not a technical bridge, but an ideological one, is whether aid money can be used to leverage to catalyze private investment.

I recall a European minister telling her audience -- please, then we will be privileged. This is essentially her story. When I was born, I listened to music on the gramophone. I, same here. As a teenager, the musicals on a cassette. She had a cassette in her pocket. She showed us. As a young mother, the musicals on a CD. Now, as a grandmother the music is on iTunes. She said, the current audio instruments were designed in the age of the gramophone, and they have stayed there. It is time to bring that instrument to the era of iTunes and maybe what comes next.

I thought this metaphor was a powerful one. The structures we have now of relationships between rich and poor countries and that these instruments are over 50 years old. It is time for change. And some of these ideas can be used to spur change.

Now, let me conclude as Mwangi noted the time. I started off saying that transformation that generates the jobs, that enables our countries to join the global value chain begins with closing the infrastructure gap. The turn of the millennium and the strong economic components has put infrastructure everywhere under pressure, from

South Africa to Nigeria to Senegal to every single African country. Indeed, a famous Nigerian person has said, in some countries, businesses are born in the morning and die in the evening for lack of power. There is a power crisis in almost every country. It is not possible to provide a solution by business as usual, especially business which is 50 years old. It is truly time to move to the next level.

When the colonel powers were taking over Africa, you recall they put considerable resources in building infrastructure, especially railroads, of course to service the colonial economy. In our country, they built something called the lunatic express, a 1,700 kilometer line from Mombasa on the Indian coast to Uganda, at the cost of $3.5 million in 1894. Now, I've been told that the value today would be $600 million.

Now, people call it the lunatic express because at the time, people saw this course was absolutely horrendous. But if they decide to do this infrastructure at such high cost at the time, they knew what they were doing. That was 1894. Remember when it came to infrastructure like education and health, they left that to missionaries, and it was like that up to independence. After independence, we relied on international financial institutions to provide infrastructure. At some point, even they disengaged. Not the African Development Bank, I must say.

The large emerging markets have filled the gap since 2001. That must begin to change with the continent taking advantage of the current super cycle in commodities to invest wisely in building human and capital infrastructure. It is a chance in a generation. But it's also time for donors to think together with us how best we can use the limited resources available to leverage the internal efforts inside Africa.

I began by saying that money alone will not resolve all the issues we have. There are many other issues we have to do, but I think this would be a good place to begin. Getting Africans to invest in instruments of their own development using their own resources, which now are being invested outside Africa and contributes to the development of countries outside Africa. It is a paradox which must seem to close.

So let me close by commending you for what you do. Thank you for attending, for listening to me. And I promise you that we at the African Development Bank will continue to work on these issues, and I look forward for continuing with the engagement with Brookings. So thank you so much, and I wish to take your thoughts.

(Applause)

MR. KIMENYI: All right. Thank you very much, President Kaberuka. First, I have to really congratulate you for the work that you are doing at the bank. Within the time that you have been there, most of us who have been following the work of the ADB know that it has become quite a very important institution for Africa's development, and also a knowledge institution. There are a lot of things going on there that's informing development in Africa. So we do appreciate your coming.

Most of us just refer to him as the infrastructure president because there's nowhere that he goes that he doesn't emphasize the issue of infrastructure, which is actually one of the very important things that we've been forecasting on. So he is leader forecast.

This event was filled up at capacity within a few days of posting. Now, we know that the weather has not been very good, so that could be one factor, but you probably also know that our Federal government is not working, so I'm not sure whether the seats that would have been occupied by members of the Federal government, so that's one of the casualties. But we have a very good crowd, and I also thank you for braving the weather.

I will begin with just a few questions. First of all, thank you very much for sort of bringing up these mega trends that are very important for Africa that's going on in the entire global economy. One of the things that I don't think you emphasized a lot, but I think is very important when it comes to financing, is this issue that Kofi Annan has been focusing on, which is on the illicit finance flaws. And so as we are focusing on trying to get more resources to deal with infrastructure, a lot of people are concerned about at the same time there are a lot of flaws that are coming out of Africa. And this is related to primarily on the natural resources management.

And maybe you could elaborate a little bit where that the bank is, you know, what is your role working with the Kofi Annan group. Maybe we could start with that, because we need to use fast what we have.

MR. KABERUKA: Thank you. Thank you, Mwangi. Well, I didn't further it because I think a lot has been said over the last few weeks. In fact, the day before yesterday with the OCD in Paris with the prime minister of Cote d'Ivoire and a few other people -- and this was the subject.

For me, there are just four things. One is the issue of asymmetry of the information. The second is the issue of asymmetry of power. And the third is to do with the issues of governance, which I'll come to. But let me begin with the asymmetry of information.

Just imagine you are president or minister of finance of country X. You have limited capacity, and then a multinational corporation flies in on a private jet with his 10 lawyers, 10 financial engineers. They have 24 hours to negotiate a contract with you. And but they tell you, well, in 24 hours, we're flying to your neighbor. How much information do you have to negotiate with these people? That is the first thing we have to close.

The second is the issue of knowing exactly what is in those contracts which the government signs, because we are now facing a special problem that almost everyone wants to negotiate the contracts because they're finding huge loopholes. Now, this is the right thing to do, but it has got a down side in the sense that if contracts are not already stable, that would affect investment.

So what we did five years ago before even the Kofi Annan report, we set up in the bank the African legal support facility, initially to help countries deal with the vulture funds, but also to help countries negotiate contracts where they want us to help. It has been incredibly successful, and now many more people are actually contributing to this fund. So we are now in about five countries now helping countries look at these contracts to ensure they are balanced, they are fair for both parties. It's about fairness.

Number two, at ADF we have set up in the bank an African Natural Resource Center because I realized that it's not simply about the contracts. It's about the entire value chain. It's about avoiding the mistakes that were made in the past. And I have just hired an African woman, one of the most talented people in this area, to run the center, which has provided advisory capacities to all governments plus finding gas and oil, to ensure that we bring balance.

Now, some multinational corporations might not like this, but it is the right thing to do because we cannot afford to miss this opportunity. Valencia Raymond is here. Raymond is here. We published a book in Marrakesh at their annual meeting on this subject, which was extremely controversial because we raised those issues and the huge numbers, going beyond what you call illicit, looking at fairness in Africa's relationship with the outside world on transfer pricing, that kind of stuff. I want to ask you to take a look at this report. It's controversial, but it's useful. It is a matter which we have given close attention.

MR. KIMENYI: Thank you very much. You didn't talk much -- and by the way, President Kaberuka is giving us a few more minutes, so we will go to probably

11:15. So we have some time to take questions.

One of the ADB's priorities is, of course, regional integration. You didn't talk a lot about integration here, but you talked about infrastructure, which is code to regional integration. What is your broad assessment of the progress with regional integration in Africa and the goals that we have set, the goals of the 2017 continental free trade. What is your assessment and what are you imagining to build the infrastructure, in the area of regional integration?

MR. KABERUKA: Thank you. When African Development was created, actually its mandate, its charter, described as a bank for Africa's economic integration. That was our mission. There was a recognition so early that even though the founding fathers of the organization of African Union agreed that the colonial boundaries were intangible, they were sustained, they at the same time agreed that this kind of balkanization in 54 small units was not a viability option. So we had to look at economic cooperation.

Now, this is my assessment. There are some regions of Africa where the progress is very, very encouraging. Two of them would be East Africa, and the second would be in the region of (inaudible). But there are two regions of Africa that lag seriously behind, the central Cote d'Ivoire region and then North Africa.

Now, in North Africa, it's not the lack of infrastructure. There's plenty of infrastructure, including the Mediterranean. They even have highways. There are other issues which are non-tariff, non-infrastructure. In other areas we have built physical highways, but issues around single border posts are causing problems. But also I found that even with cooperation on things like services, which could be run, it is not dependent on infrastructure, it's not going as fast as it could.

Example: everyone flying inside the African continent is probably paying forty percent more than they should be paying because of slow deregulation of the aviation industry. Yet we have an agreement, which was pushing all countries to deregulate aviation, which should have brought prices down, the price of doing business.

So there is infrastructure. There's incorporation of services. There's non-tariff barriers. One thing for sure that's no longer a big problem is tariffs. I think on tariffs, we are not building down, or we are not bringing down other non-physical, non-tariff barriers to bear.

MR. KIMENYI: Thank you very much. I think I will open up to questions. I have some questions. I would like a bit of elaboration briefly on Africa 50. You talked about it as a fad, but I wasn't sure whether you are thinking is like the infrastructure is about? I was not quite sure about that, the Africa 50 fad. Very briefly. I know, you know.

MR. KABERUKA: The concept of Africa 50 is straightforward. It is a special vehicle in which we will be investing and inviting African institutions to invest, central banks, pension funds and others, and also a number of institutions outside Africa are showing interest.

Once we build up enough equity, we then go to the markets, the debt markets, and we issue the bonds, and we're close to getting to that particular point. But at the same time, it has a role to develop the projects to bring them to bankability because that often is a challenge. But I'm happy to share with you the (inaudible) of this particular vehicle.

MR. KIMENYI: Very good. I think, you know, we appreciate it. Coming from Kenya, the ADB does finance what we call now a super highway from Nairobi to my town. And it used to take us, like, half a day to travel, and now it takes, you know, a few minutes. So we are beneficiaries. Yes, I will ask this -- these two. Please be brief on your comments and questions, please.

MS. RITTERHOFF: Thank you.

MR. KIMENYI: And introduce yourself.

MS. RITTERHOFF: Hi. I'm Robin Ritterhoff, independent consultant previously with the Treasury Department and lucky enough to have spent some time working at the African Development Bank.

Mr. President, I'm wondering whether you're seeing any uptake from non-traditional donors moving in to fill the spaces, the gaps, left behind by traditional donors with respect to broad funds, such as that offered by the African Development Fund, or are more of those traditional donors turning to devote their finance to bilateral initiatives. You talked about China a little bit. I'm wondering about other non-traditional donors.

And secondly, are you seeing any kind of a lag with the governments with which the African Development Bank is working, the governments which are borrowing, in perceiving that the donors from the traditional countries are really having a hard time raising the funds that they used to raise. What's the perception? Is there any take up that money may not be as available as it used to be?

Thank you very much.

MR. KIMENYI: I'll take three questions. Three.

MR. KABERUKA: Yeah. Robin, first of all, pleasure to see you again. Robin has worked with the African Development Bank, so representing the U.S.

Now, the super highway we mentioned in Kenya by Mwangi, actually for me the importance of it is not the one inside Kenya. It's the super highway that goes all the way up to Addis Ababa, and the same super highway goes all the way to Tanzania. It is only part of this long trans-African highway, went all the way up in Tanzania, which makes it possible in maybe three hours to drive from Addis to (inaudible) on the super highway. These are extremely important things to do if we can also resolve the non-tariff, the infrastructure issues I mentioned.

Number two, on the non-traditional donors, what I'm seeing, Robin, is that non-traditional donors do not like to go through multilateral organizations. I think they prefer core financing. And I think we're all challenged in here to figure out how to give them voice and space, either the multinational organizations maybe on the boards so they can feel a stake so they can go through these particular vehicles. But my guess is until you have done that, they prefer the core financing bit or the (inaudible) Brazil and China.

Now, the interesting thing, though, about the African countries, in this replenishment I've just completed, we used to have South Africa as the only contributor. Now we have Angola, we have Libya, we have Egypt, and I suspect that the minimum middle income African countries are trying to come in to take the place of some of the traditional European countries who are having fiscal challenges. And that is a move I really want to encourage.

Now, are the traditional donors having fiscal problems? All the time. Those who want to start a .7, it is not .7 of smaller GDP. Others quite straightforward have cuts on their budgets. That is why I think the proposition I'm making here would be to figure out to use that smaller envelope in a more imaginative way, which is focusing on fragile states, on the weakest of the poor, but allowing those who are not fragile states to use their resources in a much more innovative way for leveraging.

Well, I put the ideas on the table. I see appetite coming, but I see some challenges we have to overcome vis-a-vis what I call an ideological position. You cannot use aid money to leverage the private sector.

MR. KIMENYI: Thank you very much. I'll take three questions, so we will take the notes. So I will start with this lady, go to the gentleman, and I'll go this way. And then, I'll go to Ambassador (inaudible). Yeah, Simon.

MR. KABERUKA: Ambassador knows everything.

QUESTIONER: Mr. President, thank you for your remarks. And my name is (inaudible). I work for the International Youth Foundation. When you started your remarks, you mentioned that, you know, if something is not done in financing, this has focus has been (inaudible) request. And I would like to hear from you. I was reading a report that came out by your institution in July of this year, and in the report it stated that youth unemployment is one of the biggest issues that most Sub-Saharan African countries are facing.

So what initiative or what program that has been put in place by the bank to address this issue, particularly like youth entrepreneurship, initiative for vocational training that is in place that is being promoted by the bank. Thank you.

MR. KIMENYI: The gentleman over there next to Jennifer.

MR. ACHEMA: Thank you very much, Moderator, Mr. President. I'm Christian Achema. I work here at the National Academy of Sciences in the Africa program, building partnerships with the best of the best African scientists so that they can advise their governments on all matters of development.

About six years ago, we started an engagement with the African Development Bank, various divisions, and it was refreshing to see that some of the characters that didn't even want to speak with us, all of a sudden there were new people around who are willing to engage, who are more inclusive, who do not care whether you are an economist or not, who do not care whether you are young or not, who do not care whether you --

MR. KIMENYI: We're going to go to the question.

MR. ACHEMA: A question. And so, the question is this. You talked about sustainability. What are the plans to keep this kind of attitude going in the staff at the bank, because we like it.

MR. SIMON: Hello, Mr. President. John Simon with Total Impact Advisors. Could you speak a little bit more about the Africa 50 Fund in terms of what the scale is, what the term would be for the investors. And also, would it be open purely to the central banks of Africa, or, for instance, when I think about the Global Fund, which has $5 billion in cash on its balance sheet, but sits an institution a few blocks away from here earning, you know, less one percent. Would that also be a place where agencies or organizations like that could also put their money to benefit Africa?

MR. KIMENYI: Very good. We'll take another round, but now I'll give President Kaberuka time.

MR. KABERUKA: Yeah. Thank you very much. On jobs, if anyone tells you anywhere in the world, not simply in Africa, that providing jobs for young people would be easy, they should not be taken seriously. Some temporary jobs can be created by some arrangements. But really the challenge we face in Africa are the ones I'm describing. Just imagine if you're a garage owner in (inaudible) -- are you from Nigeria? Just imagine you're from Nigeria. Imagine you're a garage owner and (inaudible) young people, but half the day don't have electricity. Imagine that you're a small business in the middle of Nairobi where electricity is not available for half a day. Imagine that you are a farmer doing flowers in northern Kenya. You cannot get them in the market on time.

Jobs to be created by others, it is often the basic issues. So in sequencing -- in sequencing -- I put my first emphasis on infrastructure. I don't know what code the infrastructure is on, but it's on a bad label honestly because I think it is the beginning of the beginning.

Now, that said, there must be other things we ought to do, especially access to finance for hiring people, SMEs especially for women groups. Those are things we are doing in other organizations, but for me, I go back to providing the basics to our businesses both large and small.

Now, on the behavior of the staff in the African Development Bank, I'm glad you like it. I'll pass on that compliment to them. I'm sure they'd be keen to continue engaging with you. They are committed to do that. And I can be confident that when they hear the message of the kind you are giving, the engagement with civil society is actually so important to you, they'll be keen to do quite a lot more.

Now, Africa 50, the size. You know, we're wanting to make impact. But I think, as I was mentioning, finance of this type is not easy, even to bring projects to bankability, because raising money might be the easier part by entering the pipeline of projects which actually can be quickly executed.

So our initial targets are equity of $3 billion. We're looking at the pipeline of projects of around $60 billion, but building that over time. It's likely that year one will begin at around $8 billion, building it over time as the pipeline grows.

Now, in terms of central banks, some central banks have the possibility of taking small equity, but mainly on the bond side. But there are other long-term pools of funds in Africa, which are prepared to take equity. We are open to non-African insertion investors. We are talking to several of them here in the U.S. and in the European state as well. And I would be happy to talk with you after this event.

MR. KIMENYI: Okay. So I'll get the gentleman in the corner, and the lady over there, and that gentleman at the last row sort of. Quickly, please, so that we can get --

QUESTIONER: Me?

MR. KIMENYI: Yes.

QUESTIONER: Okay, thank you.

MR. KIMENYI: Make it brief, though.

QUESTIONER: My name is Yaya Fernoci. I'm the Special Operations Divisions for the United State of Africa 2017 Project. We were the one who recruited Gadhafi and others for that project.

You talk about infrastructure, traditionally view it from the economic model. I want you to think in terms of the federation that we are going to create by the (inaudible) of 2017 as the super infrastructure so that all the other traditional economic infrastructure will now be enabled.

MR. KIMENYI: Okay. The lady at the corner and the gentleman. Starting over there. Those two then.

QUESTIONER: Hello. Good morning. My name Olucha Nawakai. And my question is, she talked about youth, but you didn't really answer the question that she, at least from what I heard, that she asked. So my question is, have you guys put down a budget? Instead of giving it to the countries when it comes to funds and aid and stuff like that, have you guys put down a budget, a project, to help the youth, you know, instead of basically just giving aid to the country, because I think the only aid Africa needs is their youth doing something for their country.

MR. KIMENYI: The lady at the back. The one next to you, yeah.

QUESTIONER: Thank you. My name is Lori Mulkett. Thank you for this event today. I'm wondering what is the status of the human capital development strategy, and how will it support science and technology efforts. Thank you.

MR. KIMENYI: Okay. Let's go to the gentleman at the corner, right at the corner over there. Yeah.

QUESTIONER: Richard America, Georgetown University. Manufacturing, what is the bank doing to accelerate the growth of the manufacturing sector? And would you consider supporting a new equity fund focused on manufacturing value added?

MR. KIMENYI: Do you want to answer those?

MR. KABERUKA: Sure.

MR. KIMENYI: We'll take another round of three later on, but quickly.

MR. KABERUKA: Now, I don't know the African Federation 2017, except to observe that the African Union, the roadmap is clear, both on the internal markets on the continent, but also in the path to political union. So I prefer to stick to that particular road map, which was discussed in Addis Ababa. But I'm sure if you have a faster way of getting there, I'm sure Madam Zimoud would be happy to hear from you.

Now, but let me go back to the youth. It's very important that we understand each other. The first thing you do for a continent as young as this for the future is provide young people with education and the competencies. And I'm glad it's a question about human capital strategy. That is what we're focusing upon. But there's nothing as terrible like what I saw in Tunisia at some point to have the private sector looking for people to hire and have unemployed young people not having those qualities to be hired. Probably that is the first big tragedy. And you're going to find that in every African country, this mismatch between jobs and people. So that is the first thing to close.

The second thing to close are the issues I've been mentioning. They may not be immediately attractive, but absolutely important. And I believe that the approach we are taking, which is to, A, focus on reducing the cost of doing business, focus on reducing the risks of doing business, focus on expanding the diversity and size of the African markets, is what they want.

Tell me, I go to Wall Street. If I notice young Africans working there, very good. But I would love to see these young people also being able to move from one African capital to another doing the same. If I travel to Johannesburg, I find young Kenyans, young Nigerians, young Ghanaians. Or to Nairobi, you find young Ethiopians, young Ghanaians, young Ghanaians. That is what to do. We should find jobs in each of our countries, but this continent is one, so encouraging integration mobility is another way to provide opportunities for you.

Now, I want to go back to what I said. If someone said to you we're going to find jobs for every unemployed young African, wish him luck. I think that is basically the proposition. We need to go from the basic principles.

Now, on the status of the human capital strategy, Kapul, you want to help -- I know it was going to the board at some point.

QUESTIONER: We have a subcommittee of the board called the Committee of Development Effectiveness. It was discussed by them yesterday. The board members commented on the draft and made some suggestions, and we expect within the next month or so that it'll be finalized.

MR. KIMENYI: Okay. And the last one.

MR. KABERUKA: The last round. So can I take quick ones? Oh, manufacturing.

MR. KIMENYI: Oh, manufacturing.

MR. KABERUKA: Yes. Kapul, do you want to take that one?

QUESTIONER: I mean, I think it goes back to the comments the president was making. We're doing a lot to support manufacturing. We just came out with a new private sector development strategy, which looks at both the soft constraints faced by the private sector in Africa and the hard constraints. We are working across entire range of things, such as behind the border issues, tariffs, regulations, legal systems, and so forth, in addition to one of the biggest constraints that they face, which is infrastructure, access to energy, access to transportation, one stop border posts and so forth.

We'll be happy to discuss with you the prospects for what an equity fund might do. Integrating and developing value chains is very, very critical for us, and so happy to discuss that further.

MR. KIMENYI: Could I add this? You have seen in the press that the world's second largest textile retailer is Swedish, H&M. They have just relocated to Ethiopia from China. This is the world's second largest in the business. That is very good news.

And it isn't they prefer to go to Ethiopia. Above all is because Ethiopia is very competitive in electricity. I think about recent (inaudible) because they are investing in power. So that is infrastructure.

But the business people I have spoken to who are trying to invest in Africa and manufacturing always tell me that the issues they face are three. One of them is the logistics, things like power, transport, maritime ports, and so on. The second one they face is issues of clusters, the things you need around your manufacturing plant to make sure they can get your product on the market, because if the logistics are poor, even if they compete on price and quality, your lead time is very low, so it's (inaudible).

So I'll go back again to building logistics, clusters, for manufacturing to take place.

MR. KIMENYI: Thank you. I'll take three questions, but be brief. I'll take this -- wow. I have three ladies. So this lady, the next one, and over there in the middle.

Brief.

QUESTIONER: Mr. President, thank you very much. Cynthia Brudenai from the World Bank. You talk about infrastructure, but I would like more energy emphasis. What is the top priority in policies that African Development Bank is covering for the energy sector, and vis-a-vis also for the climate change? What is the recommendation from the African Development Bank? Thank you.

MR. KIMENYI: The next?

MS. MITCHELL: Hello. Katie Mitchell with Visa. My question is also on the infrastructure structure, but less hard infrastructure and enabling technological infrastructure, if you will. So we have several initiatives on the continent, but there is a disparity between what we are able to do, for instance, in rural Rwanda versus what we're able to do with programs like In Pace in Kenya, that being a result of lack of technological infrastructure. So I'm curious if you'd comment on that.

MR. KABERUKA: Can you come again? I'm sorry.

MS. MITCHELL: Pardon?

MR. KABERUKA: Come again. Come again.

MS. MITCHELL: My whole question? Okay.

MR. KABERUKA: I was distracted.

MS. MITCHELL: No worries. So I work at Visa, and from my impression being in the field in Kenya, and also with my colleagues on the continent, there is somewhat of a disparity as to what we are able to do from a processing network standpoint because of the lack of technological infrastructure. And so I am curious if you can comment on that versus hard infrastructure and how that might impact the development of particular countries.

MR. KIMENYI: Thank you. The last question over there. I'm sorry.

Yeah.

QUESTIONER: Good morning. My name is Rahel Casone. I am the founder of African Inbound. Mine is a quick comment to the questions that were raised about what the African Development Bank is doing on youth.

African Inbound works with young people on the continent to empower. It's an empowerment program. It's a leadership development program. And Dr. Kaberuka has been one of our strongest supporters. We were invited to a couple of, at least now, three annual meetings. We were able to organize a site event and show what young people are doing to create employment for themselves and all the creative and innovative ways that they're using the resources and talents.

And so, the ADB has been a very strong supporter on that front, and we'll continue to develop this discussion to take it to the next level. But I just wanted to quickly say that the ADB is working with us to empower young people to work for self-employment, and initiatives like that.

MR. KIMENYI: Thank you. I think we'll wrap it up at that point with your comments. I know we went to 15 minutes, which is a good thing.

MR. KABERUKA: Thank you. Thank you very much for the kind words. I wish you could do more for those kind of (inaudible) African youth. As we celebrate our 15th anniversary next year, I'm (inaudible) the youth of Africa on the next part of the agenda. So I hope you and others are part of that process.

Now, on energy, clean or otherwise, let me be very blunt on this one. We have an energy policy in the bank we have just adopted, which is a compromise of different parts of the globe. We are the biggest investor in clean energy in Africa from public to private sector windows. We are doing one of Africa's largest wind installations in northern Kenya. We have done Africa's largest solar facility in Morocco. So we're big on that side.

Africa has so much clean power sources whether it is hydro or geothermal, and only an insignificant proportion has been developed. So we have a chance to grow our energy needs by doing renewables if technologies, of course, allow.

Now, the principles we go by are simple. There are three. It's affordability, it's access, it is sustainability. We are part of President Obama's pro-Africa's initiative. Yesterday we were meeting with the five countries concerned to look at the programs for the next five years, because for us, the key issue at the end of the day is the following: here in the U.S., every American takes for granted that they have 15,000 kilowatt hours of electricity per year. In Liberia, the whole country of Liberia, all they have is 54 megawatts of electricity. And I've been told they cannot run even a small factory with 54 megawatts. And they pay the highest price in the world, 50 cents per kilowatt hour. I was just mentioning three cents in Ethiopia. I don't know how much it is here in the U.S.

In a country like that, you really don't have the luxury of selecting what you want to do. You do everything it takes to get power to Liberian people and businesses. There are plenty of renewables to do, but some countries, like Botswana, like Namibia, you may have to go through the non-renewable path. Depending upon the country's energy mix, you try to use the most advanced technology possible looking at, of course, the economics of doing so.

But for those who wonder on these issues, I'd recommend a third lecture by a famous Swedish professor, Professor Roselling. Look at that third lecture, and it says that for those who have access to things like clean water available energy every day, it is too easy to make assumptions about those who don't have. Take a look at that third lecture. It was, for me, an eye opener, and maybe next time I can talk about it.

Now, finally there's an issue of --

MR. KIMENYI: Technology. I think it's fiber optics path and those type of things.

MR. KABERUKA: Totally agree with you. But this is where the private sector has been very impressive, and it comes where there are good, clear plans. We have good regulation -- you mentioned Rwanda is one of them -- where you have commitments to leap frog on that side, so it is being done. But I'm seeing many more, in West Africa as well, in the east. We have invested in almost three Somali cables ourselves in the Indian Ocean, in the Atlantic. We're part of some of the optic fibers on the continent.

But I agree with you. Beyond the hard things, the fibers, Somali cables, there has to be an enabling environment for those things to happen. And we are part of this Connect Africa initiative, for which I'd be happy to discuss further with you.

MR. KIMENYI: This is very good. Thank you very much. I think the issues we discussed here are very important. I am quite concerned about, again, over emphasis on clean energy for some countries where our contribution to greenhouse gases are actually very small. So if we get the core, we need to figure out how to use it. So I think we need to be very careful. So I like that comment.

I just wanted to ask President Kaberuka one thing. I mean, sitting here at Brookings, what I see are people like you who are really are heroes after they do what they do. I see them coming here and maybe writing a book or something like that. You are in the middle of your last time. And what do you see happening after you have been a minister. You have been a president of the biggest bank. What do you see as your next milestone? And you have done very well so far with the bank.

(Laughter)

MR. KABERUKA: First of all, thank you for saying I've done very well. But you have really given me enough to kind of write a book.

(Laughter)

MR. KABERUKA: Yeah, so I am thinking about writing that book.

MR. KIMENYI: Good. Thank you very much.

(Applause)

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