

# 2009 KfW Financial Sector Development Symposium

*Preserving Access to Finance during the Global Crisis*

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# Outline of presentation

- 1. The financial crisis and African growth projections in the aftermath of the financial crisis**
- 2. The role of the African Development Bank Group in providing access to finance during financial crisis**
- 3. The importance of financial sector for Africa and MFW4A**
- 4. Conclusion**

# 1. The financial crisis and African growth projections in the aftermath of the financial crisis

1. Africa growth has been hit by the financial crisis through several transmission channels, including in the financial sector and in the real sector.
2. GDP growth projection for Africa for 2009 is worse than previously projected in May; growth performance has been revised downward from 2.3% to 2% in October 2009.
3. The projected growth performance for the rest of 2009 and 2010 provides a very mixed picture for Africa due to commodity prices.
4. There are some tentative signs of greenshoots in the stockmarkets, Credit Defaults Swap pricing and lending rates.

# 1. The financial crisis and African growth projections in the aftermath of the financial crisis

Recent AEO estimates from October 2009

	October 2009 estimates					
	2000-05	2006	2007	2008(e)	2009(p)	2010(p)
<b><u>Real GDP Growth (%)</u></b>						
Central Africa	5.7	2.9	5.3	4.4	2.1	3.8
Eastern Africa	4.9	7.6	8.8	6.6	4.5	5.2
Northern Africa	4.1	5.6	5.3	5.4	3.3	3.9
Southern Africa	4.1	6.8	6.0	4.9	-1.4	3.6
Western Africa	7.1	5.1	5.3	5.6	3.2	4.5
Africa	4.8	5.9	5.9	5.4	2.0	4.1
<i>Memorandum items</i>						
<i>North Africa (including Sudan)</i>	4.2	6.0	5.6	5.6	3.3	4.0
<i>Sub-Saharan Africa</i>	5.2	5.9	6.1	5.3	1.1	4.1
<i>Oil-exporting countries</i>	5.4	6.0	6.3	6.2	2.7	4.6
<i>Oil importing countries</i>	4.1	5.8	5.4	4.5	1.2	3.4

# 1. The financial crisis and African growth projections in the aftermath of the financial crisis

Stock Markets									
Region/Country	Index Name	Index Code	Benchmark (31/07/2008)	Value at end of last Week (13/03/2009)	Value at end of current Week (20/11/2009)	% change			
						Mar-09	Nov-09		
Côte d'Ivoire*	BRVM Composite Index	BRVM CI	242.54	157.35	143.88	▼	-36.84	▼	-40.7
Egypt	CASE 30 Index	CASE30	9251.19	3,965.80	6,195.47	▼	-57.13	▼	-33.0
Kenya	Kenya Stock Index	NSE	4868.27	2,646.58	3,132.62	▼	-45.64	▼	-35.7
Mauritius	Mauritius AllShares	SEMDEX	1735.77	976.13	1,691.06	▼	-43.76	▼	-2.6
Morocco	Casa All Share Index	MASI	14134.7	10820.10	10291.72	▼	-23.45	▼	-27.2
Nigeria	NSE All Share Index	NSE	52916.66	20370.06	21635.36	▼	-61.51	▼	-59.1
South Africa	All Share Index	JALSH	27552.65	20,802.31	26,929.30	▼	-24.50	▼	-2.3
Tunisia	Tunisie Tnse Index STK	TUNINDEX	3036.87	3099.29.37	4099.63	▲	2.06	▲	35.0
<b>Others</b>									
USA*	Dow Jones Industrial	DJ Index	11378.02	10270.47	10332.44	▼	-36.03	▼	-9.2
France*	CAC 40 Index	CAC40	4392.36	3806.01	3760.22	▼	-35.45	▼	-14.4
Japan	Nikkei 225 Index	N225	13376.81	9770.31	9497.68	▼	-40.60	▼	-29.0

Stock markets have recovered somewhat compared to March 2009, but are still far below August 2008 (one month before the crisis).

# 1. The financial crisis and African growth projections in the aftermath of the financial crisis

1. Second sign of green shoots is that Credit Default Swaps for three emerging economies (Egypt, Morocco and South Africa) have drop by 2/3 since March 2009.
2. Many countries in Africa were excluded from the financial markets or at least at a very high costs.
3. The African Development Bank Group provided financial resources to many countries, as this institution continued to have access to financial markets.

Second sign of greenshoots: drop in Credit Default Swap (CDS) pricing:

	CDS of African Countries in March 2009	CDS of African Countries in October 2009
Country	5-year CDS (bps) Bloomberg	5-year CDS (bps) Bloomberg
Egypt	650	205.5
Morocco	335	107.1
South Africa	515	124.6

# 1. The financial crisis and African growth projections in the aftermath of the financial crisis

1. The third sign of green shoots is that the spread compared to the US Treasury dropped rapidly over the course of the year (from 91.5 bps to 25.65 bps).
2. The AfDB remained a source of financing and had access to financial markets through bond issuance.
3. The high spread in the beginning of the year could also reflect competition with bonds issued by other commercial bank that received government guarantees in case of default.

The third sign of green shoots: Spread of AfDB bond issuance dropped

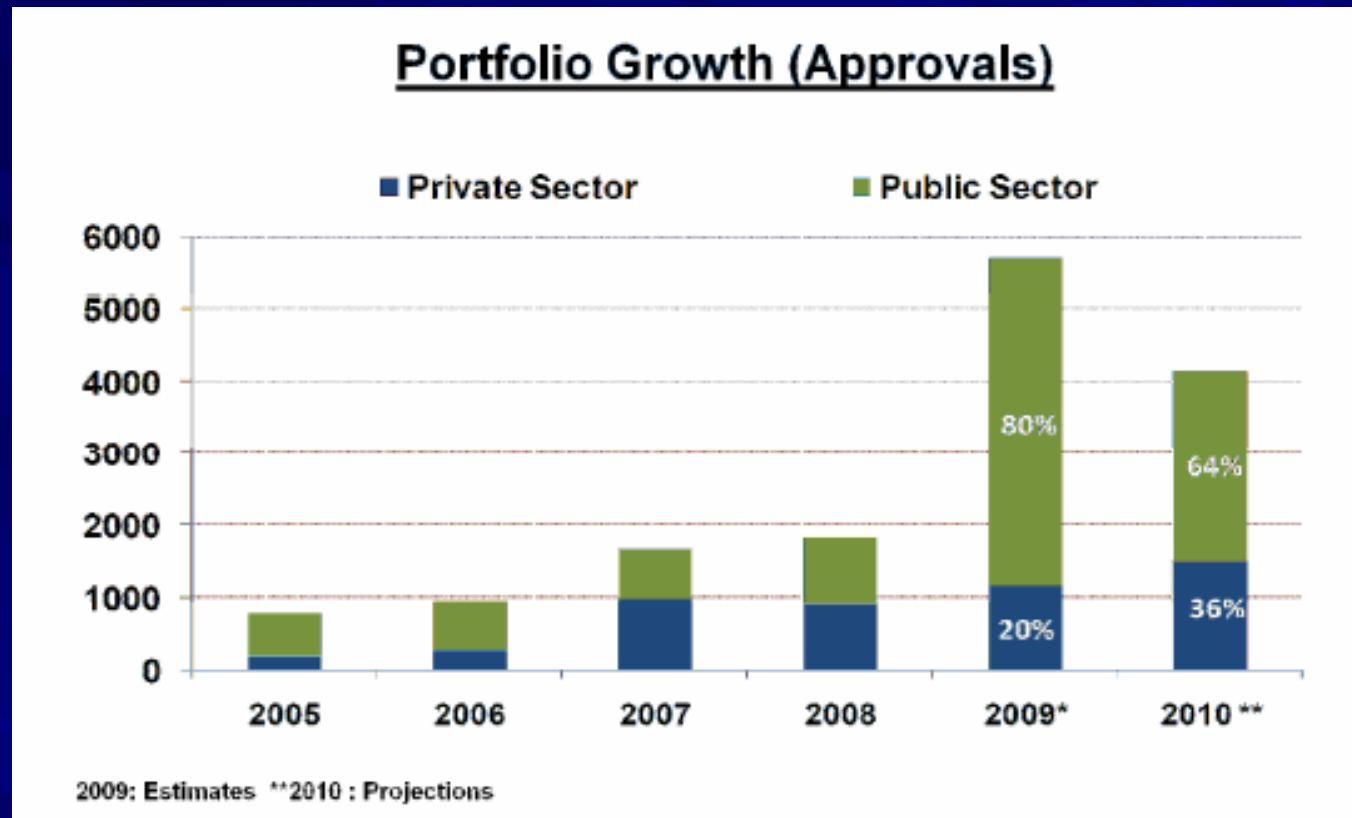
Date of issuance	Borrowing	Spread vs UST
13/01/2009	USD 1 Billion due Jan. 2012	91.50 bps
19/05/2009	USD 1 Billion Due May 2014	90.25 bps
24/09/2009	USD 1 Billion Due Oct. 2012	41.40 bps
16/11/2009	USD 1 Billion Due Nov 2011	25.65 bps

## **2. The role of the African Development Bank Group in providing access to finance during financial crisis**

1. Various G-20 statements have emphasized that regional development banks should play a counter-cyclical role.
2. This is all the more important in Africa as many countries lack the fiscal policy space that many other developing countries in Asia have acquired (i.e. large foreign currency reserves).
3. The African Development Bank Group has played an anti-cyclical role by providing additional resources to both the private and public sector during the financial crisis.

## 2. The role of the African Development Bank Group in providing access to finance during financial crisis

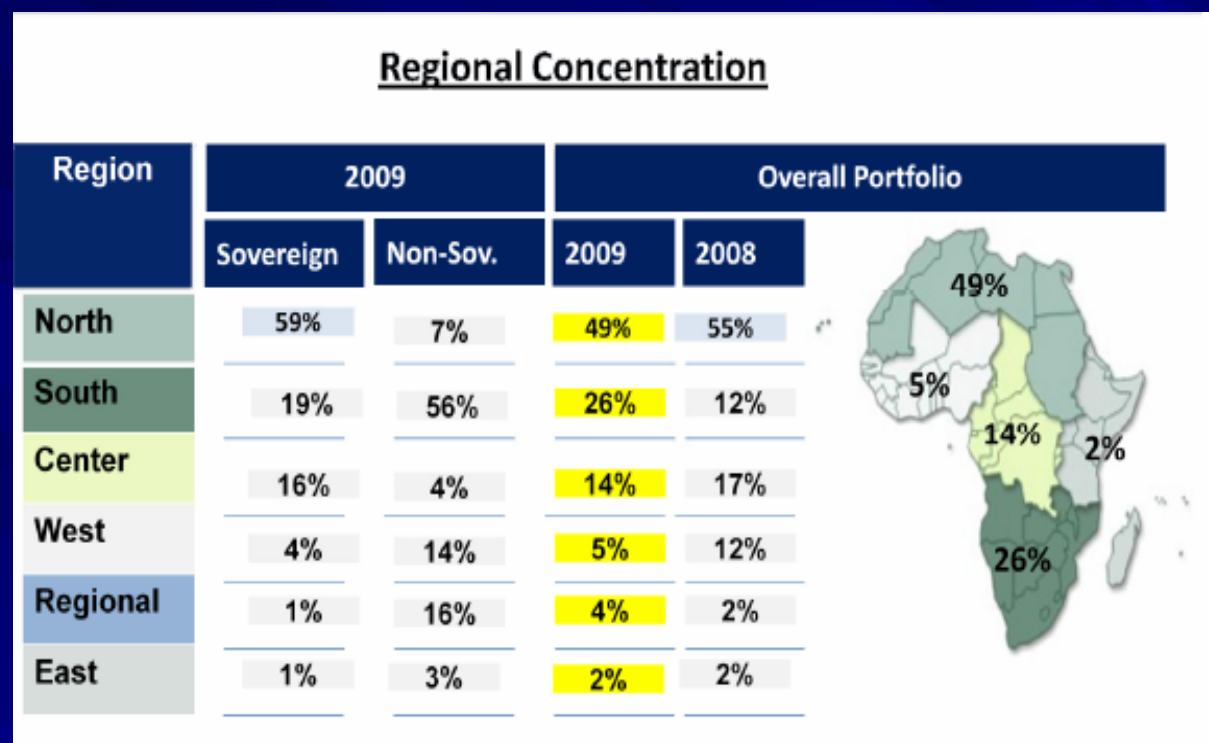
AfDB Growth in Portfolio in the context of the financial crisis



In response to the financial crisis, lending nearly quadrupled in 2009 in particular from the public sector.

## 2. The role of the African Development Bank Group in providing access to finance during financial crisis

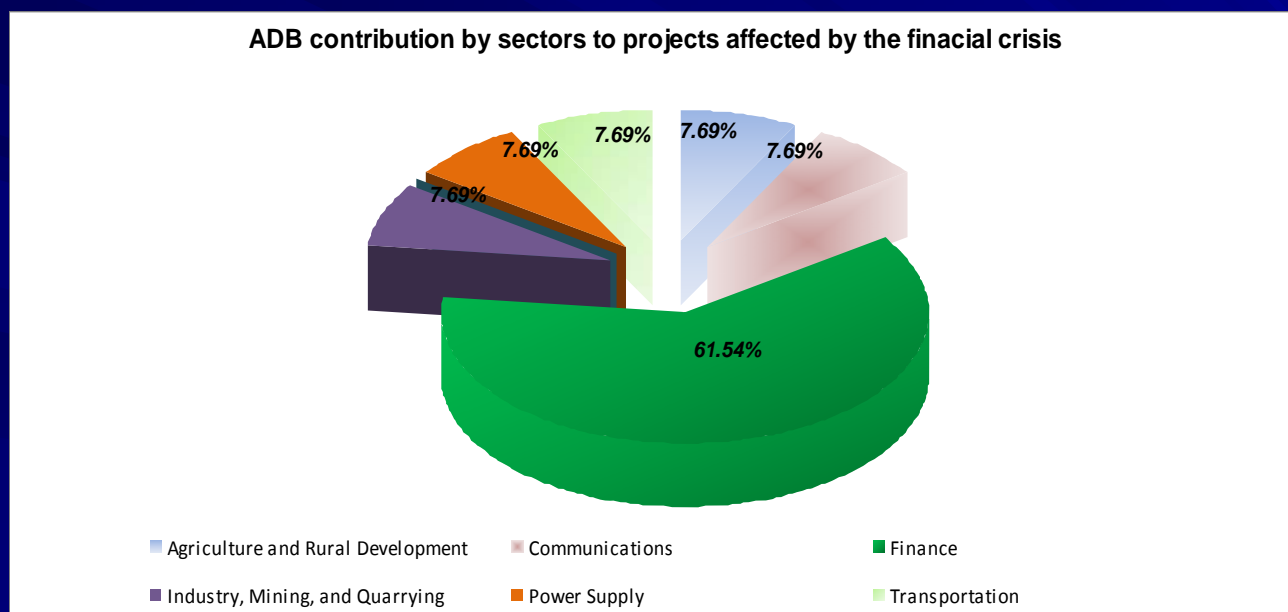
Diversification of lending by the AfDB of total portfolio



The results indicate that North region consume 49% (Morocco, Tunisia and Egypt) and South region consume 26% (mainly South Africa, Botswana and Mauritius) of banking lending.

## 2. The role of the African Development Bank Group in providing access to finance during financial crisis

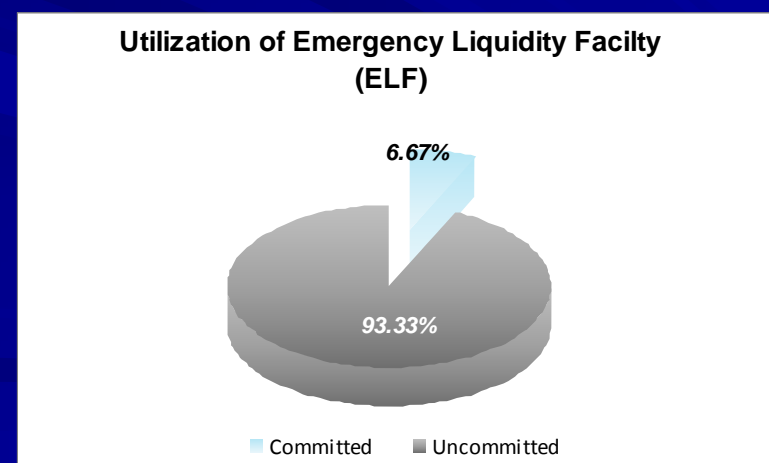
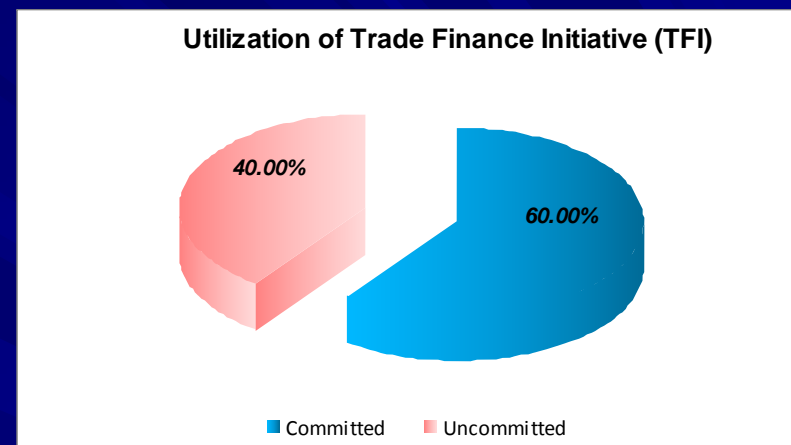
Private sector disaggregation of projects which have been effected by the financial crisis



Results demonstrate clearly that the financial sector has been severely effected by the crisis and consist of 62% percent of the portfolio. This represents about 800 million UA, which is about 1.2 billion USD.

## 2. The role of the African Development Bank Group in providing access to finance during financial crisis

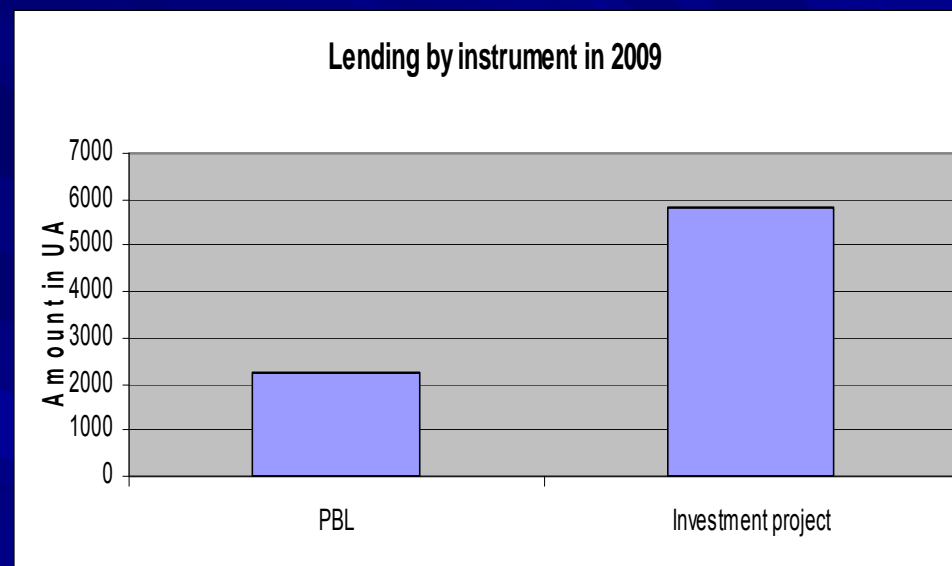
1. The Bank Group also created two financial instruments in the wake of financial crisis, which were the Trade Finance Initiative (TFI) and the Emergency Liquidity Facility (ELF).
2. The TFI has been successful with commitments of 60% from a total envelope of 1 billion USD.
3. The ELF was less successful with uncommitted resources of 90% of 1.5 billion USD. There was only two projects approved in Nigeria.
4. Some financial market participants indicated that ELF was not successful as getting support from an “Emergency” facility would send a wrong signal.



## 2. The role of the African Development Bank Group in providing access to finance during financial crisis

1. The public sector lending has been dominated by a few high profile lending, mainly in the Southern hemisphere.
2. Most of the projects are classical investment and power generating projects in the infrastructure sector which have slow disbursement profile.
2. Policy Based Lending, which are quick disbursements is channeled through general budget support (27% or 2.2 billion UA) .

Lending by instrument in 2009



### 3. The importance of financial sector for Africa and MFW4A

- Besides the financial crisis, African has many structural challenges in the financial sector and this prohibits effective channeling of savings to investment projects. For example, only 20 percent of people in sub-Saharan Africa have a bank account.
- This leads to sub-optimal growth rates once the financial crisis has subsided and also demonstrates the structural challenges, which include:
  - Poor legal and regulatory environment
  - Lack of adequate financial infrastructure
  - Human capital and capacity constraints at the institutional level
- This is why the African Development Bank Group supports the secretariat of Making Finance Work for Africa (MFW4A).

# Conclusion

- The 2008 financial crisis and subsequent economic downturn had a severe impact on Africa. However, countries that have a stable macro-economic framework and prudent fiscal policy were able to respond to the financial crisis through stimulus packages or by increasing their budget deficits.
- The African Development Bank Group played its role in providing anti-cyclical financing to many African countries and this has contributed to avoiding the losses of the development gains.
- Besides the financial crisis, African countries still have inefficient financial systems and therefore it is not only “preserving financial access during the global crisis” but financial access is a structural challenge for Africa.
- Without efficient financial markets, reducing poverty and attaining the MDGs would be an additional challenge. This would require further structural reforms in many African countries.