



Donald Kaberuka

in conversation with
Ann Bernstein

Democracy | Markets | Development

A South African resource influencing policy for over 25 years

To mark 25 years since its establishment, in November 2020 CDE initiated a series of discussions with global experts and prominent individuals in South Africa on important questions on democracy, business, markets, and development. The series was relaunched in 2022 as CDE Conversations. This was the 25th event in the series.

Ann Bernstein: It's my great privilege to welcome Dr Donald Kaberuka, Finance Minister in Rwanda from 1997 to 2005, then head of the African Development Bank (AfDB) for two terms from 2005 to 2015, and in 2019 he was elected chair of the global fund to fight AIDS, TB and malaria. Welcome Donald, it's great to have you.

Let's start by talking about electricity. In an important article, you pointed out that Liberia, with a population of about 4 million, had installed electricity of just 126 megawatts. That is about the average capacity of one of the more than 8 000 power plants in the United States. Then you went on to say that Liberians pay more than three times the average rate of electricity that Americans pay. Why is it that poor people pay the most for electricity?

Donald Kaberuka: At the time I made that statement, in 2007, Liberians were paying about 25 cents per kilowatt hour (25c/kWh). To give you an idea, anything above 10c/kWh is uneconomical. There are between 800 million and 1.2 billion people in the world without access to electricity, depending on how you define it. So, there is massive energy poverty.

In many cases, energy might be available, but it is not accessible to the poor because it is too expensive. Far too often energy is produced inefficiently. Despite subsidies to national companies responsible for power, their balance sheets become weaker every year and they cannot invest in new energy. The poor end up disadvantaged by both lack of access and shortages created by a lack of investment.

Instead of subsidising suppliers, governments should implement targeted subsidies to people who cannot afford electricity. That would be a better way to bring down the cost of electricity and help the poor pay for it.

Ann Bernstein: You have said that the biggest impediment to economic growth on this continent is energy. You also said in 2015: "It is hypocritical for Western governments who have funded their industrialisation using fossil fuels to say to African countries: no, you can't develop dams, you can't develop coal, you must rely on expensive renewables." Is that still your view?

Donald Kaberuka: I was not suggesting that there is no need to transition away from fossil fuels in the provision of energy. Africa has plenty of renewables, but the problem is the lack of capital to develop them. Fortunately, the cost of some renewable technologies, like batteries, are coming down, so there are opportunities there.

We need to decarbonise economies, but let us have a just transition, and that transition should at least be partly funded by those who have contributed most to global warming. For Africa to transform and industrialise, we need to overcome energy poverty, so we need access to funding to develop our renewables. The idea that we must choose now between fossil fuels or renewables is unnecessarily binary.

Ann Bernstein: Do you believe that wealthy countries are going to help poorer countries deal with their transition towards a green economy or deal with the consequences of climate change?

They say they will, but do you believe that they will do so in a significant way, and not just give a little bit of money, or offer money that sounds like a grant, but turns out to be a loan?

Donald Kaberuka: Reducing emissions is a global public good. To keep this planet liveable, we must mobilise resources globally.

I was in a group set up after the Copenhagen Summit that was chaired by the former Prime Minister of Ethiopia, Meles Zenawi, and former Prime Minister of Norway, Jens Stoltenberg, now the head of NATO, and we were charged with reflecting on how to raise \$100 billion per year to help low-income countries fund the shift away from fossil fuels. We put a lot of proposals on the table. All of them, in my assessment, were quite sensible and doable. Unfortunately, the funds never emerged due to the coronavirus.

These issues remain vitally important, and it is not just about climate change. The same principles apply to pandemics. Remember the famous phrase during the pandemic: "Nobody is safe until all of us are safe."

Ann Bernstein: You once asked an important question: "When we help the continent build its future energy systems, are we planning for poverty or for economic transformation of this continent?"

Donald Kaberuka: I am not an admirer of Vladimir Lenin, but he said that: "Communism is socialism plus electricity." He was making a very important point. No country in the world has ever transformed its economy without access to energy.

Vietnam is a good example. In 1992 it had a GDP of \$14 billion; now Vietnam has a GDP of just under \$500 billion. GDP per capita has gone up even though the population has increased from 67 million to around 100 million people. There are many factors to this economic transformation, which people have different views about, but two factors were critical. One was human capital formation. The other was the cost of electricity, which has fallen to about 6c/kWh. That has allowed them to attract a lot of foreign direct investment (FDI). About 40 percent of the South Korean company Samsung's products are made in Vietnam.

Ann Bernstein: When you were head of the AfDB, you emphasised the importance of building and financing infrastructure for the continent's development. In your experience, which financial institutions have been the most important in getting infrastructure up and running in Africa over the past 10 years or so? Has it been China? African countries themselves? Other countries? Private companies mainly from the West? The World Bank, the BRICS bank, or the African Development Bank? Who have been the major players?

Donald Kaberuka: I'd like to make a more general point about the importance of infrastructure in a balkanised continent. In 1963, at the creation of the Organisation of Africa Unity, a decision was taken that the continent's borders don't make sense, so you must make them less important through economic integration. That begins by laying down the necessary infrastructure across borders, whether it is rail, digital or something else.

I think China has contributed enormously by financing and building dams, airports and so on across Africa. Rather than pointing the finger at China, we should have an intelligent conversation on how we combine private funding, concessional funding to de-risk private capital and other instruments to make sure that we increase the supply of long-term capital. These are the critical issues because it takes a long time for infrastructure to generate a return on investment.

There is a private firm that has laid fibre optic cables across Africa; now they are doing the same across oceans. When you combine that with investment in data centres, these are positive developments for Africa. It doesn't matter who does it, as long as it is done in a way which does not generate excessive debt.

Ann Bernstein: There is a lot of talk about the one-sidedness of Chinese funded infrastructure in Africa or Sri Lanka or other places. How do you see this issue? I know the AfDB encouraged discussions on what would be the right approach to dealing with these kinds of issues.

Donald Kaberuka: I think finger pointing is a fairly sterile exercise, so I'm not going to get into it. I'm more interested in how to attract finance into closing Africa's infrastructure gap, which is currently \$98 billion. How best we do that without creating negative consequences for currencies or mismatches between assets and liabilities. That is the bigger question.

Before I left the AfDB, I created a facility with the People's Bank in China to build infrastructure in Africa. I would like to see more and more of those kinds of initiatives. It is very important that investments that take a long time to yield returns, are encouraged.

Ann Bernstein: This is a good moment to turn to the bank you led for 10 years. What does the AfDB do that a commercial bank like Standard Bank cannot? What's the difference?

Donald Kaberuka: AfDB focuses on supplying long-term finance, it takes on risks which commercial banks may not have an appetite for without imposing punitive interest rates, and, as we discovered during the global financial crisis, development banks can play a countercyclical role during a financial crisis. When I ran the bank, I wish we could have done more to de-risk investments, but we were thwarted by shareholders who tended to be risk-averse. We should also have been more involved in countries wrongly called 'fragile states', because some of them were quite large, with significant potential. We tried some initiatives in the Sahel to deal with fragility. I think that agenda is still very important, not only because millions of people are trapped in those countries, but because of the neighbourhood effects as well: what happens in one country affects the perception of investment and increases the risk premium in neighbouring countries.

Ann Bernstein: What is your view of the BRICS Bank? How significant is it now? How big do you think it can be? Do you think the AfDB might become a junior partner to BRICS on the continent?

Donald Kaberuka: The AfDB is still a much bigger bank than the BRICS Bank, and it is an older institution which has much more experience, a lot more capacity and highly skilled people. I think the total capital of the BRICS Bank is about \$100 billion, which is small, and they are still working out their modalities. We should avoid competitions about who is senior and who is junior, and rather focus on complementarities. How can the AfDB work with the BRICS Bank and the Asia Infrastructure Bank to bring more capital into Africa? International financial architecture should be seen as an ecosystem, not a league ranking who is doing the most.

Ann Bernstein: As someone who has a lot of experience of multilateral organisations, what is your view on BRICS? What do you think it is, really? And what could it be? What should it be?

Donald Kaberuka: At the turn of the millennium, most of the growth driving the global economy was coming from countries in the Global South, especially China, India and Brazil. It is natural that countries which have been the engines in recent economic growth seek to set up their own global organisations to reflect their importance. I see BRICS as part of that reflection.

Ann Bernstein: What is your view on the relationship between democracy and development?

Donald Kaberuka: I see that as a chicken or egg kind of question. Both democracy and development are good objectives in themselves, and no country can say it is fully developed without democracy. At the same time, no country can say here is my democratic model and the rest of the world must adopt it. All countries in the world are still working on their development and democratic trajectories. They will get there in different ways, and at different times.

The fundamentals against which all countries should be judged are these: do they effectively deliver health, education and other public goods to their people, are they accountable to those people and do they govern in the interests of all? That is much more critical than working out the compositions of their democracy.

Development is not something you can pick up from a shelf, dust off and copy. All countries on Earth have gone their own way depending upon their unique historical circumstances. The biggest challenge for Africa is not having discussions about what actually works in Africa, because they are being influenced by debates about democracy and development from outside Africa. We need to be asking what are governments in Africa doing? Which are delivering and why? Where are education and healthcare systems falling apart, and the infrastructure is dilapidated? What is going on there? How do we ensure that governance structures do not favour only one part of the country at the expense of another?

Those are issues that we must get right, and over time we will find our own ways of getting there, which may not resemble democratic government structures in Denmark or the USA.

Ann Bernstein: I have encountered people recently in Washington, D.C. who say that America is losing out in Africa, that they are somehow being left behind. It's never clear to me if they are talking about the government or private companies. How do you respond to that issue?

Donald Kaberuka: I very much dislike the idea that Africa is some kind of football pitch where Americans, Chinese or Europeans come to compete in their own interests. That happened in the past because of our own weaknesses. I can't speak for Americans or the Chinese, I can only speak from the perspective of an African, and I feel we need to better define our interests. We should articulate them clearly and then welcome all those who want to partner with us in the pursuit of those interests.

For example, when I was in office, we had a lot of international competitive bidding for infrastructure contracts, and very good Chinese companies were winning more and more contracts, going from an initial 20 percent to about 60 percent. The European Union decided that their taxpayers will not accept transfers to Africa that end up benefitting Chinese companies. I thought that was extremely short-sighted. Why did they not work together in a triangular relationship with the Chinese to deliver the infrastructure and reduce the cost of business and increase opportunities for us all, including Europeans? Because of this short-term calculus, they left. So, if you look at the EU portfolio on cross-border infrastructure, it diminished dramatically between 2000 and 2015.

Ann Bernstein: Let's turn to trade between the 54 African countries. I know you've said many times how important this is for growth. Has there been real progress made in getting rid of the barriers to trade between African countries? How optimistic are you about the African Continental Free Trade Agreement (AfCFTA)?

Donald Kaberuka: In my view a free trade agreement is merely an initial step on a journey towards full integration. I would like to see the establishment of custom unions, and then moves to establish common markets, and, one day, a common currency.

There are areas of Africa that already have a common currency and one central bank and parts of Africa are moving to higher levels of integration. The problem is bringing what is known as 'the spaghetti bowl' of overlapping memberships in different regional economic communities together into a coherent whole.

I think we are wasting too much time focusing on non-tariff restrictions, in terms of rules of origin, dispute resolution and anti-dumping legislation. We should move much faster to reduce restrictions. Right now, we are stuck in a zero-sum calculus.

It's not possible, when countries come together, that all of them gain equally at the same time. It doesn't work like that. I am, however, confident that if we grab low-hanging fruits from reducing trade barriers and work hard on tackling restrictions on the movement of bona fide persons – businesspeople, students, tourists – then the AfCFTA will succeed.

Ann Bernstein: Let's turn to your home country, Rwanda, and its remarkable way forward out of terrible violence. How would you describe the achievements of Rwanda, as well as its trajectory?

Donald Kaberuka: Nobody gave Rwanda a chance after the genocide in 1994. It was the biggest tragedy in African history. But Rwanda has shown that no matter how bad the initial conditions are, it is still possible to do great things. The leadership in Rwanda accepted that even though Rwanda was a small economy facing enormous odds it was still possible to think big. The reality is that you can be a big country and think small, and you can be a small country and think big. I think the Rwandan state's ambitions to govern for all, and to be accountable, are what created a foundation that allowed us to overcome the enormous challenges we faced, and those we continue to face.

Rwanda had a plan called Vision 2020, which was launched in 2000. It is remarkable how many of the objectives of that vision have been achieved. Now the challenge for Rwanda is to get to the next level: to achieve middle-income country status. That will require greater development of human capital. From what I can see, the ability to harness the demographic dividend is a challenge for many African countries. If we make the necessary investments in people, remain stable and improve our infrastructure, then all African countries will succeed.

Ann Bernstein: My last question is about Africa in relation to the rest of the world. You once said that "Africa has accepted implicitly the place of junior partnership in international affairs", whether it is a discussion on climate or migration. Interestingly, one of South Africa's leading papers on the weekend said much the same in different words. What do you mean by that? And how do you change this if Africa is asking for aid?

Donald Kaberuka: Aid itself is not the problem. Many economies in Europe and Japan needed aid for the reconstruction of their economies after World War II. The World Bank's first loan to Japan was to build infrastructure. The problem is how, over time, trade and investment balances out those relationships. I was identifying the fact that there is a relationship between the Global North and the Global South which has a degree of paternalism and neo-colonialism in it.

I think one of the strengths of the AfCFTA was that it was providing an answer to that issue of being a junior partner. If we succeed in achieving greater integration, we could be more of a partner in agreements with other regions.

In the early 1980s, Vietnamese 'boat people' were trying to get to Australia, very much like what one sees in the Mediterranean now with African migrants trying to get into Europe. But Vietnam is now part of the ASEAN

Dr Donald Kaberuka in conversation with Ann Bernstein on 25 July 2023

region, which has strengthened not only Vietnam, but even other small countries like Laos, Thailand, Malaysia and others. That is the promise of the AfCFTA – I think it will be the solution to many of Africa's problems.

Ann Bernstein: I certainly agree with you about the importance of growth and the determination required to achieve it, whatever your starting point. And that is how countries find their place in the world.

Donald Kaberuka, thank you so much for your time. It has been fascinating. I hope the audience has found your perspective and views as interesting as I did.

Donald Kaberuka: Thank you very much, Ann.

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