Role of the IMF in Low-Income Countries

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Good afternoon ladies and gentlemen. I think we had a very productive morning and I appreciate the frankness of the discussion. As I said at the outset, we have been listening and will continue to listen for the rest of the day. But the conference organizers decided it would be good if, for a few minutes over lunch, I relieved you of the burden of talking and conveyed some of the ideas that are on my mind and that are being discussed in the halls of the IMF. So, with your indulgence, I will temporarily move out of listening mode and speak instead.
I am very happy to be in Africa again. This is my third visit to Africa since I became a Deputy Managing Director at the IMF a half a year ago and I trust there will be many more chances to visit with you over the months and years to come. I am particularly pleased to be here in Tanzania, a country that has made great strides in recent years under the leadership of President Mkapa in mobilizing its private sector, attaining strong economic growth and reducing poverty.

There are three points I'd like to make today—they seem rather simple at face value, but I believe they raise a complex set of issues for African leaders and for Africa's partners, particularly the IMF. First, there has been a marked improvement in the global economic outlook and this presents an opportunity for Africa to ramp up economic growth. Second, to take advantage of this improving climate, African countries will need to mount a sustained effort at good domestic policies and integration into the world economy. And third, the Fund is ready to help you do just that. But we all need to think about the ways to make our partnership most effective. Let me touch upon each of these points in turn.

First, then, the global outlook. Prospects for global economic growth have improved. The world economy has turned the corner. The recovery that began late last year in the United States is now strengthening and Europe is showing positive signs of growth. The pace of economic activity in Japan has exceeded expectations, while growth in the emerging market economies is picking up. Positive trends in developed countries will help boost demand for developing country exports and catalyze growth in these countries, especially those in Africa. In particular, with the global economy poised for a more solid and widespread recovery, commodity prices are likely to continue their upward trend, which will benefit African countries that export raw materials. Similarly, oil exporting countries are benefiting from historically high prices. Prospects for Africa are thus brighter today than they were even three months ago.

I cannot cite the good news, without some words of caution. There are, of course, still significant risks to the improved global outlook. Public debt levels, in particular, remain high in many parts of the world. Demographic shifts in the advanced economies are beginning to define new fiscal challenges. The key to achieving strong and sustained growth is structural reform—in all Fund member countries. As always, it will be the Fund's task to warn its members that this is not the time to be complacent and that it is in good, not bad times that difficult decisions must be made.

This brings me to my second point—sustained sound national and regional policies will enable Africa to take advantage of these favorable developments in the global economy to boost economic growth at home and thereby raise the living standards of its people.

Let me start by laying out the achievements to date that I see in Africa, which provide a strong base on which to build. You have made encouraging progress in achieving macroeconomic stabilization and laying the foundation for strong economic growth. The best evidence for this is, that over the last three years, African GDP growth remained strikingly resilient to the slowdown in the developed economies. In 2003, African countries are estimated to have grown at an average 3.6 percent despite the weak state of the global economy. In fact, some countries including Benin, Mozambique, Senegal, Uganda and Tanzania have averaged growth rates of 5 percent over the last few years. Inflation rates have declined to single digit levels in most countries in the region, fiscal and external balances have improved. Debt levels have declined thanks, in large part, to the HIPC Initiative as well as prudent fiscal and debt management. Twenty-three countries have reached their HIPC decision point and on average debt service has declined from about 30 percent of government revenue in 1998 to 15 percent in 2002. At the same time social spending has increased to almost four times as much as debt service outlays in these countries. As the global economy improves, it will be important to maintain the strong fiscal and monetary policies that have won you these essential foundations to growth.

While macroeconomic stability is a prerequisite for durable growth, we all know it is not sufficient. If Africa wants to halve its level of poverty by 2015, average growth must be sustained at over 7 percent per year. Africa has the potential to achieve this ambitious growth target with the right combination of policies and external assistance from the international community. In fact, this is the principle that underlies the development strategy launched in Monterrey. The pursuit of sound national policies and good governance by countries combined with more effective assistance by the international community are the two pillars that will support Africa's fight against poverty and help Africa achieve the Millennium Development Goals.

African nations have already taken an important step with the formation of NEPAD. Much of the groundwork on what it will do has already been laid. However, over the coming period, it will be important to put these intentions into an operational framework and start implementing the ideas and concepts behind it.

An important challenge I see for Africa is to complement macroeconomic stabilization with further policies to strengthen governance, build sound institutions, and fight corruption. Reforms need to be aimed at improving the business environment and promoting private sector participation in economic activity. Establishing a climate in which the private sector can thrive will be instrumental in attracting private investment—both domestic and foreign. Of the roughly US$150 billion in FDI that went to developing countries in 2002, only US$7 billion came to Sub-Saharan Africa (with South Africa alone accounting for nearly US$1 billion). Therefore, institutions that allow the market to allocate resources; allow financial intermediation between savers and investors; provide a fair, transparent and effective legal system that protects and enforces property rights and upholds the rule of law; combat corruption; promote social stability; and make services work for people are all critical.

A second challenge for Africa is to liberalize trade. As President Museveni of Uganda said on one of his visits to the IMF, "Our salvation lies through trade, not aid." A lot of progress has already been made and average tariff and non-tariff barriers have fallen significantly, in some countries more than in others; however, they are still high relative to developing countries in other regions. It is in Africa's interest to be more aggressive in adopting trade liberalization in order to promote growth. Barriers to imports discourage exports and non-traditional exports tend to suffer the most. The trade practices of the past have contributed to the excessive concentration of African exports in a few volatile commodities. Sustained liberalization of trade must be a central part of Africa's strategy to develop a well diversified export sector and thereby reduce the volatility of growth.

Experience has shown that, although trade liberalization is not without cost, the net benefits are considerable. The short-term hardships experienced by some can be addressed with a properly designed social safety net, measures to promote labor skills and mobility and policies that will allow exports to expand. Trade liberalization will ensure that businesses are more competitive and will attract foreign direct investment and technical know-how from advanced countries. This in turn raises the potential of the economy by increasing productivity and fostering long-term sustained economic growth. Many of the economies that are growing successfully today, including in Africa, have done so through a determined focus on trade. This includes countries like China and Vietnam—both of which have opened up decisively—and in Africa, countries such as Uganda and Mozambique. My own country, Mexico, has benefited immensely from the free trade agreements with the United States and Canada.

Of course, the policies of the developed countries and whether they give access to African exports are also extremely important.

And this brings me to my third point—the IMF has in important role to play in being an advocate for low-income countries in the global economy and in supporting your reforms. On trade, we are playing an increasingly active role in supporting trade liberalization in *all* countries, rich and poor. We are pushing the developed countries to allow greater access for developing country exports, including the reduction of trade-distorting subsidies in agriculture. Last year's agreement among EU ministers on reforms to the EU's Common Agricultural Policy is encouraging in this respect. Although the details of these reforms are as yet sketchy, the decoupling of financial support from production levels in some areas is a step in the right direction.

The Fund will continue to push for multilateral solutions to trade barriers in the global economy. We cannot allow the recent setback in the Doha round to let the trading system lapse into bilateralism—that will ultimately be destructive to the global economy. I would underscore that our preliminary research indicates that the cost of implementing the Doha settlement is not likely to be large, as the elimination of tariff and non-tariff barriers will be done gradually over several years. However, the Fund will provide financial assistance to the countries that implement these reforms and suffer balance of payments shortfalls as a result.

So trade is one area where the Fund is a partner in supporting your efforts to achieve sustained economic growth and poverty reduction. Clearly there are others—some even more prominent than trade. Our financial commitment to the countries in Africa is well known. We have committed more than US$2 billion in concessional resources over the last 3 years to sub-Saharan Africa and we are currently supporting programs in 23 African countries through our Poverty Reduction and Growth Facility (PRGF). The process of aligning your PRGF-supported programs to each country's Poverty Reduction Strategy is critical in establishing an effective partnership as you confront your particular domestic challenges with your own policies. And the seminar today is focused on how to make our support of your growth and poverty reduction programs more effective.

Another aspect of our support is the extensive technical assistance to our member countries aimed at strengthening their institutional capacity and building fiscal and monetary frameworks that meet international best practice standards. Africa is the chief beneficiary of this assistance. We have also intensified our work to assist countries strengthen their financial sectors through periodic Financial Sector Assessment Papers (some of you know these as FSAPs) and technical assistance. And we are working with the World Bank to ensure that the advice in FSAPs is focused on the problems low-income countries face in *their* financial sectors. We are encouraging countries to become more transparent and accountable through reviews of the standards and codes in the fiscal area—known to many as fiscal ROSCs. We are also assisting African countries in improving the quality and timeliness of their macroeconomic and financial statistics through the General Data Dissemination Standard (GDDS).

In addition, responding to the request made by African leaders, the IMF has launched the Africa Capacity-Building Initiative to help train government officials and thus improve the institutional capacity of countries to design and implement their own development strategies. The two pilot African Technical Assistance Centers (AFRITACs) in Bamako, Mali, and here in Dar es Salaam, Tanzania, are a key part of this strategy. An independent evaluation of these two pilot centers will be conducted in the coming months and, if they are determined to be successful in delivering the expected outputs, the Fund will consider opening up to three additional centers throughout sub-Saharan Africa provided that there is available external financing. In addition, IMF supports the African Economic Research Consortium (AERC) and welcomes African researchers to visit the Fund for a few months. Some 100 researchers have visited the IMF under this arrangement and have helped sharpen the quality of our policy advice.

There are a number of other initiatives that the Fund has undertaken in recent months to help us improve our policy advice and support to low-income countries. Low-income countries are particularly vulnerable to exogenous shocks like natural disasters, commodity price changes, and conflicts and crises in neighboring countries. The Fund is considering ways in which we could provide additional financial assistance to mitigate the impact of these shocks.

Ladies and gentleman, I would like to conclude by saying that, in the next few years, Africa has a promising opportunity to move to a path of elevated and sustainable growth and poverty reduction. With the global outlook improving, your challenge will be to implement policies, sometimes facing tough choices, with resolve and determination so that Africa can reach its potential. I am optimistic that Africa's leaders will seize this opportunity to leverage the growing world economy to the advantage of their people. For our part, I would like to quote the IMF's Managing Director, Horst Köhler, who said to African leaders last year in Maputo: "You may rest assured that on your road, the IMF will be a reliable partner. We will stand by you, with our expertise and financial resources, to help you realize your goals and aspirations."

http://www.imf.org/external/np/speeches/2004/020304.htm