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Statement by the Hon. **ATO SUFIAN AHMED**,
Governor of the Bank for **ETHIOPIA**
on behalf of the African Governors,
at the Joint Annual Discussion

**STATEMENT BY THE HON. SUFIAN AHMED
MINISTER OF FINANCE OF ETHIOPIA
ON BEHALF OF THE AFRICAN GOVERNORS**

I. WORLD ECONOMIC OUTLOOK

1. Over the past three years, the increase in trade, financial flows, and exchanges of technology and information are factors that have created a more conducive environment for the expansion of the world economy. This process has generally led to encouraging performance and prospects for the developing countries as well as advanced economies and economies in transition. We are therefore encouraged to see that the macroeconomic and structural policies implemented in most of these countries have considerably eased inflationary expectations and reduced budgetary deficits, both of which have contributed to declining long-term interest rates as well as reduced erratic fluctuations in the exchange rates of the key currencies, and further promoted international trade.

2. This favorable international economic environment has no doubt contributed to the progress made by the developing countries, which grew by about 6.5 percent in 1996. In Africa, economic reforms seem to be bearing fruit and have resulted in an average 4.8 percent growth rate in 1996, the highest in twenty years. Forecasts based on continuation of the adjustment policies and ongoing improvement in the international economic environment suggest that this rate of growth for the African countries is expected to rebound to 5 percent in 1998 after registering 3.7 percent in 1997.

3. As a number of studies have shown, Africa's economic performance remains below potential, and inadequate to reverse the trend in poverty. Africa must be competitive and produce more in order to achieve annual rates of growth above 7 percent. It is our view that it is only under such circumstances, with greater non-debt-creating capital inflows and strengthened human and institutional capacities, that Africa can meet the twofold challenge of improving the living conditions of its people and integrating into the world economy.

**II. AFRICA AND THE GLOBALIZATION OF THE ECONOMY:
CHALLENGES AND OPPORTUNITIES**

4. Meeting this twofold challenge is one of our key concerns, especially as we are aware of the marginalization of our continent in the current globalization of the economy. Indeed, based on the fact that globalization implies more dynamic international trade and capital flows, we must resolutely reverse, in international trade, the current decline in Africa's—and especially sub-Saharan Africa's—share, which stands below 2 percent. We must also considerably improve our saving and investment rates in comparison with those of other

regions, and must attract more foreign direct investment so as to raise its share of capital flows to the African region. Indeed, this should be possible as we have, through the implementation of structural adjustment programs, managed to keep our economies on the path of macroeconomic stability. Thus we have laid greater emphasis on market-based policies, redefining the role of the state in the economy and improving basic infrastructure. Our actions have also aimed at promoting the agricultural sector as well as the social and educational sectors, which, in our view, are the groundwork for sustained development. Furthermore, knowing that the sustainable growth of our economies and the improvement of the living standards of our populations are dependent on more efficient management of our resources, we are giving the highest priority to the issues of good governance, efficiency and transparency in the management of public resources. However, all these efforts have not yet received the desired response from the international community.

5. We are determined to pursue our actions in all these areas, in spite of the limitations of our current efforts. Consequently, we believe that the active support of the international community, and of the Bretton Woods institutions in particular, should enable us to achieve the objectives we have set. We hope that this support will form part of a mutually beneficial partnership, in which the advanced countries open their markets wider to our goods and services and in which our economic reforms are supported by concessional bilateral and multilateral financing. In this context, we are very much encouraged by the recent G-7 economic statement in Denver (U.S.A.) emphasizing the need for the international financial institutions to reinforce their efforts to support reforming sub-Saharan African countries in the areas of greater openness, regional integration, and wider participation in the world economy.

III. RESOURCE FLOWS

6. We are cognizant of the need to accelerate the mobilization of our internal resources to promote higher investment rates. However, the contribution of additional external resources is also crucial in strengthening and improving the financing of our adjustment programs and projects in priority sectors. We believe that the international community has an important role to play in this process, particularly in helping our countries create conditions that favor the mobilization of external capital. We deeply regret the steady decline in official development assistance (ODA), which is marginally compensated with private capital inflows. This decline makes it difficult for our countries to successfully complete the ambitious reform programs being implemented in the priority areas of our economies. As for IDA resources, we are firmly committed to redoubling our efforts to ensure that these resources are mobilized and used effectively. In this regard, we must once again thank donors for their efforts to replenish IDA resources and their intention to explore long term financing mechanisms for IDA.

Enhanced Structural Adjustment Facility

7. We reiterate our support for the Enhanced Structural Adjustment Facility (ESAF), which has thus far been very useful in supporting the adjustment programs of the low-income countries. While we are pleased with the broad consensus achieved in the international financial community in favor of continuing ESAF operations, we remain concerned about the uncertainties regarding its financing in the interim period (2000-2004). We, therefore, invite the IMF to do everything possible to ensure the adequate financing of this facility by the donor countries, especially at a time when the ESAF is called upon to play an additional role in providing debt relief within the framework of the HIPC Initiative. In this regard, we continue to be in favor of a partial sale of the Fund's gold holdings to supplement any shortfalls in contributions from the bilateral donors.

Private capital flows

8. We are determined to pursue the economic reforms needed to stimulate sustainable economic growth with the private sector as the driving force. To achieve this key objective, we have undertaken to create or revitalize the financial markets and to introduce appropriate regulatory and legal frameworks. Our ambition is not only to mobilize domestic private capital, but also to have access to international capital markets. It is quite worrisome that capital flows to African countries remain inadequate. The international community should therefore support our efforts in this endeavor so that the African countries that have improved their macroeconomic environment may have voluntary access to the capital markets. Thus our countries would become less dependent on external aid. In addition, the World Bank, through the International Finance Corporation, should promote greater involvement of the domestic private sectors in the privatization process through "piggy backing" schemes. Furthermore, it should encourage the international private sector to participate in private investment financing, especially with regard to basic infrastructure.

The debt problem

9. The debt burden remains a significant constraint for the economic and social development of Africa, as it constitutes a substantial drain on our resources and limits the impact of our efforts to achieve our priority objectives. Indeed, in 1996, Africa's external debt increased to USD 320 billion, with a corresponding rise in the debt service to exports earnings ratio. Considering these figures, it is disturbing to note that Africa's debt burden continues to worsen, even though several countries have benefitted from debt relief under several schemes (Toronto, Naples, IDA, etc.). It is also disturbing to note that multilateral debt rose to about 30 percent of total debt in 1996, compared to 16 percent in 1990. In this context, we consider that more viable solutions to our debt problem must be found urgently, so as to enable Africa to use its limited domestic resources for accelerating its development and its integration into the world economy. We appreciate the recent efforts of the international community and the Bretton Woods institutions to reduce the debt burden of some African countries under the HIPC Initiative. We also welcome the broadening of the eligibility criteria. However, we are

still concerned by the three additional years required between the eligibility decision point and the completion point, during which a country is expected to demonstrate its commitment to its reform program, thus establishing a track record of reform. In our view, a rigid interpretation of what constitutes a good track record might defeat the very purpose of the Initiative, which is to achieve a viable environment conducive to growth and development. We therefore ask for a reduction of the three-year period and greater flexibility in the implementation of this new initiative, so that it may indeed reduce significantly the external debt overhang of a large number of eligible countries. The Denver Declaration is, in this regard, very well appreciated and we look forward to concrete actions by all creditors. Furthermore, for those countries that are ineligible for the HIPC Initiative and whose debt service continues to absorb too great a share of their resources, and here we refer especially to some middle-income countries, we urge the international community to consider the implementation of a debt relief mechanism that is adapted to their needs.

IV. CAPACITY BUILDING

10. Capacity building is the key to Africa's development. In this regard, we would like to pay particular tribute to the President of the World Bank for his exceptional commitment to this initiative. We appreciate the creation of a technical group for capacity building in the African region. We are pleased to observe that twelve capacity-building appraisals have been conducted and others are planned for the near future. All the workshops and seminars scheduled under this initiative have been held and have enabled African authorities to meet and discuss issues related to this topic and to consider practical solutions. The meetings also shed light on the goals and principles that should underlie this new African initiative--to build human and institutional capacities. We are also pleased to inform the assembly that we are in the process of putting in place national secretariats on capacity-building issues. The secretariats will be responsible for coordinating capacity-building issues and activities at the national level and will be the sole interlocutors with the donor community on these issues. We expect that a Partnership Group on Capacity Building in Africa and a Capacity Building Trust Fund, which form the backbone of this initiative, will be created in the next few months. We appeal to all partners in development, including foundations and the private sector, to contribute as well. We are counting on the support and participation of the World Bank and the IMF in the mobilization of international financial and other assistance for the effective launching of the initiative. We wish to emphasize that our initiative is comprehensive and incorporates the activities of existing institutions, including those of the African Capacity Building Foundation (ACBF).

V. INTERNATIONAL TRADE AND REGIONAL INTEGRATION

11. Notwithstanding the agreements reached within the WTO, export prospects remain uncertain for African countries. Our products still have limited access to international markets owing to the numerous barriers in those markets. However, we do recognize the positive aspects of the current Lomé agreements and we are pleased with the draft treaty between the

United States and Africa on trade and investment, which is currently being reviewed by Congress and also opens up new trade prospects for our countries. Africa must become more integrated in world trade. To this end, our countries have begun to take appropriate measures to eliminate obstacles to the movement of capital, goods, and people so as to accelerate cross-border investment. We urge the Bretton Woods institutions and the international community to support these efforts.

12. We are committed to pursuing the regional integration process under way with the view to enabling us to implement common projects, especially in the areas of basic infrastructure, information dissemination, and human resource development. While we know that in all cases we must first rely on our own resources, nonetheless, the international community has a role to play. In particular, we believe that the Bretton Woods Institutions can create the necessary instruments to strengthen our sub-regional and regional economic integration so as to expand our limited domestic markets and create more viable economic entities.