

**INTERNATIONAL MONETARY FUND
WORLD BANK GROUP**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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

Statement by His Excellency Mr. Ahmed Suffian
Minister of Finance, Ethiopia
Chairman of the African Caucus
Plenary Session, October 6, 1998

Mr. Chairman, Honourable Governors, Distinguished Ladies and Gentlemen:

It is my privilege to address this meeting on behalf of my fellow governors in the African Caucus. It is my hope that the spirit of cooperation that has been exercised by the international community during the recent past will help us during the deliberations in arriving at solutions to many of the challenges confronting the world economy. Since I have already circulated my detailed statement, I shall restrict myself to a few comments on the global economy, and on issues relating to Africa, highlighting the progress we have made and outlining an agenda for the future in the context of a new partnership with the international community, particularly the Bretton Woods Institutions.

In the past year, the world economy has been characterized mainly by a succession of financial crises in South East Asia and in a number of other emerging markets. However, Africa has not escaped the contagion effects. Countries in the region have experienced a sharp decline in commodity prices, a reversal in net capital inflows, and a deterioration in international competitiveness, among others. The present circumstances complicate the task of economic reform and adjustment in Africa, especially the large number of countries facing an unsustainable debt burden.

These current developments have sounded a wake-up call to the risks of rapid globalization of financial markets and the importance of concerted action by the international community to contain the crisis. For the immediate future, the countries directly affected as well as other emerging economies must continue the process of deep-rooted reforms, focusing on stabilizing the financial sector together with credible fiscal and monetary policies. At the same time, the advanced economies must focus on implementing policies that are supportive of global economic growth. On our part, our countries are continuing the process of structural reform, and remain committed to the pursuit of sound and transparent economic management. However, we need increased support from the Bretton Woods institutions and the donor community to reinforce our efforts to combat poverty.

The international community must take decisive action to strengthen the architecture of the international monetary system. In this connection, we welcome the efforts being undertaken by the IMF and others to reduce the risk of disruptive shifts in market sentiment, as well as the risk of contagion. We also support the emerging consensus that private financial institutions must play a more active role in helping to ensure the stability of the international financial system, through orderly debt work-outs based on the principle of equitable burden sharing. Meanwhile, efforts to promote international capital flows should proceed cautiously,

taking into account the specific circumstances of each country, and ensuring that weaknesses in specific areas of an economy are not exacerbated when capital controls are removed.

Mr. Chairman, Africa is a continent of many opportunities. The commitment of countries in the region to economic reform is now firmly rooted. Sound fiscal and monetary policies, economic liberalization, and good governance, are the pillars on which the new African economy is being constructed. According to the Fund's March World Economic Outlook, there is evidence that we are making progress: 36 countries recorded growth of 3 percent or more in 1997 compared with 18 in 1992, and there is cautious optimism for the medium term; average inflation has fallen sharply from 36 percent in 1994 to almost 11 percent in 1997 and is projected to fall below the average for developing countries as a whole; public sector finances are much improved in most countries; monetary aggregates generally reflected a conservative policy stance; and reserves have more than doubled in the past five years. However, since we are starting from a low base, many of our countries continue to face widespread poverty. In this connection, the role of the Private Sector can not be over emphasized. In addition every effort must be made to improve Africa's share of foreign direct investment

Mr. Chairman, Macroeconomic stability, is a necessary condition to making Africa an attractive place for investment. However, looking forward also requires emphasis on a more robust strategy with a longer-term horizon. Such strategy must contain the following elements, among others:

- Increased investment in basic infrastructure and human resource development must be a priority. Both the public and private sectors should play their respective roles in this endeavor.
- Taking into account the regional economic integration strategy of the Abuja Treaty establishing the African Economic Community (AEC), we pledge for stronger efforts towards regional integration in order to increase market size and promote Africa's integration into global economy. Africa's declining share in global trade suggests that we are losing the battle. We believe much would be gained if the international community, particularly the Bretton Woods institutions, would undertake cooperative programs with existing regional institutions
- It is crucial that the international community support Africa's Capacity Building Initiative for which a business plan has been completed after extensive consultations with relevant partners. This would give confidence to investors and ensure greater efficiency in public administration.
- The enhancement of domestic resource mobilization is closely tied to Africa's need for increased investment. In this regard, we need help in developing

domestic financial markets, extending financial services to the rural areas, reforming the banking system and improving government revenue.

It is also important to emphasize the need for commencement of viable development and reconstruction programs in countries that are now emerging from situations of conflict. We should explore innovative ways of reducing the debt burden of these countries, including those with substantial arrears to multilateral institutions, as part of the early process of helping these countries rebuild their economies.

Africa is aware that its economic strategy must be underpinned by a stable socio-political environment. The efforts African countries are making to improve transparency in government operations and to encourage political pluralism owe much to this awareness. The progress being made, in this regard, would benefit from adjustment programs that are more carefully tailored to the environment in which they are to be implemented, paying particular attention to well-designed social safety nets. The burden of adjustment and reform cannot be ignored if countries are to sustain the social consensus during periods of major adjustment. An important step toward making reform programs more acceptable to the local constituency is to have a new partnership among donors, the multilateral institutions and the countries in need of assistance that supports increased domestic ownership of such programs.

Mr. Chairman, the new partnership must also seek to match the level of development assistance to Africa with the strengthening of the reform effort that is evident in many countries. It is disappointing that net official development assistance to Africa in 1997, was negative and this trend is expected to continue at least until 1999. Timely and adequate financing from the donor community will help our countries increase investment in infrastructure, in health, and in human resource development; all of which make a direct contribution toward the expansion of the private sector.

The inadequacy of concessional financing for African countries is also an issue requiring the attention of the Fund and the World Bank. We must express our profound disappointment that, as of now, financing for the Interim ESAF and the HIPC Initiative has not been secured. We urge the International Community and the Executive Board of the Fund to consider all options to bring this matter to a successful conclusion, including the sale of a portion of the Fund's gold. With regard to the World Bank Group, we welcome the on-going negotiations for the twelfth replenishment of IDA resources and, as in the case of ESAF, look forward to their successful completion.

Mr. Chairman, the issue of Debt Relief. For a large number of African countries, there is an urgency for significant debt relief. A heavy external debt overhang is a major obstacle to growth and development. This is why we attach considerable importance to the implementation of the HIPC Initiative and are encouraged that, since our last meeting, some of our countries have been put on the track towards receiving debt relief under this Initiative. We urge the international community to quicken the pace of qualifying other eligible countries, because the timing of debt relief can be the critical difference as to whether a

country can sustain economic reform while taking steps to address in a meaningful way the all-important question of widespread poverty. In addition, we would like to see greater consideration given to human development indicators, to the fiscal burden of debt, and debt sustainability factors other than the standard ratios currently being applied. Also there should be much greater acknowledgment of the need to advance the completion point.

While there are good reasons to require a solid track record of reform in order to qualify for debt relief under the HIPC Initiative, it is important to approach the matter with pragmatism, bearing in mind the differing circumstances that influence both a country's adjustment strategy as well as the speed of adjustment and reform. We urge the Bretton Woods institutions to continue their efforts to persuade other creditors to meet their equitable burden sharing responsibilities in terms of the HIPC Initiative. In addition, the international community should continue to make efforts to address the debt problem facing all African countries.

In conclusion, Mr. Chairman, we in Africa believe that we have reached a new threshold in our development experience. Since our social and political systems are changing to facilitate better governance and ownership of programs, we believe there is now a stronger basis for promoting accelerated growth and development. We invite the international community, especially the Bretton Woods institutions, to join us in implementing Africa's economic agenda in the spirit of an enhanced partnership.

Thank You.