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The Role of the International Monetary Fund in Africa in Africa

Remarks by Mr. Anupam Basu (International Monetary Fund) at the UNITAR Workshop for African Diplomats on Financial Management, Negotiation and the Bretton Woods Institutions (New York, USA 3 to 5 April 2001)

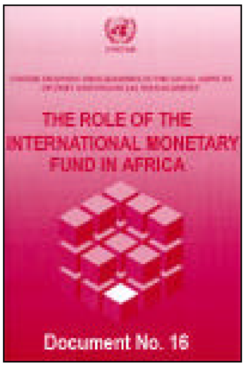

Table of Contents

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INTRODUCTION

This chapter has been written as part of a UNITAR *Workshop for African Diplomats on Financial Management, Negotiation and the Bretton Woods Institutions*, which primarily invited African diplomats accredited to the United Nations in New York. The aim of the workshop was to familiarize African diplomats with the structure, functions and role of the Bretton Woods institutions (the World Bank and the International Monetary Fund). The workshop also aimed to sensitize participants to the current debates focusing on the evolution of a new international financial architecture, as well as to allow them a deeper insight into the challenges and opportunities involved in negotiating with these institutions. Finally the workshop panel discussions allowed participants and panellists alike to discuss the role of African diplomats in the context of these debates.

The overarching aim of this UNITAR initiative is to bring together African diplomats and officials from the World Bank, the IMF, the NGO community, the United Nations and academia, with a view to discussing a broad range of issues concerning development finance for Africa. With this in view, UNITAR was able to draw on the expertise of a broad range of senior officials from the Bretton Woods institutions as well as the United Nations, university faculty and the private sector.

Let me also take this opportunity to remind the reader that this initiative forms part of UNITAR's broader and ongoing training programme in *the Legal Aspects of Debt and Financial Management for Sub-Saharan African countrie*s. As part of this training programme, UNITAR brings together African public officials from a range of agencies, including the Ministry of Finance, Ministry of Justice, Ministry of Foreign Affairs, the Attorney-General's Chambers, and the Central Bank, as well as parastatals involved in borrowing or negotiating international agreements. The primary aim of such workshops – conducted in-country and on a regional basis – is to bring together officials with different backgrounds to appreciate the multidisciplinary nature of financial management issues and the centrality and importance of the legal aspects of the borrowing process. Participants at these workshops are not only lawyers but also negotiators, decision makers, financial experts, economists and accountants coming from government offices.

This chapter has been contributed by Mr. Anupam Basu, who hails from the International Monetary Fund. UNITAR is grateful to Mr. Basu for his contribution to our training activities and for his input in the publication of this document.

I hope that this document is useful as well as challenging to the readers.

Marcel A. Boisard
Executive Director of UNITAR

THE ROLE OF THE IMF IN AFRICA[1]

This chapter begins by discussing the recent signs of economic recovery in Africa and the challenges that need to be addressed. Then it reviews the main areas of economic policy that the International Monetary Fund (IMF) has focused on in its surveillance activity, technical assistance operations, and provision of financial assistance to African countries. Further, it discusses the role of the Fund in the context of member governments' poverty reduction strategy papers (PRSPs), the Poverty Reduction and Growth Facility (PRGF), and the Initiative for the Heavily Indebted Poor Countries (HIPCs). Finally, it highlights the areas where it would be essential to strengthen collaboration between the Fund and other multilateral institutions and bilateral donors.

Recent Economic Recovery

In recent years, there have been encouraging economic trends in many African countries—**an increase in real growth rates, a decline in inflation, and a narrowing of financial imbalance**s. After declining in the 1980s and the early 1990s, average real per capita income in sub-Saharan Africa grew at an annual rate of 1.5 percent during the second half of the 1990s. In the latter period, growth performance improved in 37 of the 47 countries in sub-Saharan Africa. The region's fiscal and external current account deficits have shown declining trends. Moreover, the continent's two largest economies—South Africa and Nigeria—are today, more than ever before, well positioned for stronger economic performance. There is, therefore, encouraging evidence that economic reform efforts in Africa are beginning to show positive results.

While the recent improvements in economic performance are heartening, there is no doubt that **much more remains to be don**e. Poverty remains widespread. Private investment is subdued. The economies of sub-Saharan Africa have remained largely undiversified and, hence, highly vulnerable to changes in external conditions. In several cases, an already fragile economic situation has been weakened severely by ongoing conflicts. It is also well known that the external debt burden is heavy in some 30-40 low-income countries in Africa:

- Africa's external public debt rose rapidly from an annual average of US$87 billion in 1980-84 to a peak of US$247 billion in 1995 (i.e., from 56 percent of GDP to 119 percent in 1995) but has been slowly declining since.

- The composition of the debt has also changed. Whereas about 60 percent of the external public debt was owed to official bilateral and multilateral creditors at the start of the 1980s, by the end of the 1990s that share was closer to 80 percent. This relative decline of the debt to private creditors is particularly pronounced among the African HIPCs.

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[1] The views expressed in this paper are those of the author and do not necessarily represent those of the IMF or IMF policy.

- The external debt service paid has followed much the same trend. It is interesting that debt service actually paid was never more than 25 percent of exports of goods and services or of total government spending on average (over all African countries), although the debt service due was considerably higher. Africa's heavy debt burden absorbs significant proportions of government revenue and domestic savings.

The high indebtedness of African countries reflects many factors:

- Some are beyond the authorities' control—declining official development assistance (ODA) flows, weak commodity prices, civil conflict, and adverse climatic conditions.

- **However some factors reflect inappropriate national policies,** such as weak macroeconomic policies (especially in the area of public resource management), structural policy rigidities, recourse to nonconcessional borrowing, and poor governance. The external resources borrowed for budgetary and other public sector operations were not used productively: they did not enhance the government's ability to repay the external debt, nor did they contribute to higher incomes and faster growth.

Future Economic Challenges

Notwithstanding the welcome signs of improved economic performance, there is no doubt that much higher growth rates are needed throughout the continent to achieve a substantial reduction of poverty establishing and lasting progress in raising living standards. Furthermore, establishing a more pro-poor pattern of growth remains a challenge in much of Africa.

At the same time, in trying to meet this challenge, it will be important for African countries to ensure that economic policies are successfully adapted to the ongoing and likely changes in the international environment. Three major global trends are already visible and likely to become increasingly significant:

- More and more countries are **opening up their foreign trade in goods and service**s.
- More and more countries are moving toward an **increasingly broad-based liberalization of their exchange system**s, including progressive capital account liberalization, in order to benefit from the ongoing integration of global financial markets.
- More and more countries are responding to the globalization of markets for goods, services, and financial capital by **reinforcing their domestic macroeconomic and structural adjustment policies, in order to ensure competitiveness and achieve integration on both a regional and global basis.**

Against this setting, it will be important for African countries to open up their economies and to broaden and deepen their linkages with their regional neighbors, as well as with the international economy. In the process, African countries will have to adapt their policies, taking into account both the availability and prospects of official foreign aid, and, as in the past, the need to respond in a timely manner to periodic exogenous shocks (such as variations in the terms of trade and in weather conditions).

Looking ahead, intensified efforts to reduce poverty and promote growth will have to be combined with vigilance and policy flexibility to adapt to developments in the global economy. In this context, **the Fund will be supporting the reform efforts of the African countries through three channels: (1) surveillance procedures; (2) financing in support of adjustment programs; and (3) technical assistance.**

Surveillance

The Article IV consultations with member countries and the World Economic Outlook will remain the Fund's main tools of surveillance:

- The World Economic Outlook (WEO) is the vehicle for a systematic monitoring and analysis of the global economic situation, and it provides a useful international framework for the bilateral policy dialogue between the Fund and its member countries. In particular, it focuses on the implications for Africa of the forecasts for growth in industrial and other countries; the commodity prices and external terms of trade of developing countries; developments in interest rates and financial flows in international capital markets; and prospects for world savings and official aid flows. The WEO is also an important vehicle for the Fund to emphasize the importance of industrial countries' giving developing countries greater access to their markets. In the period ahead, the Fund will also be working closely with the World Trade Organization (WTO) to support the integration of the developing countries into the global trading system. For all these reasons, regular reviews of the balance of payments and external debt situations, in the light of evolving trends in the global economy, will continue to be essential for each African country. Updating the global perspective and adjusting the policy framework to respond to new global developments will be essential for all African countries.

- The annual Article IV consultations are focused on addressing the policy issues relevant to strengthening the foundations for high-quality growth, on the one hand, and to averting and/or dealing with potential crises arising from adverse shocks, on the other hand. These consultations provide an occasion to make candid assessments of the economic situation and domestic policies on a continuous basis; share the lessons from the experiences of policy reform in other countries; and reappraise the external outlook and the necessary policy response, as noted above. Most important, these consultation discussions will help to maintain the focus on the critical role of macroeconomic stability and growth-oriented structural reforms in furthering trade and exchange system liberalization, attracting foreign direct investment, and fostering economic integration, both regionally and globally.

With closer economic integration, issues of regional surveillance have become increasingly important, because each country has an interest in ensuring that its partners follow appropriate policies. This can be achieved by coordination of the relevant national policies within a regional context. Throughout the continent, African governments are coming together to coordinate components of their policies, and virtually all countries are now members of regional organizations. Efficient regional cooperation allows African economies to overcome the disadvantages of their relatively small size and, by opening access to larger markets, to realize economies of scale. The obligations of membership in some of these organizations also make it easier for each individual country to achieve further progress in regulatory and judicial reform (as is the case in the CFAfranc zone); to rationalize payments facilities and to relax restrictions on capital transactions and investment flows (as in the Regional Integration Facilitation Forum, formerly the Cross-Border Initiative); and to develop the mutual economic infrastructure (as in the Southern African Development Community (SADC)).

Enhancing the trade links among these countries naturally also strengthens their ability to participate in trade on a global scale and could lead toward further progress in nondiscriminatory multilateral trade liberalization.

The challenge for the future will be to ensure that these regional organizations are perceived as effective vehicles for the integration of African countries into the world economy, providing mutual support to their members in their reform efforts. They should not be considered as defensive mechanisms, intended to ward off the "negative" aspects of globalization. Common regional objectives should be set in terms of international best practices. And the regional organizations should seek to push through reforms in the areas of the legal and regulatory frameworks, financial sector restructuring, labor and investment code reform, exchange and trade liberalization, data dissemination, and codes of accountability and transparency in the government finances and the financial sector that seek to reach international standards as quickly as possible. The pace of progress should be what is feasible, not what is comfortable for the slowest member.

Financing in Support of Adjustment Programs

To make the fight against poverty effective, it will be essential to design the policy framework with a view to achieving clear goals for broad social progress as rapidly as possible. With this in mind, the Interim and Development Committees of the Fund endorsed the adoption of an enhanced framework for poverty reduction by low-income countries, which would be presented in PRSPs prepared by the national authorities. They also endorsed the replacement of the Enhanced Structural Adjustment Facility (ESAF) by the new Poverty Reduction and Growth Facility (PRGF). All PRGF-supported programs would be drawn from the country-led PRSPs; the targets and policies embodied in PRGF programs would emerge directly from the country's poverty reduction strategy. Sustainable poverty reduction would be at the center of all new growth-oriented adjustment programs.

A. Objectives of the New Strategy

The proposed new approach reflects the view that there is a need for poverty reduction strategies that are, inter alia,

- **country driven, with** the **broad participation** of civil society, elected institutions, key donors, and relevant International Financial Institutions (IFIs);
- developed from an **understanding** of the **nature and determinants of poverty** and the **links between public actions and poverty outcomes**;

- built on the recognition that sustained poverty reduction will not be possible without **rapid economic growt**h; and
- oriented toward **achieving outcome-related goals for poverty reductio**n.[2]

The new framework for poverty reduction (Box 1) recognizes the increasing evidence that entrenched poverty and lack of economic opportunities and asset endowments can themselves be impediments to growth. It also recognizes that the determinants of poverty are complex and that the causes and solutions will be country specific. Nevertheless, there will generally be some common ingredients of a sound poverty reduction strategy. Rapid, sustainable growth will be possible only if the poor are able to fully participate in the growth process. Faster growth will require prudent macroeconomic management, including sound management of public resources, robust private sector activity and investment, and appropriate sectoral and structural policies that contribute to economic efficiency. The experience of countries that have implemented sound macroeconomic policies—both inside Africa and outside—suggests that lower inflation tends to enhance income equality, and that the prudent management of foreign debt and reserves is necessary to guard against financial/currency crises, which could set back output growth and poverty reduction. Structural policies also generate important benefits for the poor: the elimination of distortions in product and factor markets helps to increase employment opportunities and the supply of essential goods, as well as the poor's access to them.

Today, African countries are pushing ahead with structural reforms in several important areas, with a focus on the following:

- **a redefinition of the role of government** away from direct involvement in production and toward improving the functioning of markets, and the quality of the tax system and public expenditure, as well as the use of more resources (including larger amounts of foreign assistance) for productive public expenditures;
- essential social and economic infrastructure projects that can contribute significantly to poverty reduction and growth;
- **improved governance,** which would ensure transparency and efficiency in public resource management, provide a more secure and predictable environment for domestic and foreign investment, and promote greater ownership of the reform efforts;
- **a more rapid privatization process,** which would create space for the private sector;
- **a faster pace of trade liberalization,** which would enhance the efficiency and competitiveness of domestic producers, and speed up Africa's integration into the global economy;

[2] These goals should be established in the context of the International Development Goals drawn up by the OECD/Development Assistance Committee (DAC) and endorsed by various UN conferences which set poverty reduction objectives to be met by all countries by the year 2015.

Box 1. Principles Underlying the PRSP Approach

Country driven

- Country ownership of a poverty reduction strategy is paramount. Broad-based participation of civil society in the adoption and monitoring of the poverty reduction strategy tailored to country circumstances will enhance its sustained implementation.

Results oriented

- An understanding of the nature and determinants of poverty, and the public actions that can help reduce it, is required for the formulation of an effective strategy.
- Medium- and long-term goals for poverty reduction, including key outcome and intermediate indicators, are needed to ensure that policies are well designed, effectively implemented, and carefully monitored.

Comprehensive

- Sustained poverty reduction will not be possible without rapid economic growth; macroeconomic stability, structural reforms, and social stability are required to move countries to a higher path of sustainable growth.
- Poverty is multidimensional; specific actions are needed to enable the poor to share in the benefits from growth, increase their capabilities and well-being, and reduce their vulnerabilities to risks.
- Apoverty reduction strategy should integrate institutional, structural, and sectoral interventions into a consistent macroeconomic framework.

Partnerships

- Agovernment- developed strategy can provide the context for improved coordination of the work of the Bank and the Fund, as well as that of regional development banks and other multilaterals, bilateral assistance agencies, NGOs, academia, think tanks, and private sector organizations.

Long-term perspective

- A medium- and long-term perspective is needed, recognizing that poverty reduction will require institutional changes and capacity building—including efforts to strengthen governance and accountability—and is therefore a long-term process.
- National and international partners' willingness to make medium-term commitments will enhance the effectiveness of their support for a poverty reduction strategy.

- **financial sector reform,** which would promote the soundness of the banking system, strengthen savings mobilization, and help **finance growth and the private secto**r; and
- **regional integration,** which would reinforce the expected results in increasing sustainable growth and poverty reduction in large geographic regions.

Poverty reduction strategies will derive their dynamism from a virtuous circle encompassing sound macroeconomic policies that reduce inflation and promote growth, on the one hand, and a government's social policies, on the other hand, which are aimed at fighting poverty, providing appropriately sound safety nets, and reducing income inequality. Such a virtuous circle would help to foster broad-based support for sustained reform.

B. Key Elements of the Poverty Reduction Strategy Paper (PRSP)[3]

The new strategy emphasizes the need to ensure the consistency of economic policies with poverty reduction, thereby requiring a new approach to the specification of a country's poverty reduction objectives and the policies selected to achieve these goals (Box 2). First and foremost, the PRSP is a document to be prepared by governments. It should incorporate **an analysis of the various dimensions of povert**y; of how growth, public policy, the institutional framework, and exogenous shocks affect these dimensions; and of the existing obstacles to more rapid growth and effective poverty reduction. Such an analysis would examine the expected effects of specific policies and policy options, and thus enable the government to identify those policies likely to have the greatest impact on poverty. It would help the authorities set appropriate targets for various dimensions of poverty, as well as identify the necessary changes in institutions and policy indicators. The latter changes would allow for the continuous monitoring of the effectiveness and proper targeting of poverty reduction policies.

A **consultative and participatory process,** involving representatives of various groups in civil society, would be critical to ensure that the PRSP reflects an effort to build consensus in support of the strategy, its desired objectives, and the policy priorities to address the issue of poverty. This shared vision should contribute to a greater sense of ownership of the poverty reduction strategy and a broad commitment across civil society to pursue the poverty reduction strategy. There would also be a process of consultations with donors, multilateral institutions, and other development partners concerned (Box 3). These steps, which should be led by the national governments, provide a basis for enhancing the transparency and accountability of government expenditure and budget implementation. The development of participatory processes—for setting poverty reduction goals, for monitoring the implementation of policies, and for providing feedback on the effects of the policies— is thus a key feature of the PRSP.

The PRSP should also provide a **framework for coordinating external assistance. As such, key donors should participate in its formulation at an early stag**e. An essential part of the strategy would be to identify the technical assistance needs, assess the financing requirements of different policy options, and analyze the effects of possible changes in the level of external assistance on the implementation of the strategy and the achievement of its targets.

[3] A joint IMF-World Bank paper on PRSPs, which serves as the basis for this paper and is much more detailed, was discussed by both Executive Boards and is available on the IMF and World Bank websites.

Box 2. Questions for Consideration by Country Authorities to Consider When Designing a PRSP

Obstacles to poverty reduction
- What are the key patterns of poverty in its various dimensions?
- How are these influenced by the level and pattern of growth; public policy; public service provision; social and institutional functioning; and exogenous shocks?
- What are the main obstacles to more rapid growth and to the spread of growth benefits to the poor?

Objectives and targets
- What targets for the various dimensions of poverty reduction have been established?
- What are the targets for selected intermediate indicators?

Strategy/action plan
- What are the priority public policies needed to increase growth and reduce poverty?
- What institutional changes are needed to implement the strategy?
- How can public spending and institutions be made more efficient and responsive to the needs of the poor?

Monitoring and evaluation systems
- What is the framework for monitoring progress of the strategy, and what is the involvement of civil society in the process of evaluation?
- What safeguards ensure the transparency and accountability of public budgeting and expenditure?

External assistance and the external environment
- What level of external assistance is expected to be available to support the country's efforts?
- Could more assistance be effectively absorbed, and if it were, what would be the likely impact on poverty reduction goals?
- How does technical assistance, from all sources, support implementation of the strategy?
- What would be the effect of greater access to partner-country markets on growth and poverty reduction?

The participatory process
- What is the nature of the participatory process and how are the views and interests of the poor incorporated?
- What impact does the process have on the formulation and content of the strategy?

The poverty reduction strategy paper (PRSP) would be a country-specific document, adapted to the particular circumstances, including the specific economic and social setting, of each country. Nonetheless, to ensure consistency between a country's macroeconomic, structural, and social policies and the objectives of poverty reduction and social development, a PRSP would characteristically include the following:

- **Long-term goals** for key poverty reduction targets and the macroeconomic, structural, and institutional framework for achieving these, drawing on international and country-level experience would be incorporated into the PRSP.

- Given the long lags—both in reporting and in effects—typically associated with poverty outcomes and the need to ensure shorter-term monitoring of progress, the longer-term goals could be translated into **annual targets covering, say, a three-year horizon for related intermediate and proxy indicators.**[4]

- The **policy and institutional underpinnings** for rapid sustained growth and poverty reduction—including institutional and structural reforms, sectoral strategies, and specific poverty-reduction programs and targets, as well as the associated domestic and external funding needs—should all be **integrated into a consistent macroeconomic framework over a period of at least three years.**

Box 3. Factors for Consideration by Governments in Drawing Up Their Participatory Processes

Participatory processes need to reflect the cultures, practices, and institutions of the countries concerned. General models are of little value. This said, possible considerations might include the following:

- the involvement of as broad a spectrum of government as possible, including parliament, where applicable;
- the inclusion of as wide a range as possible of civil society participants and other stakeholders, so as to represent the views of the poor;
- the participation by civil society in the monitoring of the implementation of the strategy and the achievement of outcome indicators;
- the possibility of receiving feedback on the strategy adopted by those consulted; and
- the participation of key donors and multilateral institutions in the formulation of the strategy.

[4] As indicated in footnote 2 above, these long-term goals should be set with reference to the International Development Goals for 2015, which aim at reducing the incidence of extreme poverty by half and reducing infant and child mortality by two-thirds; achieving universal enrollment in primary education by 2015; eliminating gender disparity in education (by 2005); and implementing national strategies in all countries by the year 2005 to reverse trends in the loss of environmental resources by 2015.

C. The Role of the Fund and the World Bank

Although the PRSP will be a government document, it is expected that the Fund and the Bank would be closely involved in the PRSP process. The role of the Fund and the Bank will vary across countries, but overall the two institutions will seek to exchange views with the authorities on the links among the macroeconomic framework, growth, and poverty reduction. Specifically, the two institutions would present to the authorities for discussion a shared country-specific perspective on the nature of poverty in the country, the key obstacles to more rapid growth and poverty reduction, and the range of policy options for addressing these problems, with particular reference to the main policy issues facing the government in the areas of macroeconomic, structural, and social policies. The staffs would give an initial view of the current resource envelope and the possible scale of expenditures for poverty reduction, as well as the current levels of external assistance and the prospects for aid over the medium term. This common perspective would serve as a frame of reference for an informed dialogue between the Bretton Woods institutions and the national authorities.

D. Implications of the New Strategy for Fund Operations

The New PRGF

The Fund's new Poverty Reduction and Growth Facility (PRGF) has been designed to support the country's poverty reduction strategy and ensure that macroeconomic policies are closely integrated with social and sectoral objectives. It thus reflects the internal and external evaluations of the ESAF, its predecessor, as well as the suggestions of member countries. The targets and policies of PRGF-supported programs will emerge directly from the country's poverty reduction strategy. All macroeconomic policies and targets will be discussed openly as part of the consultative process. The cost of social and sectoral programs for poverty reduction will be analyzed, and their budgetary impact will be reflected in the design of the macroeconomic framework, particularly as regards the level and composition of government spending (including the scope for reallocating government spending toward social objectives), and the targets to be considered for fiscal and external deficits.

Increased emphasis will also be placed on **improving governanc**e, particularly as concerns the efficient management of public resources, greater transparency, and increased government accountability. It is expected that civil society will be kept fully informed about developments in all relevant aspects of the program and will be actively involved in monitoring its overall implementation.

The framework of macroeconomic and structural policies will remain focused on creating a conducive environment for private sector activity, raising domestic savings, encouraging domestic and foreign investment, and enhancing productivity. It is recognized that adequate financing would have to be provided in support of the policy framework to facilitate the attainment of the poverty reduction objectives. An explicit analysis of the implications for the programs if the available financing is more or less than proposed will also be necessary. PRGF-supported programs will take full account of the scope for raising domestic resources, including additional domestic fiscal revenues. Once the domestic resource constraints have been identified, an adequate level of external financing on appropriate terms would need to be raised. For this reason, it is critical that the participatory process set policy priorities for poverty reduction, so that the most efficient adjustments can be made if funding and spending differ from program assumptions.

While a PRSP would be prepared through a participatory process every three years, the underlying strategy would be updated by annual progress reports in the intervening years, as appropriate.

The enhanced HIPC Initiative and debt management

It has also been recognized that under the right conditions a decisive solution to the debt problem in Africa will go a long way to smoothing the process of macroeconomic adjustment, and to releasing more resources for implementation of a more ambitious growth strategy and for a greater allocation to poverty education programs. Accordingly, the enhanced HIPC Initiative has been designed to provide faster, deeper, and broader debt relief, in the context of a strengthening of the links between debt relief and poverty reduction.

Deeper debt relief is to be provided through the following:

- a **lowering** of the net present value **(NPV) of the debt-to-export target** to 150 percent (from the current range of 200-250 percent) **and of the NPV of the debt-to-fiscal revenue target** from 280 percent to 250 percent, with a **reduction of the qualifying thresholds** for the latter from 40 percent to 30 percent (export-to-GDP ratio) and from 20 percent to 15 percent (revenue-to-GDP ratio); and
- calculation of **debt relief based on actual data at the decision point** rather than on projections for the completion point.

Faster debt relief is intended to free up resources for poverty reduction programs through the following:
- the provision of **interim relief** between the decision and completion points;
- the introduction of **floating completion points,** permitting strong performers to reach the completion point earlier by accelerating the implementation of key reforms while maintaining macroeconomic stability; and
- the **front-loading of the delivery of debt relief by IFIs,** provided total assistance does not exceed the country's absorptive capacity and the resulting time profile of debt relief does not jeopardize the achievement of debt sustainability over the medium term.

These modifications also result in a broadening of debt relief by expanding likely eligibility from 29 to 36 HIPCs, and possibly other countries.

However, it is clear that debt relief will not automatically translate into poverty reduction, just as the debt that was initially incurred was not translated into higher investment, higher growth, and reduced poverty. **A number of elements must be in**

place to ensure that debt reduction and the increased resources made available to countries have **a visible positive impact on poverty reduction:**

- First, one must be vigilant to ensure that, while **additional debt relief is** provided for, and **used in, the social sectors, existing resources are not diverted to unproductive use**s; otherwise, nothing will have changed—no additional resources will have been made available for quality spending. Thus, debt relief must be accompanied by determined efforts by recipient governments to spend the additional resources on poverty alleviation, including on sectors such as health and education. This is fundamental.
- Second, while channeling additional resources into spending on social sectors and poverty alleviation programs will be highly desirable, it will be equally important that such **spending be implemented in an efficient manne**r. It is not just the quantity of spending that is important but also its composition and quality. It will be crucial to **improve the efficiency and cost-effectiveness of public service deliver**y.
- Third, governments must evaluate all the options for use of the increased resources in the context of an overall policy strategy that maximizes the prospects of fostering growth and alleviating poverty. In considering the allocation of available resources, one would need to **take into account not only the need for higher social spending but also the costs of critical structural reforms** (such as those associated with lowering trade taxes and restructuring public enterprises and banks). It is possible that, in some cases, an appropriate pattern of uses for the additional resources will have to be a mix of policies that maximizes the impact on poverty reduction. Such a strategy could contribute importantly to creating a more stable macroeconomic environment or an investment climate that is more conducive to private sector activity, thus providing a basis for the expansion of much-needed employment opportunities.
- Fourth, poverty reduction programs will have to be underpinned by **good economic governance practices that ensure the transparency and accountability** of the programs; this is essential to provide a basis for the **effective participation of civil society in the formulation, implementation, and monitoring of poverty reduction programs.**
- Finally, the donor community will have to ensure that debt relief does not become a substitute for other aid flows. We are all only too well aware that flows of official development assistance from the OECD nations to the developing world have been on a declining trend in recent years. These flows—at an average of 0.23 percent of the GDP of donor countries—remain well below agreed international objectives. **To make additional resources available for poverty reduction, donors must not give with one hand and take away with the other: resources should be truly additional.**

In light of these considerations, the **key functions of debt management will need to be put on a sound footing in order to avoid a recurrence of debt problems in HIPC countries.**

First, **policy analysis** will need to cover an assessment of the sustainability of the borrowing program. This will require an examination of whether the country's primary fiscal balance and noninterest external current account balance are likely to strengthen sufficiently to generate the needed debt-servicing capacity in the public and private sectors. The amounts, terms, and uses of future borrowing will need to be consistent with future trends in government revenue, export receipts, and economic growth prospects. It will be important to avoid a bunching of amortizations, as well as embedded "put" options that allow the creditor to demand early payment.

Second, it would be essential to have an **appropriate regulatory framework** that requires borrowers to report the details of borrowing activities, including loan receipts and repayments, and the underlying transactions being financed. The government should clarify its policies regarding the issuance of guarantees and the on-lending of its borrowings. It should require entities that benefit from government guarantees and on-lending to implement policies that will ensure their ability to service their debts. Central banks should aim to have adequate amounts of usable gross reserves and should be wary of contingent liabilities, bearing in mind the need to meet debt-service payments on all maturities (public and private) falling due over the coming year.

Third, **a proper accounting framework** is needed to account for the changing character of capital flows and their diversification, namely, the diversity of instruments, sources of capital, and creditors. Proper mechanisms are needed to ensure that all private sector borrowing conducted through commercial banks is reported to the central bank and assessed by the banking supervision authority in light of appropriate prudential guidelines.

Fourth, the maintenance of **a comprehensive database on debt** is essential for informing the policymaking process.

Finally, as the capital flows become more diverse, there will be a need for **increasingly active debt-management policie**s. The government will be required to make choices regarding the extent of market penetration and participation, and regarding the choices of instruments, markets, currencies, and maturities to manage risk.

E. Transitional Arrangements

The implementation of the participatory PRSP process will take time. For this reason, and to bring as many eligible countries as possible to their decision point under the HIPC Initiative, a period of transition is envisaged during which PRSPs can be formulated without disruption to ongoing concessional support from the Fund and the Bank to low-income countries. For countries not in a position to prepare a PRSP at the time of the HIPC Initiative decision points or of Fund approval of a new PRGF arrangement, an interim PRSP would be produced and endorsed by the two Boards. This document would present (1) the broad elements of the poverty reduction strategy, and indicate a time frame and consultative process for the elaboration of a full-fledged PRSP; (2) a jointly agreed three-year macroeconomic framework; and (3) a policy matrix focused on poverty reduction. Policy commitments and targets for the outer years would be revised as the interim document is developed into a full-fledged PRSP. Although the length of the transition period would depend on the individual country's circumstances, it is generally expected that the first PRSP could be produced within two years or less, so that only one interim PRSP would be necessary.

F. The Link Between PRSPs and the HIPC Initiative

Countries seeking assistance under the HIPC Initiative should, in principle, have a PRSP in place at the decision point under the HIPC Initiative or, at the least, an interim PRSP. In addition to the elements discussed above, the interim PRSP would also set out the key policy reforms, including in the area of poverty reduction, that would trigger a reaching of the completion point.

In general, all countries should have adopted a PRSP and made progress in its implementation by the completion point, when debt relief is to be provided under the HIPC Initiative. This implies at a minimum a satisfactory first annual progress report on the implementation of the PRSP. Special arrangements will hold for countries that have already reached their decision and completion points.

It should also be recognized that, as governments enter into the PRSP process, there are likely to be wide differences in country experiences—for example, differences in the capacity to engage in participatory processes with civil society, the existence of poverty assessments and knowledge about the nature and locus of poverty, and the availability of data that could be used to measure poverty outcomes. It is therefore important to recognize that the participants in the process will go through a period of learning-by-doing in which they will have to be guided by country experience as it evolves, and in which experimentation will be welcomed.

G. Assistance to Post-Conflict Countries

In post-conflict countries, the Fund’s role should be seen as an integral part of a broader coordinated strategy by the international community to ensure the maintenance of peace and an orderly transition from conflict to conditions conducive to stabilization and sustained growth.

The IMF has worked closely with the UN in post-conflict cases (such as Angola, Rwanda, and Sierra Leone), including as a member of the Interagency Working Group on Post-Conflict Situations. After the end of a conflict, coordination of technical and financial assistance is particularly important because of the disruption of normal relations
that often occurs during the period of the conflict, as well as the need to rapidly rebuild institutional and administrative capacity, and, in some cases, ensure that a peace settlement is consistent with a sustainable macroeconomic framework. The Fund’s involvement in these cases can be characterized as follows:

- It has been part of an internationally coordinated assistance, including where the UN has taken the lead.
- The Fund’s primary role during the early phase in these situations has been to help reestablish macroeconomic stability and institution building, in particular the treasuries and central banks, through policy advice and technical assistance.
- Once the situation has stabilized sufficiently, IMF financial assistance has been provided in support of economic reforms.

- For post-conflict countries that are not yet able to develop and implement a comprehensive economic program, the Fund expanded the scope of its policy on emergency assistance in September 1995 to provide financial assistance, clearly linked to a comprehensive technical assistance program including institution-building aspects, within an initial framework of policies designed to reestablish conditions for economic stability and eventually, recovery and growth.

The Fund has been taking a number of actions to reduce the cost of IMF emergency assistance for low-income, post-conflict countries, including making an early replacement of the IMF's nonconcessional general resources provided under emergency post-conflict assistance with resources provided under the concessional PRGF. Also, the Fund has sought contributions from bilateral donors to subsidize the interest cost of its post-conflict assistance.

For some heavily indebted post-conflict countries, arrears clearance and the resumption of net financing flows would not by themselves result in sustainable debt-service positions. In these cases, following the establishment of a satisfactory track record under a follow-on arrangement, debt to the IMF and other creditors could be subject to action under the HIPC Initiative.

H. IMF Collaboration with the UN and Its Specialized Agencies

Programs of macroeconomic and structural adjustment aimed at generating growth and reducing poverty typically cover a wide range of policy issues, including, inter alia, the foreign trade regime, labor market policies, social safety nets, agricultural policies, and environmental concerns. Many of these subjects are in the domain of the UN and its specialized agencies. Collaboration between the IMF and the UN on these subjects has grown at both the institutional level and the country level.

At the institutional level, the Fund has tried to help member countries incorporate the major recommendations of UN global conferences on the environment, population, social development, women, and food security.[5] The Fund has also increased its staff participation in meetings and initiatives organized by intergovernmental and interagency committees and commissions; increased the exchange of information; intensified collaboration in the statistical area; and enhanced collaboration in post-conflict situations.

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[5] To support the Agenda 21 proposals of the 1992 UN Conference on Environment and Development (UNCED), the Fund staff prepares background information on environmental issues for discussion with country authorities. The staff has been involved in studies and seminars aimed at expanding its understanding of the relationships between macroeconomic policies and the environment. The 1994 International Conference on Population and Development (ICPD) resulted in a program of action that highlighted the efforts required to meet the needs of countries in population and development. The World Summit for Social Development (WSSD) stressed the importance of integrating social development goals and policies into adjustment programs. The 1995 Fourth World Conference on Women (FWCW) focused on the need to improve the status and the quality of life of women.

In response to the recommendations of various UN conferences, the Fund has been working with African countries to, inter alia, (1) restructure the composition of public expenditure, with a view to reducing unproductive outlays (including excessive military expenditure), increasing allocations for social and development programs (including for primary education and basic health services), and promoting women's access to social services; (2) design flexible labor market policies, aimed at increasing employment opportunities (including for women); (3) integrate cost-effective social safety nets to meet the needs of the poor and the vulnerable groups; (4) provide technical assistance for building institutional capacity to set and implement public expenditure priorities, achieve greater budgetary transparency, and raise revenue in an efficient and nondiscriminatory manner; and (5) strengthen collaboration in these areas with the World Bank and UN agencies. In response to the call of the IMF's Interim Committee in October 1995, collaboration between the IMF and the International Labour Organization (ILO) has been strengthened, with a view to helping the IMF staff to acquire a better understanding of labor market and social protection issues, and the ILO staff to integrate in their policy advice the IMF's view on the macroeconomic policies of member countries.

There is a long tradition of collaboration between the IMF and the UN in the statistical area. The Fund has been an active participant in the UN Statistical System. At the recent joint UN/OECD/World Bank/IMF meeting on statistical capacity building during November 18-19, 1999 in Paris, the Fund agreed to participate in an international strategy to ensure adequate funding and support for National Statistical Systems, including for compiling social indicators.

Country-level collaboration between the UN system and the IMF largely takes place between Fund missions and/or resident representatives and the UN resident coordinators—who are generally United Nations Development Program (UNDP) representatives—and representatives of other specialized UN agencies.

Collaboration between the IMF and the UNDP covers technical assistance and a wide range of economic and social development issues, including consultations in connection with Round Tables and Consultative Group meetings. To strengthen this collaboration, the Managing Director of the Fund and the Administrator of the UNDP jointly issued in July 1996 a guidance note to their staffs. This note called on the staffs of the two institutions to enhance collaboration, focusing on technical assistance programs and building on the UNDP's experience in capacity building and on the Fund's technical expertise in fiscal, monetary, and related statistical matters.

Over the past three years, Fund staff has participated in interagency consultations with staff from the Food and Agriculture Organization (FAO) and the World Food Program to monitor aggregate supply and price conditions and the general world food situation. The Fund is a participant in the new UN Administrative Committee on Coordination (ACC) Network on Rural Development and Food Security (organized by the FAO and the International Fund for Agricultural Development) (IFAD) as the mechanism for interagency follow-up to the World Food Summit. Discussions are also under way between the Fund and IFAD on launching a few pilot projects for collaboration on agricultural sector policy issues in individual countries, starting with Ghana and Tanzania.

Over the past year, the Fund has strengthened its collaboration with the World Health Organization (WHO). WHO has provided the Fund with health policy briefs on selected countries (starting with Uganda in Africa) that gave a broad overview of the main issues in the health sector of the selected countries. Other countries for which the WHO is considering preparing such briefs are Ethiopia, Mozambique, and Tanzania. The Fund is a member of the Commission on Macroeconomics and Health, which was recently established by the Director-General of WHO.

The WTO signed cooperation agreements with the World Bank and the Fund in 1996. These cooperation agreements provided for regular consultations between the heads of the three organizations, a High-Level Working Group on Coherence (consisting of senior staff of the three institutions), enhanced procedures for the exchange of documents, attendance by staff (as observers) at appropriate board and committee meetings in the other institutions, and contacts (both formal and informal) among the staff, including the pursuit of joint research projects and seminars. The Fund is a participant in the Integrated Framework for Trade-Related Assistance to LDCs (IF), along with the WTO, the World Bank, the UNDP, and the International Trade Centre. The IF seeks to increase the benefits that developing countries derive from the trade-related assistance provided by the six participating and other development partners. So far, 40 developing countries (including Uganda) have indicated an interest in participating in the IF by submitting their initial "Needs Assessment." Uganda is the only case so far in which new projects have been generated by the IF.

Since the WTO serves primarily as a forum for discussions among members, it is largely through periodic multilateral negotiations, the dispute settlement mechanism, and the accession process that trade policies of individual members are influenced; the WTO also conducts periodic trade policy reviews with members. Procedures have been set up to ensure that Fund advice on member countries' trade reforms is consistent with their WTO objectives. Fund policy advice is oriented to improve economic efficiency and thus may go beyond WTO commitments. As a result, the IMF, through surveillance and, more specifically, within its program support, may seek broad-based and faster trade reform than provided for by WTO agreements. However, in contrast to WTO commitments, such reform would not be "bound" and may, therefore, be subject to reversals should circumstances change.

The Fund and the World Bank collaborate closely on trade policy issues in the context of adjustment programs because of the macroeconomic implications (such as the need to reform domestic taxes to offset the loss of revenues from the reduction of trade taxes) and the implications of complex tariff reforms for specific industries and sectors. The Fund's technical assistance programs tend to be in the areas of customs administration and reform, statistics, and broad-based tax reforms, including reducing the dependence on trade taxes. The Bank's technical assistance programs tend to be broader and cover such areas as infrastructure development, institution building, and trade facilitation. The Bank also provides operational support and disseminates information on "best practices" to support the trade expansion of developing countries.

Technical Assistance and Capacity Building

The envisaged far-reaching reform efforts will require a strengthening of domestic institutional and administrative capacities. In this context, we all should recall that the Partnership for Capacity Building in Africa has stressed the need for a targeted and strategic approach to capacity building and institutional reform. This means that African governments, as well as their multilateral and bilateral partners, will need to work closely together to help achieve this goal.

The IMF Institute channels a significant share of its training resources into cooperation with regional training institutes in Africa (such as the ones in Dakar, Harare, and Yaoundé); it also organizes high-level seminars that bring together senior officials of African governments to exchange views on policy issues of special relevance to their region, drawing on lessons from the experiences of others. Moreover, the Fund is providing substantial technical assistance to member countries in a broad range of macroeconomic policies, and it is expected to intensify these efforts in light of the assessments and action programs for enhancing capacity in individual countries. Most important, capacity building will continue to be stressed in countries implementing adjustment and reform programs supported by the Fund's PRGF.

While devoting efforts to build homegrown capacity to formulate and implement appropriate policies, governments will also need to focus on the urgent task of articulating and pursuing sound policies, availing themselves as necessary of technical assistance from their development partners. It will also be important to ensure that the envisaged reforms, particularly in the public sector, are formulated in a way that is compatible with the thrust of adjustment policies and fiscal sustainability. We also see merit in selectivity and prioritization in meeting the challenges of capacity building. In this context, public sector reform is of the utmost importance, and it is essential to enhance the effectiveness of capacity building in such areas as the professionalization of the civil service; the formulation, analysis, monitoring, and evaluation of policy; and auditing, accounting, and financial management. At the same time, while the emphasis on strengthening private sector capacity, reforming the legal and regulatory frameworks, and fostering the participation of civil society is well placed, the scope of the necessary reforms in these areas and the time needed for their realization should not be underestimated.

The Fund will be intensifying its efforts to provide assistance and training, in close coordination with the recipient countries and other donors, to develop the African partners' capacity in the areas of macroeconomic policy and management and statistics, emphasizing the strengthening of administrative efficiency and institutions. While continuing to provide advisory missions, short- and long-term resident experts, and workshops and seminars, in line with the African Governors' demand for the promotion of regional "centers of excellence," the Fund intends to channel more of its efforts in training country officials through the regional training centers in Africa. The objective here is to strengthen the sense of **regional ownership** and enhance the regions' capacity to offer a high level of training in economic policy and management. The Fund also intends to learn from and disseminate the experiences of those countries where the commitment to reform was strong and thus the programs were successful in transferring skills, creating high professional standards, and strengthening good governance. These countries could then serve as models for reform in other countries. We will also develop and foster close contacts with skilled local experts and professionals in the various fields, calling on them as appropriate to reinforce the provision of technical assistance to the African governments.

We are also according particular importance to technical assistance in two specific areas: (1) banking and financial supervision, as a means of contributing to the formation of a professional class of financial regulators, supervisors, and managers while reinforcing and extending the institutional framework of financial sectors in African countries; and (2) a deepening of the involvement of African countries in the institutions of global trade, in close cooperation with the WTO, supported by a major effort to improve tax administration and thus reduce the budgetary impact of trade reform.

Most important of all, however, national authorities are launching programs to professionalize their civil services through wide-ranging reforms, including merit-based recruitment and career growth; security of tenure; salaries that ensure a decent standard of living and discourage corruption; political independence and neutrality; and meaningful training and career development. Their own efforts must be supported by well-coordinated technical assistance that is suited to the circumstances of each individual country, and that emphasizes the acquisition of technical and managerial skills and the promotion of self-reliance.

The Fund's policy advice and technical assistance have contributed to the development of good governance by seeking to limit the scope for ad hoc decision making, rent-seeking activities, and undesirable preferential treatment of individuals or organizations, while enhancing capacity, strengthening institutions, and improving public sector accountability. Building on this experience, and reflecting the importance that the Fund's member countries attach to issues of good governance, in August 1997 the IMF's Executive Board **adopted guidelines** to promote greater attention by the Fund staff to governance issues.

A Global Partnership for Africa's Development

What is needed to ensure the success of Africa's development efforts is a global partnership—among African countries, the governments and private sectors in industrial countries, regional organizations, and international institutions—that takes into account the diversity of requirements and policy experiences of the various African countries and tailors domestic policy requirements and international support to specific country circumstances.

The **African countries** must continue to pursue the right combination of policies, in order to maintain macroeconomic stability and deepen structural reforms aimed at accelerating private sector development, achieve higher growth rates, and reduce poverty more rapidly. In addition, they would need to ensure that civil society is a willing partner in the reform effort, and that governance issues do not impede the attainment of economic growth and prosperity.

The **industrial countries** can contribute to this partnership by implementing good policies that ensure a stable world economic environment, by opening their markets to

African products, and by reducing distorting subsidies, especially in agriculture. This is the most effective form of support for the efforts of African countries to accelerate their integration into the global economy. Equally important, the industrial countries should seek to halt the decline in ODAand strengthen targeted and temporary bilateral assistance for countries that demonstrate a commitment to reform. Their support should focus on reforms that promote private investment by improving business conditions, and on financing to meet the tremendous need for investment in human capital and infrastructure. Industrial countries should also continue to provide debt relief on concessional terms, both on a bilateral basis and in the context of the HIPC Initiative.

The **multilateral institutions,** finally, have a central role to play in defining best practices that would improve the business environment and foster growth, and thus assist individual countries in increasingly supplementing official aid with private sector support. The institutions may also serve as an important focal point for the coordination of donor policies and of international aid, including the various recent initiatives on Africa, such as the World Bank's Special Program of Assistance for Sub-Saharan Africa and the UN Special Initiative on Africa.

In conclusion, Africa's accomplishments in recent years augur well for the future. The Fund remains steadfastly committed to helping its African member countries build on this progress.

PROFILE OF THE AUTHOR

Mr. Anupam Basu, a national of India, is currently Deputy Director of the African Department of the International Monetary Fund and holds a Ph.D. in Economics from Stanford University. He is responsible for the supervision of the department's work on structural adjustment programs and surveillance. Since joining the Fund in 1971, Mr. Basu has worked extensively on African countries. He moved to his present assignment after spending seven years in the Fund's Policy Development and Review Department, where he was involved in the review of structural adjustment programs, and work on African issues in general.

About UNITAR

UNITAR is an autonomous body within the United Nations which was established in 1965 to enhance the effectiveness of the UN through appropriate training and research. UNITAR's programmes in the legal aspects of debt, financial management and negotiation are among a wide range of training activities in the field of social and economic development and international affairs carried out, generally, at the request of governments, multilateral organizations, and development cooperation agencies. UNITAR also carries out results-oriented research, in particular research on and for training, and develops pedagogical materials including distance learning training packages.

UNITAR's **Training and Capacity Building Programmes in the Legal Aspects of Debt, Financial Management and Negotiation** are conducted for the benefit of over 35 partner countries mainly from sub-Saharan Africa and Vietnam. These programmes aim at meeting the priority training needs of senior and middle-level government officials through a wide range of seminars, workshops, and training of trainers workshops. In parallel to training activities, the programme also assists in strengthening local capacities of governmental and academic institutions through distance learning training packages, up-to-date publications as well as networking activities.

During 2001, the programme will focus on:
- Training government officials through short-duration regional seminars and workshops on various aspects of debt, financial management and negotiation;
- Developing On-line Training Courses (in parallel with its traditional regional training) with a view to tapping a wider audience and reducing cost of training per participant;
- Strengthening existing ties with regional training centres and offering joint courses with partners in the field;
- Creating awareness among senior government officials of the importance of the legal aspects in the borrowing process and of putting together a multidisciplinary team for loan management and public administration;
- Providing in-depth training and skills development for accountants, economists, financial experts and lawyers coming from government ministries and departments involved in negotiation, financial management and public administration; and
- Developing and disseminating training packages and 'best practice' materials directly related to the practicalities of legal aspects of debt and financial management, with a view to strengthening existing human resources and institutional capacities at the national level.

A description of UNITAR's latest activities and training programmes in the area of debt and financial management is available on its website at: www.unitar.org/dfm.

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