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The New International Financial Architecture and Africa

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Abstract

The new international financial architecture can help African countries benefit from globalization, while minimizing the risks, and foster an environment conducive to increased domestic investment and higher sustained growth. This paper highlights the progress that African countries have made in several areas of the new architecture, but it also underscores the considerable way that these countries must go to meet the requirements of the new architecture.

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Contents

Page

Tables

Boxes

I. Introduction

The purpose of this paper is to review the relevance of the new international financial architecture to the economic and financial challenges facing Africa.[2] The paper is divided into four parts. The first part outlines the origins, main objectives, and key elements of the new international financial architecture. The second examines how the new architecture fits into the context of Africa's policy agenda. The third examines what the African countries and the International Monetary Fund (IMF) are doing to advance the agenda of the new international financial architecture in Africa. The concluding section stresses that although progress has been made, the agenda remains largely unfinished and African countries will need to make concerted efforts to meet the requirements of the new architecture so as to maximize the benefits and limit the risks of the ongoing globalization.

II. What Is the New International Financial Architecture?

The new international financial architecture has its roots in the financial crises that shook emerging market economies in the 1990s—Mexico in 1994–95 and East Asia in 1997–98. The problems in Russia in 1998, Brazil in 1998–99, and more recently Turkey and Argentina have only served to underscore the importance of strengthening the international financial architecture.

Although there are many important lessons that can be drawn from these crises, two are of particular significance. First, the domestic economic fundamentals—sound macroeconomic and structural policies, and notably a sound and properly regulated financial system—are as critical as ever. The crisis in East Asia showed some important weaknesses in those fundamentals: an easy credit policy, inappropriate exchange rate policies, financial sector deficiencies, and limited transparency of economic policy-making. The crises in Brazil and Russia were partly the result of the persistence of large fiscal deficits and growing government debts and an inability to carry out much needed fiscal reforms. The crisis in Turkey pointed to the importance of financial sector soundness, and that in Argentina to the critical role of the exchange rate regime, as well as fiscal discipline and the level of indebtedness. Second, with the rapid growth and integration of capital markets, new forms of tension, often related to large cross-border capital flows, have arisen in the international financial system. Consequently, there is a need for processes and practices to bolster this system.

The international community has launched a series of initiatives—referred to collectively as the new international financial architecture—to strengthen the operation of the global financial system. A focal point of this architecture is the prevention of crises.

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[2] The paper focuses on sub-Saharan Africa, but in some cases, also points to experience in North African countries.

Accordingly, in IMF surveillance of economic policies and developments in its member countries, the emphasis is not only on promoting sound policies but also on buttressing the institutional underpinnings of markets. Since crises will inevitably continue to erupt, the management and prompt resolution of crises represent two other key components. But as important as these tasks are, promoting sustained growth and broadly shared prosperity, within and among countries, is the ultimate objective of the international financial architecture.

Work on strengthening the international financial architecture is being undertaken on several fronts simultaneously.[3] The major building blocks encompass transparency and accountability, international standards and codes, the strengthening of financial systems, capital account issues, sustainable exchange rate regimes, the detection and monitoring of external vulnerability, private sector involvement in forestalling and resolving crises, and IMF (nonconcessional) facilities. The function that each of the main building blocks performs within the international financial architecture is briefly reviewed below.

Transparency, accountability, and good governance. Increased transparency and accountability—two critical elements of good governance—work through several channels to promote financial system stability and better economic performance.[4] The supply of information contributes to the orderly and efficient functioning of financial markets. Greater openness encourages more widespread public discussion and analysis of members' policies and reinforces the accountability of policymakers and the credibility of policies.

International standards and codes. These serve as a framework that can help focus policy decisions, highlight potential vulnerabilities, and provide information to enhance market discipline. From the perspective of member countries, standards and codes offer useful guideposts for implementing structural reforms and building policymaking and supervisory capacity. From the perspective of private economic agents, if information on progress in implementing standards is made public and used as an input into risk assessments, it may help market participants better distinguish between competing

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[3] This section draws heavily on two IMF sources: "Report of the Managing Director to the International Monetary and Financial Committee on Progress in Strengthening the Architecture of the International Financial System and Reform of the IMF," September 19, 2000; and "Reforming the International Financial Architecture—Progress Through 2000," March 9, 2001.

[4] The IMF *Guidance Note on Governance* (1997c) defines good governance in terms of the effective and transparent management of public resources and a stable economic, regulatory, and legal environment conducive to the sound management and efficient use of private and public resources.

opportunities, thereby contributing to better informed investment and lending decisions. In this way, standards and codes serve to reduce the potential for market volatility.

The strengthening of financial systems. A strong financial system is critical in helping to ensure that changes in expectations and movements in domestic and foreign financial assets do not trigger a crisis in the domestic financial system, which, depending on the country, could have spillover (or "contagion") consequences for the international financial system. A strong financial system can also contribute significantly to domestic and international financial intermediation, helping to mobilize savings and channel them to productive investments. Financial stability and effective financial intermediation can thus foster economic growth.

Capital account issues. The potential benefits of free capital flows for countries are considerable. These are underscored in the Interim Committee's September 1997 statement on the liberalization of capital movements. The statement argues that (1) by facilitating the flow of savings across countries to their most productive uses, capital movements increase investment and growth and (2) by freeing capital flows, the international monetary system can function more efficiently. Recognizing the risks of volatile capital flows, it emphasizes the importance of appropriate domestic macroeconomic and structural policies and of the establishment of a multilateral and nondiscriminatory system to underpin capital account liberalization. Ongoing discussion of these questions centers on various approaches to achieving orderly capital account liberalization and on the role of capital controls.

Sustainable exchange rate regimes. The basic role of exchange rate regimes is to contribute to the efficiency of resource allocation within and across countries, as well as to the stability of the international financial system. This issue, which is at the core of the IMF's mandate, has again and again come into the spotlight, since inconsistencies between the exchange regime and other economic policies have characterized a number of the financial crises.

Detection and monitoring of external vulnerability. This work is aimed at strengthening early detection and helping countries to better manage vulnerabilities to external shocks, especially in face of potentially large and rapid movements in international private capital. To this end, the IMF is developing an analytical framework to evaluate external vulnerability. The framework aims to promote the use of debt and reserve-related indicators of external vulnerability, improve the reliability of early warning systems, assess the usefulness of high-frequency monitoring of foreign exchange transactions, and develop guidelines on public debt management.[5]

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[5] The *Guidelines for Public Debt Management* were finalized in March 2001 and have been posted on the IMF website.

Involving the private sector in forestalling and resolving crises. Involvement of the private sector in crisis prevention and management can limit moral hazard, strengthen market discipline by fostering better risk assessment, and improve prospects for debtors to secure financial resources and for creditors to recover debts.

IMF financial facilities. The IMF revised its nonconcessional facilities, effective November 2000, to focus its lending more on crisis prevention and to ensure more effective use of its resources (IMF, 2000b). It made the terms of a new loan facility, the Contingent Credit Lines (CCL), more attractive, established the presumption that borrowers will repay loans early if their external position allows it ("time-based expectations"), imposed a surcharge on the large use of IMF resources, and strengthened postprogram monitoring. Earlier in 2000, four little-used facilities were abolished.

The initiatives for a new international financial architecture are complemented by initiatives for low-income countries focusing on debt relief and poverty reduction. To the extent that the international financial architecture is a force for macroeconomic stability, it also contributes to growth, which is crucial to efforts to fight poverty. In order to address the problems of high debt levels and poverty more effectively, the IMF took two major steps. First, it launched (jointly with the World Bank) the Initiative for Heavily Indebted Poor Countries (HIPC). Second, it made changes to its concessional facilities—the Enhanced Structural Adjustment Facility (ESAF) was replaced by the Poverty Reduction and Growth Facility (PRGF)—a facility aimed at strengthening the poorer economies through macroeconomic and structural reforms designed to promote growth and reduce poverty. Financing and technical assistance made available under economic programs supported by the PRGF also help countries implement components of the international financial architecture.

III. How Is the New International Financial Architecture Relevant to Africa?

The new international financial architecture is a response to developments that occurred far from Africa and that had little direct impact on it. The question then is whether and how the international financial architecture is relevant to Africa. This question can be addressed by looking at the policy agenda for Africa in the context of globalization. Three elements can be singled out.

Consolidation of macroeconomic stability. Experience worldwide indicates that macroeconomic stability is an essential base for sustained economic growth and that growth is an important source of poverty reduction (World Bank, 2000). The record in sub-Saharan Africa during 1995–2000 shows that the average rate of inflation fell dramatically, from an average of 26 percent in 1995–98 to 16 percent in 2000, and that the external current account deficit (excluding grants) declined in the region from an average of 5 percent of GDP to 4 percent of GDP. Furthermore, the overall economic growth rate ranged from 2 to 5 percent a year, considerably higher than the average of 0.5 percent recorded between 1991 and 1994 (Table 1). Are these trends sustainable? The recent experience in Côte d'Ivoire, Gabon, and

Table 1. Sub-Saharan Africa: Macroeconomic Developments, 1982–2000

	1982–91 Ave.	1991–94 Ave.	1995–98 Ave.	1999	2000 Est.
Real GDP growth (in percent)	2.0	0.5	3.7	2.1	3.3
Real GDP per capita growth (in percent)	–1.0	–2.0	1.2	–0.4	0.7
Inflation (in percent)	22.9	54.8	26.2	14.9	16.1
Private fixed capital formation (in percent of GDP)	n.a.	11.8	11.8	11.4	11.0
Public sector balance excluding grants (in percent of GDP)	–6.8	–8.1	- 4.8	–4.8	–2.4
External public debt (in percent of GDP)	n.a.	50.9	51.2	53.9	51.0
External public debt (in billions of U.S. dollars)	n.a.	151.1	169.0	174.7	168.4
Terms of trade (1990 = 100)	n.a.	96.6	99.4	104.2	104.2
Memorandum item:	1987	1990	1993	1996	1998 Prel.
Share of population living on less than $1 a day (in percent)	46.6	47.7	49.7	48.5	46.3

Sources: International Monetary Fund (2000c) and World Bank (2000).

Zimbabwe shows how quickly the situation can spiral out of control if constant vigilance is not exercised. Even with the recent improvement, economic growth in Africa remains below what is needed to make a lasting dent in poverty (Ouattara, 1999).

An increase in investment. A large body of empirical evidence underscores the critical importance of investment to economic growth. In sub-Saharan Africa, gross domestic investment averages about 17 percent of GDP, well short of the rates recorded in other regions—more specifically, 33 percent of GDP in East Asia and the Pacific, 22 percent of GDP in South Asia and the Middle East and North Africa, and 21 percent of GDP in Latin America and the Caribbean (World Bank, 2000). In addition, sub-Saharan Africa accounts for a very small share of the large amounts of foreign direct investment in the world economy—the very capital flows that provide technology and know-how, as well as a stable source of financing. Despite an improved economic performance in the 1990s, most African countries still have some ways to go to establish a secure economic environment, without which domestic and foreign investors will continue to shy away from opportunities in the region.

Strengthening of the financial sector. The financial sector in several African countries remains fragile, suffering from too much government intervention, weak management, inadequate capital, and poor internal and external control (IMF, 1997b). Measures are needed to enable the financial sector to promote efficient mobilization of savings and credit allocation, and to broaden access to financial products and services.

The international financial architecture can make a substantial contribution to Africa's policy agenda in advancing these elements. Two of its key building blocks—transparency and accountability and international standards and codes—are specifically designed to improve decision-making, and thus economic policies at the national level. They can also foster an economic environment that is conducive to investment and saving. More generally, the international financial architecture, by advocating broad rather than specific (or vested) interests, can help national authorities address poor governance in its various forms—corruption, inefficient management of public resources, lack of accountability of government officials, and unresponsiveness to the needs and expectations of the public. There is increasing evidence that poor governance, notably corruption, lowers investment and growth because it distorts economic incentives, reduces tax collection, lowers the quality of infrastructure and public services, and undermines the rule of law (Mauro, 1996). Thus, a framework that can help tackle the problems of governance in Africa will in turn help to sustain economic development.

Measures that promote orderly capital account liberalization and an understanding of the appropriateness of exchange rate regimes will help bring the benefits of international capital flows to African countries. And by promoting a stable global financial system, the financial architecture will serve Africa's interests.[6] Finally, several items that are part of the international financial architecture and on the agenda of the international community coincide with those of African countries: for example, efforts to strengthen financial systems, enact more rapid and comprehensive debt relief, and reduce poverty.

To argue that the international financial architecture is relevant for Africa is not to suggest that all aspects are of equal significance to the region. In this regard, it is important to disaggregate the architecture into its different components.

A critical perspective on this question comes from African leaders themselves, who have used meetings between heads of state and those of the Bretton Woods institutions to speak out on the international financial architecture and related issues. The Kampala Forum in January 1998 cited good governance, stronger (and more developmentally oriented) financial sectors, accelerated debt relief, and measures to attract foreign direct investment as being among the factors critical to Africa's economic development. The Dakar meeting six months later echoed many of these themes, while also emphasizing the role of sound macroeconomic and trade policies in meeting the challenge of globalization. The Libreville Summit in January 2001 highlighted the commitment of leaders to good governance, notably through transparency, efficiency, and accountability in the use of public resources, and endorsed the new approach of the IMF and the World Bank to combat poverty. Most recently, African leaders have consolidated their strategies to accelerate economic growth and reduce poverty into a single New African Initiative. Good governance and reliance on the private sector and on economic integration at the regional and global levels—in addition to development of the social sectors, agriculture, and infrastructure—are among the core elements of this initiative.

The rest of this paper focuses on the following components of the international financial architecture in the context of Africa: transparency and accountability, international standards and codes, and financial systems. It also reviews issues related to the opening of the capital account and the sustainability of exchange rate regimes. The other components are not discussed, either because of their limited relevance to Africa at this stage (the role of the private sector in crises prevention and resolution, reform of nonconcessional IMF facilities) or because of their emphasis on more technical issues within the IMF (external vulnerability). A brief discussion of IMF initiatives in support of debt relief and poverty reduction is included in the paper, owing precisely to their immediacy for Africa.

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[6] Although African countries, with the exception of South Africa, were not directly affected by the Asian financial crisis, they were nevertheless affected by the resulting slowdown in demand for their exports and the impact on commodity prices.

IV. What Is Being Done to Advance the Agenda of the New International Financial Architecture in Africa?

A. Difficulties in the Context of Africa

Although the international financial architecture can bring important benefits to Africa, there are a number of problems in transposing the international financial architecture to an African setting, and, for some countries, the difficulties are particularly severe. A few examples illustrate the basic concerns:

- It is sometimes difficult to separate issues of governance (transparency and accountability, standards and codes) from weaknesses in institutional and administrative capacity. Poor governance may not always reflect a lack of government commitment; even with strong and honest political leadership, eliminating corruption in Africa will take time.

- The plethora of standards and codes can be overwhelming and highly demanding of human and financial resources. And a number of standards and codes were originally formulated for industrialized countries and may not fully take into account conditions in Africa. For example, it may be easier for banks in industrialized countries to meet standards for portfolio concentration and exposure to a single client than those in countries with little economic diversification and dominated by a few large enterprises.

- The economic structure can reduce the effectiveness of market discipline and hence of transparency in African countries. For instance, the degree of state ownership in enterprises and banks in Africa tends to be higher than in industrialized countries, and, partly for this reason, the extent to which the market can be relied on to discipline is more limited.

These issues, however, do not constitute valid arguments for rejecting the precepts of the international financial architecture. This is true in particular of the aspects of the architecture related to standards and codes, where, as noted by IMF Managing Director Horst Köhler (2001), "we need to be careful to avoid creating two or more classes of member countries." Rather, these concerns serve to underscore the need for fundamental reforms to close loopholes and administrative procedures that facilitate corruption, strengthen institutional capacity, and reduce government intervention and allow the market to operate effectively. And for African countries to reach the standards and practices prevailing in industrialized countries, they will need considerable amounts of technical assistance, both from the IMF and other bilateral and multilateral institutions.

B. Transparency and Accountability

Domestic initiatives in Africa

African governments have initiated a large number of programs to enhance transparency and accountability in their respective countries, generally in the direction of the IMF's *Code of Good Practices on Fiscal Transparency* (see below).[7] These initiatives fall into two broad categories: fiscal and public sector reforms and anticorruption strategies and legal reform.

The main objective of the fiscal and public sector reforms has been to improve the low efficiency of public expenditure management and to ensure that budgetary outlays reach their destination. The reforms have encompassed a wide array of measures. To cite just a few examples:

- *Budgetary laws and public accounting regulations are being modernized.* In Burkina Faso, a new organic law is moving toward final approval by parliament, while new public accounting regulations were adopted at the end of 2000. In Tanzania, parliament enacted a new Public Finance Act in February 2001; new regulations based on this Act are to be drafted and issued soon.

- *Various funds and accounts are being consolidated.* In Gabon, all off-budget funds and budget accounts were integrated under the revised Budget Appropriations Act of 2000; and in Zambia, all controlling officers (responsible for spending in each ministry) have consolidated the commercial bank accounts that they operate into a single account at each bank. In Tanzania, the authorities intend to carry out a systematic reconciliation of the balances of all government accounts in the first half of 2001 and to reduce progressively the number of government bank accounts.

- *Budget execution is being streamlined and computerized.* In Cameroon, the number of steps in budget execution has been cut from an average of about 16 to 3, and the number of players reduced considerably. Several countries have established computerized budget systems. For example, in Burkina Faso, a fully computerized integrated public bookkeeping system, which includes the regional treasury offices, was launched in early 2000. In Gabon, a newly integrated information system on

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[7] In addition, there has been a strong regional push to improve governance and tackle corruption. The West African Economic and Monetary Union (WAEMU) adopted a Code of Transparency in June 2000, and the ministerial council of the WAEMU adopted in November 2000 a framework of cooperation in the fight against corruption and money laundering. In December 2000, the heads of state of the Central African Economic and Monetary Community (CEMAC) also adopted a regional framework to fight corruption and money laundering.

government finance is being put in place. And in Tanzania, a newly Integrated Financial Management System (IFMS) is now the government's main accounting system and can produce monthly commitment and expenditure reports, as well as reports on arrears. In support of the system, the Ministry of Finance held a publicity campaign in March 2000 to make suppliers aware that payments would only be made on the basis of purchase orders issued through the IFMS. In addition, budget guidelines issued in December 2000 require that spending units present a monthly cash-flow plan, along with their annual budget, that conforms to their aggregate ceilings and clearly shows the estimated time pattern of cash payments.

- *Procurement procedures are being tightened.* In Cameroon, an internationally recognized auditing agency (Ernst & Young) conducted an audit of procurement procedures and of the 10 largest contracts awarded in 1998–99. The audit revealed serious flaws, and as a result, a new system will be put in place with the appointment of a special commission to run procurement activities. In Gabon, a new committee set up to audit procurement tenders has begun operations.

- *Control functions are being strengthened.* In Cameroon, the control functions of the Ministry of Finance and of the external audit agencies are being enhanced. In Gabon, all public investment projects must now be approved by the Chief Planning Commissioner (Commissaire Général au Plan), and the oversight functions of the Government Audit Office (Cour des Comptes) have been reinforced. In Tanzania, the office of the Accountant-General has been strengthened, and because increased powers with no funding to carry them out is of little use, the office received its own vote in the 2000/1 budget. In Uganda, detailed accounts on the utilization of public funds are prepared each year and sent to the Auditor General within three months of the end of the fiscal year. Moreover, the Auditor General's report on the accounts of the government and all public institutions is forwarded to parliament within nine months of the end of the fiscal year. Finally, in Zambia, the Ministry of Finance has written to all controlling officers, setting out their responsibilities and disciplinary steps in case of infractions.

Efforts to root out corruption are evident in the establishment of national governance strategies or agencies in several countries. In Nigeria, for example, the new independent Anti-Corruption Commission is to have primary jurisdiction over the investigation and prosecution of all forms of official corruption, including the recovery of misappropriated public property. In Uganda, the Ministry of Ethics and Integrity is charged with coordinating or overseeing work on the leadership code, government procurement procedures, the rules and procedures for accounting officers, and the law governing the auditor general. Burkina Faso, Cameroon, and Tanzania are also among the countries that have drawn up governance plans. In addition, legal reforms that are being implemented cover a wide array of issues, including increases in the number of judges and the removal of sovereign immunities previously enjoyed by certain public agencies (Nigeria), the establishment of commercial courts (Tanzania), and decentralization (Cameroon). These efforts notwithstanding, the work to fight corruption is only just beginning.

Operational framework of the IMF

The IMF has taken a series of measures to improve transparency in its own policies and in the advice it provides to member countries. This section focuses on the participation of African countries within this framework (Box 1).

- *Public Information Notices (PINs)*, published following Article IV consultations, summarize the Executive Board's assessment of the annual "economic health check" carried out by IMF staff. The 146 countries that have participated in this program since it started in 1997 include 33 countries in sub-Saharan Africa (or approximately 75 percent of the countries in the region) and the 3 countries in North Africa (Table 2).

- *The pilot project for publication of Article IV (and combined Article IV/Use of Fund Resources) Staff Reports* recently became permanent policy. Since 1999, when the pilot was launched, 61 countries, of which 8 in sub-Saharan Africa and the 3 countries of North Africa, have participated in this project.

- Under current policy, the presumption is that program documents—Country Policy Intentions Documents, such as Letters of Intent (LOIs)/Memoranda of Economic and Financial Policies (MEFPs) or Poverty Reduction Strategy Papers—will be published and posted on the IMF website. Between June 1999 and July 2000, LOIs/MEFPs pertaining to 53 countries, of which 21 in Africa, were authorized for publication by the authorities.

C. International Standards and Codes

Data standards

Domestic initiatives in Africa

Data in many African countries are of poor quality for a variety of reasons: shortages of experienced staff and equipment, methodological weaknesses, underreporting of activities, lack of reliable source data, and long lags in reporting and publishing. The authorities in several countries are taking steps to correct these problems to enhance the quality and timeliness of their data. Technical assistance by the IMF is playing an important role in these efforts, both in identifying the problems and in issuing recommendations.

Several countries have sought to reinforce the legal basis for statistical work: Gabon and Tanzania plan to adopt a statistics law in the coming months, and Uganda has had one on the books since 1998. In this last case, the Statistics Law is designed to ensure proper funding of the Uganda Bureau of Statistics and facilitate coordination among the relevant data-compiling agencies. Several countries are also making a concerted effort to bring statistical

Box 1. Publication Policies for Selected IMF and Member Country Documents

Document	Decision
Surveillance	
Concluding Statements of Article IV Missions	Voluntary
Article IV Staff Reports and Combined Article IV/Use of Fund Resources Staff Reports[1]	Voluntary
Recent Economic Developments, Selected Issues Papers, Statistical Appendices	Voluntary
Financial System Stability Assessments (FSSAs)	Voluntary
Reports on Observance of Standards and Codes (ROSCs)	Voluntary
Public Information Notices (PINs) following Article IV Consultations	Voluntary
PINs following Board discussions on regional surveillance	Voluntary
Use of Fund Resources	
Poverty Reduction Strategy Papers (PRSPs) and Interim-PRSPs	Presumed. The staff, however, would not recommend Board endorsement of a PRSP unless it was published.
Joint Staff Assessments (JSAs) of PRSPs	Presumed
Letters of Intent/Memoranda of Economic and Financial Policies (LOIs/MEFPs)	Presumed
Technical Memoranda of Understanding (TMUs) with policy content	Presumed
Use of Fund Resources Staff Reports	Voluntary
Chairman's Statements	Presumed
HIPC Summing Up	Presumed—combined into Chairman's Statement
HIPC Initiative Papers	Presumed
Post Program Monitoring (PPM) documents	A decision is being considered in the context of the Executive Board discussion of Fund facilities.
Decision on waivers of nonobservance or applicability of performance criteria	Presumed—referenced in Chairman's Statement[2]
Policy and Other Documents	
Board Papers on policy issues	Based on whether the discussion has reached completion or the point where informing the public is deemed useful.
PINs following Board discussions on policy issues	Based on whether the discussion has reached completion or the point where informing the public is deemed useful.
Staff Visit Concluding Statements	Voluntary
Mission Team Assessments on Staff-Monitored Programs	Voluntary
Mission Concluding Statements	Voluntary
Staff-Monitored Program LOIs/MEFPs	Voluntary
Stand-Alone Staff Reports	Voluntary

Sources: International Monetary Fund, "IMF Reviews the Experience with the Publication of Staff Reports and Takes Decisions to Enhance the Transparency of the IMF's Operations and the Policies of its Members," PIN No. 00/81, September 20, 2000; and "IMF Reviews Experience with the Financial Sector Assessment Program (FSAP) and Reaches Conclusions on Issues Going Forward," PIN No. 01/11, February 5, 2001.

1/ Including Staff Reports for interim discussions with the authorities issued to the Executive Board for information.

2/ In the rare case of a request for a waiver by the authorities on a lapse of time basis, the public would be informed in a press release of the nature and purpose of the waiver and the Executive Board decision taken.

Table 2. Participation in Transparency and Standards and Codes Initiatives, March 2001 1/

Initiatives 2/	(1) Africa	(2) Asia	(3) Eastern Europe	(4) Latin America	(5) Middle East	(6) Rest of World 3/	(7) Total IMF Members
Number of countries	44	9	15	14	23	78	183
SDDS subscriber							
Number of countries 4/	1	7	10	8	0	22	48
Percentage	2%	78%	67%	57%	0%	28%	26%
PIN published							
Number of countries	33	8	15	13	9	68	146
Percentage	75%	89%	100%	93%	39%	88%	80%
Article IV Staff Report published							
Number of countries	8	1	11	5	4	32	61
Percentage	18%	11%	73%	36%	17%	41%	33%
FSAPs, completed so far							
Number of countries	2	0	3	2	3	2	12
Percentage	5%	0%	20%	14%	13%	3%	7%
FSAPs, completed and committed 5/							
Number of countries	7	2	7	8	7	18	49
Percentage	16%	22%	47%	57%	30%	23%	27%
ROSC Modules, completed so far							
Number of modules	17	6	27	10	14	36	110
Percentage of total modules	15%	5%	25%	9%	13%	33%	100%
ROSC Modules, completed and committed							
Number of modules 6/	43	14	50	33	33	58	231
Percentage of total modules	19%	6%	22%	14%	14%	25%	100%

Source: International Monetary Fund.

Note: For definition of acronyms, see Box 1.

1/ The regional groupings are a representative selection of emerging market, transition, and selected other countries for each region, and differ from those of the World Economic Outlook.

2/ While several international fora have made pledges or endorsements concerning these initiatives, this has not been reflected in the data for committed FSAPs or ROSCs. The G-20 (which comprise the G-7, Argentina, Australia, Brazil, China, India, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, and an EU representative) has committed its members to participating in FSAPs and ROSCs. The Western Hemisphere Finance Ministers Group has committed its members to participating in ROSCs and encouraged them to participate in the FSAP.

3/ The "Rest of the World" group is composed of IMF member countries not included in columns 1 through 5.

4/ In addition, Tunisia subscribed to the SDDS in June 2001.

5/ The ECCB Area has committed itself to participate in an FSAP, but is not included in the data here.

6/ It is assumed that for each country, an FSAP would produce, on average, three ROSC modules.

series—notably statistics for the national accounts, fiscal operations, and balance of payments—up-to-date and up to recognized standards (e.g., the Balance of Payments Manual and Government Finance Statistics published by the IMF). In Tanzania, the authorities intend to organize a new industrial production survey and establish regular meetings of the recently formed interministerial committee on statistics to address major issues in measuring GDP. Finally, in the context of the Poverty Reduction Strategy Papers (see below), improvements to the data on poverty and social sector issues have become a top priority in many countries.

Operational framework of the IMF

The work of the IMF on data standards centers on two sets of norms: the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS).

The SDDS was established in March 1996, soon after the Mexican crisis, which underscored the negative impact of information weaknesses. It is intended to provide a set of data-disseminating standards to which countries participating in international capital markets, or aspiring to do so, can subscribe. It covers four key dimensions of statistical practice: data (coverage, periodicity, and timeliness), access, integrity, and quality. Subscription to the SDDS is voluntary, but observance of the standard by subscribers is mandatory. A total of 49 countries—major industrial countries and emerging market economies, of which South Africa and Tunisia—have subscribed to the SDDS.

The GDDS was established in December 1997 with the aim of encouraging member countries to improve their data quality; providing a framework to evaluate needs and set priorities for data improvement; and guiding member countries in the dissemination of comprehensive, timely, and reliable economic, financial, and sociodemographic statistics to the public. It is being implemented in two phases. Phase I (May 1998 to May 2000) focused on education and training. Among the nine regional seminars held to inform countries about the GDDS, one took place in October 1998 in Cameroon for French-speaking Africa (organized in collaboration with the Bank of Central African States, BEAC), and another in November 1999 in South Africa, for English-speaking Africa (organized in collaboration with the South African Reserve Bank). In addition, one or two countries in each region volunteered to participate in the preparation of pilot descriptions of national statistical practices (or metadata), including plans for improvement, within the framework of the GDDS. The pilot work has been completed in all countries, two of which are in Africa (The Gambia and Uganda). Phase II (launched in May 2000) focuses on the gradual implementation of this system. A total of 32 countries, of which 6 are in Africa (Cameroon, Côte d'Ivoire, The Gambia, Mauritius, Tanzania, and Uganda), are participating in the GDDS, and more than 50, including 20 in Africa, have expressed their intention of doing so.

Codes of good practices

There are codes and standards in three areas (in addition to statistical work) pertaining to the direct operational focus of the IMF:

- The *Code of Good Practices on Fiscal Transparency* (adopted by the Interim Committee in April 1998 and revised in March 2001) is based on the following key objectives: roles and responsibilities in government should be clear; information on government activities should be provided to the public; budget preparation, execution, and reporting should be undertaken in an open manner; and fiscal information should be subjected to independent assurances of integrity. Some of the steps that the authorities are taking in selected countries to meet these objectives have already been described.

- The *Code of Good Practices on Transparency in Monetary and Financial Policies* (adopted by the Interim Committee in September 1999) highlights two principles. First, monetary and financial policies can be made more effective if the public knows the goals and instruments of policy and if the authorities make a credible commitment to meeting them. Second, good governance requires that central banks and financial agencies be accountable. A recent assessment of practices in Cameroon concluded that the "BEAC overall demonstrates a fairly high degree of transparency" in its monetary and financial policies (International Monetary Fund, 2000d). In Uganda, a similar exercise reported that "general aspects of monetary policy and operating procedures are generally transparent" (International Monetary Fund, 1999).

- The *Basle Core Principles for Effective Banking Supervision* (released by the Basle Committee on Banking Supervision in September 1997) establish a set of 25 basic principles that the Basle Committee believes must be in place for a supervisory system to be effective. Their coverage is comprehensive, addressing the preconditions for effective banking supervision, licensing and structure, prudential regulations and requirements, methods of ongoing banking supervision, information requirements, formal powers of supervisors, and cross-border banking. The Basle Core Principles are intended to serve as a basic reference for supervisory authorities worldwide. In this regard, banking supervision in most African countries falls well short, but a number of countries are making considerable efforts to move toward these standards (see below).

There is also extensive work being undertaken on other standards in a wide range of domains (Box 2).

Box 2. List of Selected Standards and Codes

Data dissemination: The IMF's *Special Data Dissemination Standard/General Data Dissemination System* (SDDS/GDDS).

Fiscal transparency: The IMF's *Code of Good Practices on Fiscal Transparency.*

Monetary and financial policy transparency: The IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies.*

Banking supervision: Basle Committee's *Core Principles for Effective Banking Supervision.*

Securities: International Organization of Securities Commissions'(IOSCO) *Objectives and Principles for Securities Regulation.*

Insurance: International Association of Insurance Supervisors'(IAIS) *Insurance Supervisory Principles.*

Payments systems: Committee on Payments and Settlements Systems' (CPSS) *Core Principles for Systemically Important Payments Systems.*

Corporate governance: OECD *Principles of Corporate Governance.*

Accounting: International Accounting Standards Committee's *International Accounting Standards.*

Auditing: International Federation of Accountants' *International Standards on Auditing.*

Insolvency and creditor rights: International Federation of Insolvency Practitioners (INSOL) on principles for out-of-court workouts; *Orderly and Effective Insolvency Procedures—Key Issues* published by the IMF.

Monitoring: reports on standards and codes

The IMF launched a pilot project of *Reports on the Observance of Standards and Codes* (ROSCs) in early 1999, as part of its efforts to assist members in improving the consistency of their institutional structures and policy practices with economic and financial stability. This program, now permanent, aims at providing summary assessments—in cooperation with national authorities and other international bodies—of members' progress in implementing internationally recognized standards and codes and at providing recommendations on how implementation could be further improved.

These assessments are conducted on a modular basis, with modules prepared for standards in eight areas: data dissemination, fiscal transparency, monetary and financial policy transparency, banking supervision, securities market regulation, insurance supervision, payments systems, and corporate governance. ROSC modules have been completed for Cameroon, Mozambique, South Africa, Uganda, and Zimbabwe, as well as for Algeria and Tunisia (Table 3).

Table 3. Reports on the Observance of Standards and Codes:
Modules Completed for Countries in Sub-Saharan Africa and North Africa
(At end-April 2001)

	Data Dissemination	Fiscal Transparency	Monetary and Financial Policy Transparency	Banking Supervision	Insurance Regulation	Securities Market Regulation	Payments Systems	Corporate Governance
Sub-Saharan Africa								
Cameroon		X	X	X	X		X	
Mozambique		X						
South Africa			X	X	X	X	X	
Uganda	X	X	X	X				
Zimbabwe								X
North Africa								
Algeria				X				
Tunisia	X	X	X	X		X		

Source: International Monetary Fund.

D. Strengthening of Financial Systems

Domestic initiatives in Africa

Domestic initiatives to strengthen the banking system have focused on steps to prevent banking problems—bank supervision and regulation—and to restructure banks once problems emerge. A few examples are given here.

Bank supervision and regulation

The tendency in this domain has been to move toward greater compliance with the Basle Core Principles. Regional institutions, such as the WAEMU and CEMAC in the CFA franc zone have been a driving force for change. For instance, the WAEMU adopted in July 1999 a new set of prudential ratios for commercial banks and nonbank financial institutions, which incorporate international norms for banking supervision; for example, the capital adequacy ratio was raised from 4 percent to 8 percent. The new ratios came into effect in January 2000, but banks were granted a two-year transition period to meet the capital adequacy ratio.

Outside the CFA franc zone, Rwanda promulgated a new banking law (August 1999), which defines banks and the activities in which they may engage, gives the National Bank of Rwanda (NBR) explicit authority to determine capital requirements and associated accounting requirements, and grants the NBR power to enforce the banking law, including through instructions issued to clarify the law and the authority to impose penalties. In addition, a new structure within the General Supervision Directorate of the NBR has been adopted with the aim of strengthening on- and off-site inspections. In Uganda, the Bank of Uganda has intensified its surveillance of banks, and all 17 banks have been inspected since July 1999. The central bank has also identified several measures aimed at enhancing the governance of banks. In particular, a new Financial Institutions Bill, to be presented to parliament this year, contains provisions for corrective action and increased accountability for banks' boards and managements, and provides penalties for noncompliance with prudential requirements. To reinforce bank supervision capability, the supervision department intends to recruit additional staff and, partly with donor technical assistance, begin training existing staff.

Bank restructuring

During the 1980s and 1990s, many African countries experienced serious banking difficulties. Since then, some of them have made considerable progress in bank restructuring, although problems remain. Ghana, Senegal, and Tanzania, for example, followed a broadly similar approach in dealing with the stock of nonperforming loans and accumulated losses of distressed banks.[8] Ghana initiated bank restructuring in 1988, Senegal in 1989 (within the

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[8] These cases are described in Bredenkamp and Schadler, 1999.

framework of a broad reform program of the then West African Monetary Union), and Tanzania in 1991.

In view of the precariousness of the public finances in these countries, country officials sought to minimize the budgetary impact of restructuring and thus to limit the injection of new cash. In Ghana, most nonperforming loans were swapped for government bonds or were offset against bank liabilities to the government or the central bank. In Tanzania, recapitalization was carried out for the most part by replacing nonperforming loans with government bonds, and in Senegal, the government provided a soft loan (financed by a highly concessional external loan) to one major bank. In each of these countries, a single loan recovery agency was established in an effort to recoup the budgetary costs of restructuring and to reduce moral hazard by shifting some of the burden to borrowers, but the results proved disappointing. In addition, the government in Senegal decided at the outset to liquidate several banks because of what it considered to be very high rehabilitation costs. Five state-owned banks were liquidated, and their performing loans, together with an equivalent amount of private sector deposits, were distributed to stronger banks. Nonperforming assets were transferred to the loan recovery agency (Société Nationale de Recouvrement), and counterpart liabilities—mostly to the Central Bank of West African States (BCEAO)—were assumed by the government. Moreover, Senegalese authorities encouraged burden sharing in two private banks by insisting, on threat of closure, on a cash injection by all shareholders (including the government).

The restructuring programs in Ghana, Senegal, and Tanzania also envisaged substantial operational restructuring aimed at improving banks' efficiency and restoring profitability. The measures taken—and supported by technical assistance—included rationalizing the branch network and implementing large staff cuts; bringing in new management, in some cases from foreign banks; and strengthening banks' operating systems, particularly the accounting system, internal control procedures, and risk-assessment methods.

More recently, Rwanda has taken a similar path of bank restructuring. In 1998, the authorities commissioned an audit of all five commercial banks. The audit, which looked at three main areas of bank operations, namely the financial situation, management practices, and data management and information technology, highlighted several shortcomings. The report of these audits will provide a basis for a restructuring of the banks aimed at ensuring adequate provisioning for nonperforming loans, improving the banks' loan portfolios, providing adequate capital ratios, and maintaining prudent foreign currency exposures. It may also lead to additional legal initiatives to help banks recover larger shares of their nonperforming loans.

Operational framework of the IMF

The IMF has a multifaceted role to play in the strengthening of financial systems. It is reinforcing its capacity to help develop, disseminate, and assess international principles and good practices of sound financial systems; identify vulnerabilities in countries' financial systems; and provide technical assistance. Thus, the IMF, together with the World Bank, initiated the Financial Sector Assessment Program (FSAP) in May 1999. These assessments are intended to identify strengths and weakness of the financial system; determine how key sources of risks and vulnerabilities are being managed; ascertain the sector's developmental and technical assistance needs; and help prioritize policy responses. They draw on a range of tools and techniques, including stress tests and analyses of macroprudential indicators.

The FSAP began as a one-year pilot, covering 12 countries that represent a cross-section of financial systems, economic development, and geographic regions. Cameroon and South Africa are part of this first group. The FSAP has become a permanent program in IMF operations and its coverage has been extended. For example, Ghana, Senegal, and Tunisia are among the countries that have been added to the program and for which mission work has been completed or is under way; and Gabon and Uganda are among the countries whose participation has been confirmed for FY2001 or later.

E. Capital Account and Exchange Rate Issues

The capital account

The international financial architecture aims to help countries benefit from international capital flows. Thus, much of the work on capital account issues is geared to helping countries open their economies to these flows in ways that minimize the risks. Accordingly, efforts at liberalizing capital accounts have increasingly involved a case-by-case approach, with an emphasis on the proper sequencing of liberalization and on a supporting policy package. In this context, capital controls are not viewed as a substitute for sound macroeconomic and structural policies, but rather as an instrument that can provide breathing space in certain circumstances.

Although in most African countries, the regulatory framework for current transactions is quite liberal, it is still restrictive in terms of capital account transactions. Thus, only a small group of countries, notably Botswana, The Gambia, Kenya, Liberia, Mauritius, Seychelles, Sudan, Uganda, and Zambia, have a high degree of capital account openness (Table 4). In practice, the CFA region also has a high degree of capital account mobility through its openness to France.

Against this background, the role of the IMF and the African countries is to examine the extent to which countries in Africa with substantial capital account convertibility need to reinforce their policies to sustain it; identify the actions that the remaining countries must take for an orderly transition to full convertibility; and review some of the considerations regarding the speed and sequencing of the requisite policy actions.[9] This is important to ensure that the risks of transition to an open capital account are minimized.

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[9] See Nsouli and Rached, 1998, and Guitián and Nsouli, 1996.

Table 4. Regulatory Framework for Capital Transactions in Africa

	Controls on:											Provisions specific to:	
	Capital market securities	Money market instruments	Collective investment securities	Derivatives and other instruments	Commercial credits	Financial credits	Guarantees, sureties, and financial backup facilities	Direct investment	Liquidation of direct investment	Real estate transactions	Personal capital movements	Commercial banks and other credit institutions	Institutional investors
Sub-Saharan Africa													
Angola	●	●	●	●	●	●	●	●	●	●	●	●	—
Benin	●	●	●	●	●	●	●	●	●	●	●	●	●
Botswana	●	●										●	●
Burkina Faso	●	●	●	●	●	●	●	●	●	●	●	●	●
Burundi	●	●	●	■	●	●	●	●	●	●	●	●	
Cameroon	●	●	●	■	●	●	●	●	●	●	●	●	●
Cape Verde	●	●		—	●	●	●	●		●	●	●	—
Central African Rep.	●	●	●	●	●	●	●	●	●	—	●	—	—
Chad	●	●	●	●	●	●	●	●	●	●	●	●	—
Comoros	●	—	—	—	●	●	●	●	—	●	●	●	—
Congo, Dem. Rep. Of	●	●			●	●	●	●	●	●	●	●	
Congo, Rep. Of	●	●	●	●	●	●	●	●	●	—	—	—	—
Côte d'Ivoire	●	●	●	●	●	●	●	●	●	●	●	●	●
Djibouti					●	●	●	●				●	●
Equatorial Guinea	●	●	●	●	●	●	●	●	●	●	●	●	●
Eritrea	●	●	—	—	●	●	—	●			●	●	—
Ethiopia	●				●	●	●	●	●	●	●	●	●
Gabon	●	●	●	●	●	●	●	●	●	●	—	—	—
Gambia, The						●				●	—	●	
Ghana	●	●	●	●	●	●		●		●	●	●	
Guinea	●	●			●	●	●	●		●	●	●	
Guinea-Bissau	●	●	●	●	●	●	●	●		●	●	●	●
Kenya	●	●	●	●						●		●	
Lesotho	●	●	●	—	●	●	●	●		●	●	●	—
Liberia										●		■	
Madagascar	●	■	■	■	●	●	—	●	●	●	—	●	—
Malawi	●	●	●	●	●	●	●	●		●	●	●	—
Mali	●	●	●	●	●	●	●	●	●	●	●	●	●
Mauritania	●	●	●	●	●	●	●	●	—	●	—	●	—
Mauritius	●							●		●		●	
Mozambique	●	●	●	●	●	●	●	●	●	●	●	●	●
Namibia	●	●	●	●	●	●	●	●	●	●	●	●	●
Niger	●	●	●	●	●	●	●	●	●	●	●	●	●
Nigeria	●	●			●				●		●	●	
Rwanda	●	●	●		●	●	●	●	●	●	●	●	
São Tomé & Príncipe	—	—	—	—	—	—	—	●		—	—	—	—
Senegal	●	●	●	●	●	●	●	●	●	●	●	●	
Seychelles	●									●		●	
Sierra Leone	●	●	■	■		●	●	●		●	■	●	■
Somalia	●	●	●	—	●	●	●	●	●	●	—	—	—
South Africa	●	●	●	●	●	●	●	●		●	●	●	●
Sudan												●	
Swaziland	●	●	●	●	●	●	●	●		●	●	●	●
Tanzania	●	●	●	●	●	●	●	●	●	●	●	●	
Togo	●	●	●	●	●	●	●	●	●	●	●	●	●
Uganda										●		●	
Zambia												●	
Zimbabwe	●	●	●	●	●	●	●	●	●	●	●	●	●
North Africa													
Algeria	●	●	●	●	●	●	●	●		●	—	●	
Morocco	●	●	●	●	●	●	●	●		●	●	●	●
Tunisia	●	●	●	●	●	●	●	●		●	●	●	●

Source: International Monetary Fund (2000e).

Note:

● The specified practice is a feature of the exchange system.
■ The specified practice is not regulated.
— The data were not available.

Exchange rate regimes

In view of the role that the exchange rate regimes played in a number of financial crises, the choice of exchange rate regime and its sustainability are issues of considerable importance in the new international financial architecture. At present, the choice of exchange rate regime in Africa is rather evenly divided between pegged and flexible regimes: 25 countries have adopted some form of peg (mainly the countries of the CFA franc zone), while 26 countries maintain either an independently or managed floating arrangement (Table 5). The main issue is the consistency between these choices and the countries' policies and circumstances,[10] which takes on even greater importance as more African countries move to liberalize their capital account.

F. IMF Facilities and Initiatives

In parallel with its efforts to advance the new international financial architecture, the IMF has undertaken two initiatives to address the issues of debt and poverty.

Initiative for Heavily Indebted Poor Countries (HIPC)

In 1996, the IMF and the World Bank launched the HIPC to address the debt problems of the poorest and most heavily indebted countries (mainly in Africa). It specifically aimed at reducing the external debt burden of eligible countries to sustainable levels. In 1999, the HIPC was enhanced to provide more extensive debt relief to more countries more rapidly than under the original initiative. And, in response to widespread concern that excessive debt-servicing obligations were undermining the provision of basic social services, especially to the poorest, the initiative was modified to focus on ensuring additional financing for social sector programs, primarily basic health and education.

By the end of December 2000, \$33.6 billion of debt relief (in nominal terms) had been committed to 22 countries under the HIPC Initiative.[11] Of this, \$25.1 billion had been committed to 18 African countries (Table 6).

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[10] See Fischer, 2001.

[11] In May 2001, a debt relief package for Chad totaling about \$260 million was put in place under the enhanced HIPC.

Table 5. Exchange Rate Arrangements in Africa

	Exchange arrangement with no separate legal tender	Currency board arrangement	Conventional pegged arrangement	Crawling peg	Managed floating	Independently floating
Sub-Saharan Africa						
Angola						●
Benin	▲					
Botswana			▼			
Burkina Faso	▲					
Burundi					●	
Cameroon	▲					
Cape Verde			*			
Central African Rep.	▲					
Chad	▲					
Comoros	▲					
Congo, Dem. Rep. of						●
Congo, Rep. of	▲					
Côte d'Ivoire	▲					
Djibouti		●				
Equatorial Guinea	▲					
Eritrea						●
Ethiopia					●	
Gabon	▲					
Gambia, The						●
Ghana						●
Guinea						●
Guinea-Bissau	▲					
Kenya					●	
Lesotho			*			
Liberia						●
Madagascar						●
Malawi					●	
Mali	▲					
Mauritania					●	
Mauritius						●
Mozambique						●
Namibia			*			
Niger	▲					
Nigeria					●	
Rwanda						●
São Tomé & Príncipe						●
Senegal	▲					
Seychelles			▼			
Sierra Leone						●
Somalia						●
South Africa						●
Sudan						●
Swaziland			*			
Tanzania						●
Togo	▲					
Uganda						●
Zambia						●
Zimbabwe			+			
North Africa						
Algeria					●	
Morocco			▼			
Tunisia				●		

Source: International Monetary Fund (2000e).
Note:

- ● The specified practice is a feature of the exchange system.
- ▲ The arrangement is pegged to the French franc.
- * The arrangement is pegged to a single currency (other than the French franc).
- ▼ The composite is a basket of other currencies.
- + Flexibility is limited to a single currency.

Table 6. Debt Relief Committed Under the Enhanced HIPC Initiative

(In billions of U.S. dollars at end-December 2000)

Country	NPV Debt Reduction		
	Committed Debt Relief	Percentage Reduction 1/ 2/	Nominal Debt Service Relief 3/
Total	**20.3**	**47** 4/	**33.6**
African Countries	**14.6**	**46** 4/	**25.1**
Benin	0.3	31	0.5
Burkina Faso	0.4	46	0.7
Cameroon	1.3	27	2.0
The Gambia	0.1	27	0.1
Guinea	0.5	32	0.8
Guinea-Bissau	0.4	85	0.8
Madagascar	0.8	40	1.5
Malawi	0.6	44	1.0
Mali	0.5	37	0.9
Mauritania	0.6	50	1.1
Mozambique	2.0	72	4.3
Niger	0.5	54	0.9
Rwanda	0.5	71	0.8
São Tomé and Príncipe	0.1	83	0.2
Senegal	0.5	19	0.9
Tanzania	2.0	53	3.0
Uganda	1.0	48	2.0
Zambia	2.5	63	3.8
Latin American Countries	**5.7**	**49** 4/	**8.5**
Bolivia	1.3	45	2.1
Guyana	0.6	54	1.0
Honduras	0.6	18	0.9
Nicaragua	3.3	72	4.5

Source: International Monetary Fund (2001b).

1/ Calculated on basis of net present values of debt and assistance committed.
2/ Cumulative reduction, including traditional debt relief, is estimated at about two-thirds.
3/ Estimates based on HIPC Initiative assistance in net present value terms (NPV) as approved by the Executive Boards of the IMF and the World Bank.
4/ Weighted average based on debt stocks in NPV terms.

Poverty Reduction and Growth Facility (PRGF)

The PRGF represents a commitment by the international community to integrate the objectives of poverty reduction and growth more fully into the operations of the IMF in its poorest member countries. This new facility, which replaced the ESAF, signaled a departure from past practices and policies in addressing poverty. This is evident in the main features of the PRGF and the associated Poverty Reduction Strategy Paper (PRSP):

- *Country ownership.* Nationally owned poverty reduction strategies are at the heart of the new approach.

- *How objectives and policies are chosen.* Key macroeconomic policies, including targets for growth and inflation, and the thrust of fiscal, monetary, and external policies as well as structural policies to accelerate growth, are determined in a process that involves the active participation of civil society.

- *Comprehensiveness and coherence of the strategy.* The PRSP process brings together in one consistent macroeconomic framework the range of institutional and sectoral interventions adopted by the country. It identifies and ranks key social and sectoral programs and structural reforms aimed at poverty reduction and growth, and sets out their budgetary impact. This bottom-up approach to costing is reflected in the design of the macroeconomic framework, including the level and composition of government expenditures, and the fiscal and external deficits. At the same time, the authorities must consider the implications of their strategy for domestic demand, implementation capacity, and level of reserves.

- *Focus on good governance.* Programs supported by the PRGF emphasize improvements in governance as a fundamental underpinning for macroeconomic stability, sustainable growth, and poverty reduction. The primary focus is on improving the management of public resources and achieving greater transparency, active public scrutiny, and generally increased government accountability in fiscal management. In this way, the PRGF provides an important link between poverty reduction and the international financial architecture.

A total of 77 low-income member countries are eligible for PRGF assistance. Of these, 40 are in Africa. At the beginning of March 2001, there were 23 arrangements supported by the PRGF in Africa (out of a total of 35), with commitments totaling SDR 2.0 billion and disbursements SDR 722 million.

V. Conclusion

Although African countries have made significant strides in implementing macroeconomic policies and structural reforms that have contributed to reducing financial disequilibria and fostering growth, the macroeconomic situation of most countries in Africa remains fragile and the structural reform agenda has still a long way to go. Real per capita GDP has grown only moderately during 1995-2000, and fixed capital formation, domestic and foreign, remains low.

The new international financial architecture can help African countries benefit from and minimize the risks of globalization, while fostering an environment conducive to increased domestic investment, needed for higher sustained growth rates. African countries have already made initial progress on various elements of the new architecture, but the agenda remains largely unfinished. This paper has pointed to the importance of further work on enhancing transparency and accountability, implementing standards and codes, strengthening financial systems, liberalizing capital accounts, and revisiting exchange rate regimes. Progress in these areas will help African countries harness more fully the benefits of globalization to achieve the twin goals of sustained growth and poverty reduction.

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