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A. The IMF and Africa

1. **This is my first visit to Africa as Managing Director of the IMF**, on a trip that began in Nigeria and has also taken me to Gabon, where I met with the heads of state of the CEMAC region. I am grateful to President Museveni for inviting me to Kampala, and I look forward to the opportunity to meet with several heads of state of the region. I come primarily to listen and learn from you. The IMF is working closely with many of you, and I welcome a candid exchange of views on where the institution could do better and how I can contribute to supporting your own efforts.

2. **The challenges that Africa faces are evident.** Poverty remains widespread, conflict is holding back development, and the HIV/AIDS pandemic is taking a devastating social toll with serious economic repercussions. But it is encouraging that there is a concerted effort, by the international community and Africa itself, to address these challenges. The Millennium Development Goals embody the objectives shared by the global community. The United Nations Conference on Financing for Development, held in Monterrey in 2002, defined a two-pillar development partnership. Its basis is the recognition that successfully fighting poverty requires both sound economic policies and good governance in developing countries as well as more effective support from the international community — through both official development assistance and more open trade policies. In Africa, the New Partnership for African Development (NEPAD) formulated by the African leaders themselves rests on the same foundation. The IMF is fully supportive of NEPAD, which embodies the ownership principles that are central to successful economic programs, and looks forward to the implementation of its peer review mechanism.

3. **The IMF is an active partner in the Monterrey Consensus and fully supports the Millennium Development Goals.** Our objective, in our areas of expertise, is to assist African countries in achieving their goals. Our current instruments include financing through the Poverty Reduction and Growth Facility (PRGF); debt relief through the HIPC initiative; and technical assistance and capacity building, including through the standards and codes initiatives and the AFRTTACs. The PRSP process is widely recognized as the primary

vehicle to promote coordination between donors, IFIs, and country authorities, and we will work to make it better still. In all of these areas, we strive to work closely with African countries and with other institutions engaged in Africa, particularly with the World Bank and the African Development Bank. It is evident that making decisive progress toward the MDGs will require significantly higher overseas development assistance, much of it on grant terms. The IMF will ensure that its programs and policy advice are supportive of higher levels of aid, including for the fight against HIV/AIDS and for strengthening much-needed public infrastructure. Economic development and poverty reduction in Africa also require better market access for its exports, including for processed products, and a reduction in trade-distorting subsidies in advanced economies. The IMF is working hard with its members, and with the WTO, to help make progress on these issues in the Doha Trade Round, and we welcome progress made last week.

B. Issues Facing Countries in the Region

4. **I am encouraged by the strengthening world economic recovery.** We are currently reassessing our outlook for the global economy, and I still expect that global growth will increase to about 4½ percent both this year and next. Sub-Saharan Africa will benefit from stronger global conditions, and is likely to see growth above 5 percent in 2005, supported by improved macroeconomic stability in many African countries, rising commodity prices, and a recovery in agricultural production following severe droughts in 2003. But this outlook is subject to risk, stemming both from unpredictable weather and an unsteady policy environment. Africa needs to seize the opportunities offered by the current positive outlook to persevere with the reforms required to make decisive progress in combating poverty. Because as you in this region know very well, sustained economic growth is a sine qua non for reducing poverty.

5. **Macroeconomic stabilization has borne fruits.** Uganda and Tanzania, for example, are now reaping the benefits of sustained sound policies and have seen economic growth rates averaging over 5 percent per year for the last five years. But we know that even higher rates of growth are needed to make decisive advances in reducing poverty and making progress toward the Millennium Development Goals. This will require higher rates of private investment and a more effective use of public resources, including donor support. There is surely no single measure that will lift economic growth to the next level. But there are some key building blocks of next-generation reforms, which I am hearing also from leaders in Africa:

- Continued sound macroeconomic policies to improve fiscal and external debt sustainability, reducing the vulnerability of African economies, and laying the foundation for reduced dependence on foreign assistance in the future;
- Reforms to raise the productive capacity of the region's economies, especially by promoting private investment. Efficient domestic financial sectors are important in channeling savings to productive investment. Public infrastructure, including in rural areas, must not be neglected. And fiscal incentives also can have a role to play, provided

that they maintain a level playing field for private investors and are consistent with medium-term fiscal prudence; and

- Further progress in building effective institutions, which enforce property rights and the rule of law. Good governance, including a sound and predictable legal and regulatory framework, and an efficient judiciary, is the p important factor in attracting durable investment, both domestic and foreign.

6. **Regional cooperation can play a key role in sustaining growth.** In addition to creating larger markets through trade integration, regional fora can also play an important role in harmonizing business regulations, reinforcing financial sector supervision, and promoting cooperation in the development of regional infrastructure, for example in transportation and energy. And regional peer review can encourage the pursuit of good economic policies that we have seen in other parts of the world. But regional trade and monetary arrangements need to remain consistent with a well-functioning multilateral system. This also means avoiding a proliferation of regional arrangements, and I welcome the objective set by African leaders themselves to aim for a rationalization of regional institutions.

7. But many challenges remain. In particular, as emphasized by African leaders at the recent AU Summit, maintaining peace and security is an essential pre-condition for growth and combating poverty in Africa.

C. The IMF as a Partner for Development

8. **A process of reflection is currently underway assessing the IMF's work with its low-income members.** Rest assured that the intention is to remain engaged over the long term. The objective is to find ways in which the IMF can play its role more effectively to assist its low-income members raise living standards and fight poverty. I very much welcome the participation of Africa in this process, as reflected in the two meetings held over the past year in Dar es Salaam and Dakar. The IMF's Independent Evaluation Office has just completed a comprehensive review of the PRGF-PRSP process, which will be valuable input into our work. Work is now underway, and includes:

- **Making our assistance more flexible**, for example in the case of post conflict assistance (example: Central African Republic), emergency assistance (Madagascar hurricanes), and prospective trade shocks (Trade Integration Mechanism);
- **Making debt relief under the enhanced HIPC initiative more readily available**, for example in Niger and Ethiopia, where we succeeded in topping up the available assistance to take into account the exceptional impact of exogenous factors on their medium-term external debt burden. Work is currently underway within the IMF and with other multilateral and bilateral creditors to assess the state of the HIPC initiative. Going forward, I believe the dual objective must be to ensure effective debt relief in those

countries where it has not yet been achieved, while avoiding a further build-up of unsustainable debt in the future;

- **Reinforcing our analysis and assistance in support of Africa's regional integration initiatives.** At the recent AU Summit, African leaders set themselves the task to harness regional economic integration as a force to boost growth and reduce poverty. We are tailoring our work to support this objective, including by conducting regular regional surveillance exercises;
- **Strengthening our collaboration with the World Bank,** other multilaterals, and donors to facilitate aid mobilization, harmonization and coordination;
- **Boosting the IMF's internal capacity to provide effective assistance in all these areas through a comprehensive restructuring of the Fund's African Department.** Additional staff and a more efficient management structure will ensure that the IMF remains a reliable partner for Africa. Capacity building in Africa will be a key priority, and based on an assessment of the current two regional AFRITACs we hope to establish further three more centers in Africa in the coming years.

9. **Looking ahead, there remains significant scope for improvement and I look forward to our discussions now and on future occasions.** The Monterrey consensus assigns responsibilities to both the advanced and the developing countries in the war on poverty. It is natural that while in Africa, much of our discussions are about the policy requirements in Africa itself But there is no doubt that the advanced economies must also play their part, and the IMF will continue to remind them of their responsibility in two areas in particular: more, and better coordinated official development assistance, and improved opportunities for African exports. Improving market access for African exports to the markets of the advanced economies, and dismantling trade distorting subsidies in these markets, are on the table in the Doha Trade Round. This is a critical opportunity to make a significant advance in multilateral trade liberalization that will truly benefit the poorest countries. Rest assured that in this area, the IMF will continue to be your advocate.