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Capacity Building in Africa and the IMF's Role

Keynote Address by Rodrigo de Rato
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President Obasanjo
President Kabbaj
Your Excellencies

Ladies and Gentlemen:

1. I am honored and delighted to be here at the African Development Bank's Annual Meetings Symposium on "Capacity Development for Achieving the MDGs in Africa." This forum has provided, over the years, an opportunity to discuss policy topics of critical importance to Africa, and this year is no exception. I would like to take this opportunity to thank you, President Kabbaj, and through you, the African Development Bank, for making this Symposium possible, and to also thank the Government and people of Nigeria for hosting this event in Abuja.

2 On this occasion, I wanted to share my thoughts with you on three issues: (i) the role of the Fund in Africa; (ii) capacity building as an integral element of our work in Africa; and (iii) what we consider some of the key challenges in terms of developing capacity in Africa.

The role of the Fund in Africa

3. The Fund has had a long involvement in Africa, both in terms of policy advice and as a provider of financial assistance and capacity building. Over the years, we have seen a consensus developing on the need for macroeconomic stability as a condition for growth to

take-off and to be sustained. Indeed, last year Africa had the highest growth rate in a decade and the lowest inflation in a quarter of a century. These are indeed encouraging developments, particularly when one takes into account the difficult social and health conditions faced by many African countries. But more needs to be done.

4. What is the role of the Fund in Africa in the period ahead? Clearly, one of the principal challenges in Africa today is to move to a higher growth path. For many years, the economic performance of the region has been significantly below its potential. This gap must be addressed if African countries are to grow at levels sufficient to achieve sustained improvements in the standards of living and to meet the needs of a rapidly expanding labor force. We would continue to support the efforts of its African member countries to create an environment conducive to growth and development, to improve living standards, and to reduce poverty. In focusing on our core areas of expertise, we are committed to help members establish and maintain macroeconomic and financial stability, which is essential to foster durable growth and reduce poverty. The Fund has endorsed the Millennium Development Goals (MDGs) and is committed to playing its part in the Monterrey Consensus. The Poverty Reduction Strategies of its low-income member countries will serve as the operational framework for our work.

5. There are three complimentary ways in which the Fund supports its African members: policy advice (including in the context of surveillance), financial assistance, and capacity building. I should note that we are continuing to refine and strengthen our support of low-income members in their efforts to achieve macroeconomic stability, growth, poverty reduction, and the MDGs. As members' circumstances change, so too must the Fund's support, be it in terms of modalities for providing macroeconomic policy advice and signals about the strength of the countries' policies, appropriately tailored financial support, or technical assistance.

6. The Fund is undertaking a number of new initiatives to help us improve our policy advice and support to low-income countries, including in Africa. Low-income countries are particularly vulnerable to exogenous shocks like natural disasters, commodity price changes, and conflicts in neighboring countries. We are considering ways in which we can provide additional financial assistance to mitigate the impact of these shocks.

7. The emergence of a number of mature stabilizers amongst PRGF users who nevertheless remain dependent on donor aid flows highlights the need for a Fund instrument that does not involve financial support. In light of this, the IMFC has called for further work on an arrangement to enhance the Fund's signaling role for countries that do not need, or want, our resources. We are developing proposals along these lines.

8. We have also developed a Trade Integration Mechanism (TIM) that is designed to address the concerns of some countries relating to multilateral trade liberalization. The countries' concern is that, by worsening their competitive position in export markets or their food terms of trade, trade liberalization may temporarily affect their balance of payments.

The TIM is a policy designed to increase the predictability of resource availability under existing Fund facilities.

Capacity Building is an Integral Element of the Fund's Work in Africa

9. The Fund views capacity building as an integral element of its work in Africa. The experience of our member countries leaves no doubt that strong domestic institutional capacity is a precondition for economic and social development and for effective public policy making. The Fund is an advocate of markets and of private sector participation. But we also know that for markets to function efficiently, and for the private sector to develop and thrive, effective institutions are of critical importance. They are also essential for true domestic ownership of economic policies. These are not only our conclusions, but are shared widely, including by the recent report of the Commission for Africa and the UN Millennium Development Project Report. Furthermore, the region's officials, as well as its civil society organizations and academics, have made the same call for more effective institutions. This common perspective provides a strong motivation for the Fund to contribute to institutional capacity building in its areas of expertise.

10. One long-standing aspect of our support to member countries is the delivery of extensive technical assistance aimed at strengthening their institutional capacity and building fiscal, monetary, and statistical frameworks that meet international best practice. Africa is the chief beneficiary of this assistance. We have intensified our work to assist countries strengthen their financial sectors through periodic Financial Sector Assessment Papers, as well as follow-up technical assistance. Our technical assistance has also supported countries' efforts aimed at strengthening their public expenditure management systems and tax administrations. We are also encouraging countries to become more transparent and accountable through reviews of the standards and codes in the fiscal area—known to many as fiscal ROSCs, and we are assisting African countries in improving the quality and timeliness of their macroeconomic and financial statistics through the General Data Dissemination System (GDDS).

11. The Fund's capacity-building efforts have taken a central role in those countries receiving Emergency Post-Conflict Assistance (EPCA) from the Fund. Post-conflict countries are among our most fragile and capacity constrained members, and can have enormous technical assistance needs. These situations require urgent help to get institutions up again and running, and to strengthen policy formulation and implementation, all of which is necessary to restore a functioning state and stabilize the macroeconomic situation. A case in point is the Central African Republic, which received EPCA support from the Fund last year. This support has been paired with significant technical assistance from the Fund in the public finance area. These efforts have focused in particular on strengthening tax administration and expenditure management to help the authorities both generate the resources and develop the ability to deliver essential public services. The Fund has also been providing technical assistance in the statistics area to help reestablish the provision of macroeconomic data.

12. In addition, in response to a request made by African leaders, the Fund launched the Africa Capacity-Building Initiative in 2002 aimed at helping improve the human and institutional capacities of countries in the area of macroeconomic management. Two pilot African Technical Assistance Centers (AFRITACs), in Bamako, Mali, and in Dar es Salaam, Tanzania, have been in place for over two years now and are a key part of this strategy. Overall, sixteen countries in Africa are covered by these two centers. The experts in these centers, after close consultation with the requesting government agency, provide advice and training that is tailored to the agency's specific needs; follow up on the implementation of technical recommendations towards reform and modernization efforts; help improve the coordination among technical assistance providers; and respond quickly to calls for support in addressing emerging technical assistance needs. The AFRITACs are financed by contributions from 16 donor partners, chief among these the African Development Bank, the Fund, as well as by contributions by hosting governments. An independent evaluation of these two pilot centers was conducted late last year, and the IMF Executive Board will have an opportunity within the next few months to discuss our strategy going forward in terms of regional technical assistance centers. Our strategy will continue to be guided by a commitment to make Fund technical support as effective as possible.

13. The Fund's Africa Capacity-Building Initiative also includes a program of training activities developed and implemented jointly by the AFRITACs and the African Capacity Building Foundation (ACBF). Under this joint seminar program with the ACBF, we have supported a large number of regional training events since 2003. In addition, we support the African Economic Research Consortium (AERC) and welcomes African researchers to visit the Fund for a few months. Some 100 researchers have visited the Fund under this arrangement and have helped sharpen the quality of our policy advice.

14. It is very important for me to emphasize that our motivation is to provide capacity building assistance in order to develop and add to the level of domestic know-how, and not to replace local expertise. Based on our experience, "gap-filling" technical assistance does not work in the long run as it creates wrong incentives for both recipients and providers of assistance. In our view, the key role of Fund technical assistance is to transfer knowledge and experience that helps build local capacity.

The challenges in developing capacity in Africa

15. I would like to highlight a number of priority policy areas for developing capacity that are of core relevance to the Fund. These areas are financial sector reform, public resource management, and trade reform.

16. A well-developed financial system is critical to generating and channeling domestic savings to productive purposes, and thus in supporting private-sector led growth. While many countries in Africa have made progress towards financial liberalization, important problems remain, including a low level of intermediation and limited private sector access to credit. In order to sustain an adequate level of financing, there is a need for strengthening prudential regulations and banking supervision, restructuring financial institutions, and promoting the

expansion of microfinance. In many countries, changes in the legal framework may be necessary, including land reform and adequate protection of property rights.

17. Sound public resource management is of critical importance in ensuring that countries use resources efficiently. Public expenditure management systems need to be reinforced to ensure that essential spending, including on much-needed public infrastructure, is not crowded out. In addition, fiscal transparency needs to be enhanced. Tax administration is also a critical component of public resource management, and merits particular emphasis in countries where tax yields are relatively low. All of the enhancements will help ensure an efficient and transparent use of public resources, as well as a proper monitoring of the implementation of fiscal policy.

18. Trade reform promotes a stronger integration with the global economy and a more efficient allocation of resources. In practical terms, this means opening the economy to regional and international trade and simplifying the trade regime. Furthermore, an open and stable trade regime encourages efficient private investment and has generally been more effective in attracting stable foreign investment than regimes aimed at protecting domestic markets. For African countries, opening up to global trade to access larger markets, and increased regional trade integration aimed at avoiding the proliferation of regional trade arrangements, is likely to be a significant impetus to growth. Advanced economies also have an important task in this area, which is to improve access to their markets for developing country exports and dismantle trade-distorting subsidies, as is currently being discussed in the Doha round. Both rich and poor countries carry responsibilities in promoting the fuller integration of developing countries into the global trading system. The poor countries need to develop greater capacity in undertaking these responsibilities.

Ladies and gentlemen,

19. Let me conclude by saying that Africa has a promising opportunity to move to a path of elevated and sustainable growth and poverty reduction. This will help countries make broad-based progress towards meeting the Millennium Development goals. The Fund's role will continue to be to assist member countries to maintain macroeconomic stability, while deepening structural reforms to promote private-sector led growth. In this context, capacity building and technical assistance remain critical components of our work in helping countries strengthen the institutions that are fundamental to a well-functioning market economy. Rest assured that the intention is for us to remain engaged in this area over the long term. We stand ready to do our part. Thank you.