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at the Inauguration of the Central AFRITAC

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“The Benefits of Partnership: Keynote Speech
for the Inauguration of the Central AFRITAC

1. Your Excellency, Ladies and Gentlemen, I am delighted that I can be with you today for the inauguration of the Central African Technical Assistance Center.
2. This is a happy occasion, and it takes place at a hopeful moment. Economic growth in sub-Saharan Africa is likely to exceed 5 percent this year for the third year in a row, and prospects for next year are also bright. Average inflation in the continent—excluding Zimbabwe—has been below 10 percent, the lowest in a quarter of a century. Many countries have had a fair wind at their backs: growth of trading partners around the world has been strong; commodity prices are high and debt relief has added to the resources available for development. But this remains insufficient to reduce poverty and to make significant progress toward the Millennium Development Goals. To that end, good partnerships are critically important. The opening of this third AFRITAC shows what can be achieved when African governments, donors, and the Fund work together.

3. The opening of the center is also an example of learning from history. Over the last two years, the Fund has taken a careful look at how we work with low-income countries around the world. We have listened to what donors have told us. We have listened to what NGOs have told us. Most importantly, we have listened to what the governments and people of our low-income country members have told us. And we are reflecting this guidance and the lessons learned from our own experience in our work on low-income countries. Over the years, we have learned that technical assistance is most valued when those who offer it work closely with those who seek it, and that it is important to respond quickly when countries need help. The IMF's regional technical assistance centers reflect this understanding and respond to this need. We have also learned that there must be country ownership of the technical assistance agenda, and we see this ownership in many ways in the Central AFRITAC. We see it in the financial support offered by the countries that will be served by the center; in the active participation of the countries' representatives in the steering committee that sets the work program of the center; in the offices and support provided by the Government of Gabon; and in the presence today of leaders who are committed to working together to improve the lives of their people.

4. We have listened to your advice, we have learned from our experience, and we are adapting the way we relate to our low-income country members. We have a clear goal agreed by the international community: helping low-income countries meet the Millennium Development Goals. We have a clear approach set out in the Fund's Medium-Term Strategy. And we are implementing that strategy.

5. For example, In Singapore, our members voted overwhelmingly in support of governance reforms. These reforms are the first step in a process that will increase the representation of many emerging market countries to reflect their increased weight in the global economy. Equally important, Governors agreed that we must strengthen the

voice and representation of low-income countries that continue to borrow from the Fund but have only a limited share in Fund voting. We will shortly bring to our Executive Board a paper on how to achieve this by increasing the number of “basic votes”: voting shares that all members are entitled to equally regardless of their economic size. We are also looking at ways in which we can help the voice of low-income countries in Africa be heard more clearly, by increasing staff working for the Executive Directors who represent African countries.

6. We are also implementing reforms in policies that have particularly important impact on low-income countries. In November, our Board agreed on changes to the Fund’s debt sustainability framework, something I will discuss these in more detail in a few minutes. And we are working continuously to improve our effectiveness in helping low-income countries by focusing on what we do best, and on tasks where we can make the greatest contribution. Let me now talk about what a few of these tasks.

7. A core responsibility of the Fund is to help countries design and implement policies that promote macroeconomic stability. This is the prerequisite for sustainable growth and poverty reduction. In our lending activities, in our advice, and in our technical assistance, our main focus will continue to be on policies and institutions that are critical to economic and financial stability—particularly fiscal, monetary, and exchange rate policies. The emphasis in the work of the Central AFRITAC on public financial management, on revenue administration, on banking supervision, on debt management, and on macroeconomic statistics clearly reflects this priority.

8. Another area where the Fund continues to make an important contribution is in helping countries reap the benefits of higher financial inflows, whether they come from commodity exports, debt relief, official aid, or private capital flows. We can help countries to manage the macroeconomic effects of higher inflows so that they can use as much of them as possible. We can help countries develop their capacity to manage public expenditure. And we can help countries to create the fiscal space they need to improve physical infrastructure and expand social programs, especially in health and education. Fund-supported programs have for many years focused on the need to safeguard poverty-reducing spending, especially education and health spending, including in times of fiscal stringency. Donors support these goals, too. When additional donor grants are made available for such spending, fiscal targets in Fund-supported programs will be adjusted to ensure such money can be used fully, so long as doing so does not endanger macroeconomic stability.

9. Of course, before they can be used, aid resources must be delivered. There are huge needs to be met if low-income countries are to make significant progress toward the Millennium Development Goals. But so far the promises of higher aid from donor countries remain just that: promises. A recent survey by the OECD's Development Assistance Committee found that in 2005 aid to sub-Saharan Africa excluding debt relief actually fell in real terms. It is crucial that donors deliver on their promises. It is also important that they provide early and predictable commitments of support. One of the areas where governments and the Fund have the most difficulty is in projecting what aid flows will be, and setting macroeconomic policy based on these projections. Occasionally, actual aid flows have exceeded expectations, and the initial macroeconomic targets have proved to be tighter than necessary. Going forward, we can adapt program design to accommodate more aid, but doing so will only be helpful if higher aid does in fact arrive.

10. The international community has delivered on its commitments for debt relief. The Fund has now agreed 100 percent debt relief on debt owed by 21 poor countries. Combined with the expected debt relief from the IDA and the African Development Fund, total debt relief from the Multilateral Debt Relief Initiative will be about \$50 billion.

11. Debt relief creates opportunities but also a particular challenge for low-income countries, and the Fund has a role in helping them to meet this challenge. Countries have a legitimate interest in using the borrowing space created by debt relief to accelerate their progress towards the MDGs. But there is a risk that the hard-won gains from debt relief will be lost if the countries concerned borrow to finance expenditures that do not improve their economic position. Nobody wants to repeat the experience of the 1970s and 1980s when new money was lent on commercial terms often for unproductive purposes, leaving a legacy of debt and distrust. But a new generation of creditors, which did not live through this history, is in danger of repeating it. It is in the interest of both creditors and debtors to avoid an excessive build up of debt. So it is important that developing countries, potential creditors—whether official or private—and the Fund and World Bank work in partnership to make sure that the opportunity afforded by debt relief is taken, that there is no return to unsustainable debt levels, and that new resources are not wasted or misused.

12. For this reason, as part of the Medium-Term Strategy, we have recently upgraded our debt sustainability framework. We now have a stronger basis for growth projections, because overoptimistic growth projections have often given countries a false comfort about increasing debt. We have put in alerts where projected debt build ups are abnormally high. We are reaching out to creditors to encourage use of the debt sustainability framework, and better communication and coordination among creditors and between creditors and borrowers. And we are working with borrowing countries to help them use the enhanced framework to design their own debt management strategies. This work includes technical assistance. Part of the technical assistance to be provided through the Central AFRITAC will be on debt management.

13. Let me now talk briefly about two other areas where I believe the Fund can play a useful role in helping low-income countries to generate sustained growth and reduce poverty. The first is financial sector development; the second is trade.

14. One of the key elements of the Fund's Medium-Term Strategy is the recognition that an up-to-date understanding of financial sectors is increasingly critical in a world of globalized capital movements. Broad, well-functioning financial systems are also crucial for economic growth. But in most low-income countries financial sectors are underdeveloped. When formal financial market access is unavailable, the poor are left with informal services—moneylenders and middlemen who handle remittances—which are often very costly. Financial sector development can promote growth and reduce poverty by removing credit constraints on the poor. It is a priority for low-income countries and for the Fund, and we are reflecting this by increasing the emphasis on financial sectors and financial and capital markets in our surveillance.

15. Let me now turn to trade. Most of the discussion of trade policy in recent months has focused on the WTO negotiations under the Doha Round. This is appropriate: increased trade, bolstered by multilateral agreements, has been a cornerstone of growth

in the global economy for many years, and is fundamental to the prospects of low-income countries. But we should also keep in mind the benefits that can flow from trade reform in developing countries themselves. Regardless of what happens in multilateral discussions, low-income countries can benefit from reforming their own trade regimes, including by accelerating regional integration.

16. A related issue is that the benefits of increased trade are greatest if it is accompanied by improvements in the regulatory environment. Many of the benefits of openness to trade come from greater specialization, which increases the return on investment, and from productivity growth within industries, as badly managed firms exit and efficient firms enter and expand. Recent research suggests that ease of entry for new businesses, labor market flexibility, and clear and enforceable property rights are particularly important for the benefits of trade to be realized, and that ease of starting a business is the most important of all. Of course, we have long recognized that such institutional issues are important in themselves. It now appears that they are also important if trade reform is to be produce significant benefits.

17. This brings me back to the importance of capacity building. The Fund devotes about a quarter of its budget to capacity building—including work on standards and codes, training of officials from member countries, and, most importantly, technical assistance. Technical assistance is a pillar of Fund support for many countries. Its importance needs to be recognized, it needs to be deployed efficiently, and it needs to be used well. I am confident that in developing the IMF's Regional Technical Assistance Centers, and especially the three centers that as of today exist in Africa, we are doing the right thing. The centers show what can be achieved when donors, developing countries, and the Fund work together in partnership. They will promote strong institutions, raise growth, and improve living standards.

18. Let me conclude by thanking all of you for the roles you have played in making the Central AFRITAC possible. To the representatives of the Fund's membership on our Executive Board who have supported the AFRITAC; to the African Development Bank and the governments of France and Germany who have contributed financially; and most of all to the beneficiary countries which have made substantial contributions, and especially the government of Gabon, our hosts. As I said at the outset, this is a happy and a hopeful occasion, and we have you to thank for it.

19. Thank you very much.