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Changes: Successful Partnerships for Africa's Growth Challenge

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It is my great pleasure to welcome you to this important conference on Africa. I wish to thank my good friend President Kikwete, and the nation of Tanzania, for hosting this event, and the many other partners who have made it possible. I would also like to congratulate the Government of Tanzania and the Bank of Tanzania, in particular, for the excellent arrangements made for this conference and on this magnificent new conference hall.

It is also my great honor to address such eminent representatives of government, the private sector, and civil society. I look forward to a lively discussion of the many successes that Africa has achieved in recent years. But I also hope that we will not shy away from discussing some of the more difficult tests Africa has faced. It is only by examining both that we can draw the right lessons for dealing with the challenges of the future.

We meet at a critical juncture in history—for Africa, and for the world. And the discussions we have over the next two days will be heard by the world.

The global financial crisis-what we might call the Great Recession -provides a sobering backdrop to our conference. The IMF expects global growth to slow below zero this year, the worst performance in most of our lifetimes. Continued deleveraging by the world's financial institutions, combined with a collapse in consumer and business confidence, is depressing domestic demand across the globe. World trade is falling at an alarming rate, and commodity prices have tumbled.

Even though the crisis has been slow in reaching Africa's shores, we all know that it is coming—and its impact will be severe. This “third wave” of the crisis, which is hitting low-income countries, will depress economic growth, put budgets under strain, and weaken external accounts. And the threat is not only economic: there is a real risk that millions will be thrown back into poverty.

We must ensure that the voices of the poor are heard. We must ensure that Africa is not left out. This is not only about protecting economic growth and household incomes—it is also about containing the threat of civil unrest, perhaps even of war. It is about people and their futures.

What can we learn from Africa's successes that can help the region weather the global financial storm that is now raging?

The past decade has been remarkable for Africa even if much has to be done. Growth in Sub-Saharan Africa has averaged over 5% per year, and even more in some countries, the best performance in 40 years. Poverty has fallen, and significant progress has been made towards other important MDGs. A favorable global economic backdrop, including buoyant commodity prices and rapidly growing foreign demand, has also helped.

I see three important lessons from this decade of progress.

- **First, sustained macroeconomic stability has paid off in rapid economic growth.** This stability boosted the confidence of both domestic and foreign investors in the outlook for Africa, leading to a much higher commitment of finance and know-how to the region.
- **Second, strengthened governance has been a critical element in improving economic and financial management.** Building institutional capacity has helped the implementation of sound economic policies. This, in turn, has bolstered investor confidence.
- **Third, increased donor assistance and debt relief, including from the IMF and other partners, have played a critical role in many cases.**

Tanzania provides a good example of Africa's success story. 25 years ago, it was an economy in severe distress, plagued by widespread shortages and high inflation. Today, Tanzania looks radically different: inflation is under control, and economic growth has averaged 7% per year since 2000, increasing real per capita income by 50 %.

At the heart of success lies Tanzania's home-grown development strategy, MKUKUTA. This has anchored the nation's commitment to economic stability. It has also catalyzed significant donor support and attracted foreign direct investment, which has risen to 4 % of GDP per year.

But even as we applaud Africa's success, we have to be concerned that the remarkable gains achieved by Africa over the last decade are now under threat.

As growth around the world has almost come to a halt, demand for Africa's products is plunging. Tourism revenue is also likely to decline as consumers around the world are tightening their belts.

Financial flows too are becoming more scarce. Trade financing has become scarcer and more expensive and foreign investment in Africa's stock and bond markets has fallen already. FDI is also likely to be hit. Finally, let us not forget about remittances sent by Africans working abroad, which represent a critical lifeline to many families back home. As these workers face tightening labor markets, their remittances are expected to fall too.

The combined impact of these real and financial shocks on Africa's growth will be severe. This year, we forecast that regional growth will average about 3 percent—half that of the past five years. And even this could be too optimistic, given the ever-worsening global outlook.

Even more worrying is the human cost that this crisis could inflict. According to the World Bank, over 50 million people in LICs, many of whom live in Africa, could be thrown back into absolute poverty—with obvious consequences for other social ills, like sickness and infant mortality. The economic and political challenges facing Africa are clearly enormous.

What can be done to mitigate the impact of this crisis?

The good news is that African countries are in a much stronger position than they have been in many years. Some countries, especially oil producers, have built up sufficient foreign reserves to cushion the external shock. Falling public debt and high savings provide others with scope to sustain or even increase government spending. Preserving well-targeted social spending and high-return infrastructure investment should have priority.

The bad news is that many African economies will need significant additional concessional financing to weather this crisis—and to keep the MDGs within sight. The IMF projects that the 22 most vulnerable LICs—many of which are in Africa—will require at least \$25 billion in additional concessional financing this year alone to keep their foreign reserves at safe levels. If global economic and financial conditions deteriorate further, the financing need will be significantly larger.

Africa’s development partners must move rapidly to meet these financing needs. Of course, I understand that advanced economies are facing unprecedented demands on their budgetary resources. But as Prime Minister Meles Zenawi noted at the Addis Ababa summit last month, some private financial institutions in the advanced countries are receiving more financial support than the entire African continent.

At a time when the international community is finding hundreds of billions of dollars for crisis resolution, I cannot accept that we will not be able to find hundreds of millions for LICs. Let us not forget that only a few years ago at Gleneagles, Africa’s development partners committed to increase their assistance to Africa to \$50 billion by next year. Donors must act now to meet this commitment.

I also call on the international community to reject protectionism, both in trade and in finance. To bring the Doha Round to a successful conclusion is critically important for Africa. But we must also fight against “back door” protectionism which comes from repatriation of capital.

As Africa faces these daunting challenges, how can the IMF help?

First and foremost, we must act quickly to provide our African members with the financial resources they need. Last year, we moved rapidly to support countries suffering from the food and fuel price shocks. We reached 15 new financing agreements with African member countries in 2008—up from only four in 2007—and increased access under 8 existing arrangements.

Looking ahead, my goal is at least to double the IMF’s concessional lending resources. I urge partner countries to support me in this, so that additional resources for Africa can be available as soon as possible. I am hopeful that significant progress on this front can be made in the near future.

I also want to increase the flexibility of IMF financing. We are exploring better ways to provide short-term financing to members facing immediate financing needs. Raising our access limits, which have become increasingly binding, is under discussion. We are also trying to streamline conditionality, and tailor it better to the circumstances of each individual country. Related to this, we are re-examining our policies on debt limits, to make them more flexible.

In terms of IMF technical assistance, we will increase its availability to our African members. This will allow us to better support Africa's own efforts to strengthen the technical capacity needed to enable sustained, medium-term growth. Our three regional Technical Assistance Centers—in Gabon, Mali, and here in Tanzania—have been a success, thanks to strong local ownership and deep familiarity of local circumstances. I am pleased to announce today that we plan to expand these centers, and open two more—in West Africa and in Southern Africa.

Finally, we must strengthen ownership at the IMF. Specifically, we need to implement recent agreements on rebalancing quota shares, and also agree on a timetable for the next stage of quota reform. I am hopeful that both can be achieved this year—with welcome consequences for amplifying the voice of our African members.

Looking beyond the IMF, assisting Africa at this time of turmoil will require both creating new partnerships, and reinvigorating existing ones.

At the government level, I have been encouraged by the leadership role the G-20 has taken in crafting a global policy response to this global financial crisis.

However, I am concerned that it is not well equipped to hear the voice of Africa or of LICs more generally. Indeed, while the G-20 is certainly more representative than the G-8, it still excludes 165 of the IMF's member countries.

I therefore see this conference as an excellent platform for African countries to convey key messages to the G-20 Leaders Summit being held in London next month. In this conference, the IMF can be your voice.

I also want to call on the private sector and civil society to redouble their efforts to engage with Africa. The sharp rise in capital flows to the region over the last decade shows that Africa offers many outstanding investment opportunities. This is still the case. I therefore urge investors not to turn away from Africa, and to keep their focus on the long-term returns that investing in the region can provide.

As for civil society, I am confident that the significant commitment already demonstrated to Africa over the past decades will be stepped up at this time of great need. We, at the IMF, look forward to ideas and recommendations from civil society as we work to improve the support we provide our African members.

Let me make a final point.

The international community must help Africa at this time of great need. It is not only our moral duty to do so, as fellow global citizens who are deeply concerned about the economic and social cost of this crisis for Africans—but also our historic obligation to do so, given the colonial history of the region.

But this help will be of no use without Africa's own efforts to confront the challenges it faces today. The ultimate success of efforts to deal with this global crisis, and to secure Africa's success over the longer term, therefore rests squarely on Africa's shoulders. In this regard, I am very impressed with the background document prepared by the African ministers and governors for this conference—and I look forward to discussing the many good ideas in it with you later today.

The region's commitment to sound macroeconomic management and governance over the past decade has already paid tremendous dividends in terms of stability and growth. Beyond this, it is Africans' own ideas and innovations that are essential to ensure the region's success over the longer term. As noted by Julius Nyerere, one of Africa's most illustrious statesmen and founding father of Tanzania:

“It is in the process of deciding for himself what is development, and deciding in what direction it should take his society, and in implementing those decisions, that Man develops himself. For man does not develop himself in a vacuum, in isolation from his society and his environment; and he certainly cannot be developed by others.”

And that is what these partnerships are all about—working together, but led by Africans, so that the people of Africa can achieve their full potential.

I look forward to our discussions over the coming two days.