Four Commentaries by Alassane D. Ouattara

Integration and Growth in a Globalized World Economy

International Monetary Fund

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INTEGRATION AND GROWTH IN A GLOBALIZED WORLD ECONOMY

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Foreword

For countries the world over, development is taking place in a new context. Globalized and integrated financial markets are now the norm, complete with their tremendous opportunities—the chance to quicken the pace of investment, job creation, and growth—and, of course, some inevitable risks. As the 1997–98 financial crisis in Asia brought home, countries can no longer operate in isolation; those with good economic policies stand to be rewarded by the markets, but those with poor policies must bear the consequences.

How should countries navigate these new uncharted waters? That is the question that lies at the heart of the new policy debate—a debate that is punctuated with terms such as transparency, accountability, good governance, consensus, participation, and above all, solidarity. At the global level, the international community is working hard to shape a new financial system that can better weather future onslaughts. Now with the crisis of the last few years abating, another key question arises: What does all this debate and activity mean for developing countries, especially those in Africa, who have yet to truly realize the benefits of globalization?

In this collection of commentaries, Alassane D. Ouattara—who recently stepped down from his position as IMF Deputy Managing Director—explores these questions with the insight of someone who has spent his professional life at the intersections of economics, public policy, and national and international diplomacy.

Africa has known him as the Governor of the Central Bank of West African States (1988–90), during which time he played a major role in resolving a serious banking crisis and in creating an effective regional banking sector commission. This experience would serve him well when the IMF was called upon in 1997 to help Asia weather its financial crisis. Africa has also known him as the Prime Minister of Côte d'Ivoire (1990–93), during which time he instituted a transition toward a more open and transparent political regime and made major strides toward strengthening the economic and social position of the country.

The IMF has known him for 14 years, as he has moved, in various incarnations, from Economist to Director of the African Department, to Counsellor, to Deputy Managing Director. I, personally, have had the privilege of knowing him as a trusted counsellor and friend. He leaves a major legacy of accomplishment that has deeply improved the IMF and no doubt touched the lives of innumerable people.

What is his counsel for developing countries, and in particular Africa, at the dawn of a new millennium? Let me offer a few highlights from this collection.

In his speech to the UN Conference on Trade and Development (UNCTAD), he reminds us that sound macroeconomic policies must be a top priority, and that these policies must be supported by transparency and accountability. He also reminds us that policies at the country and global level must be mutually reinforcing; industrial countries meeting the more outward-oriented policies of developing countries with greater openness around the world.

In his commentary in the *Brown Journal of World Affairs*, he describes Africa as at a crossroads: either the continent takes its destiny squarely into its own hands, or it leaves the shaping of its future to chance or to special interests. Africa has much to be proud of, as the past 10 years have seen a great deal of economic progress. But there is still much to be done if Africa is to raise living standards and make a real dent in poverty. The agenda must include adopting bold structural reforms, and building a social consensus for reform through economic security, good governance, and a better dialogue with civil society.

In his Berlin address, he suggests that development rests on three pillars: good economic policy; a conducive legal and political environment; and attention to equitable social development. He focuses on the political dimensions of economic reform, exploring answers to the proper role of the state in the modern world; the necessary institutional framework for proper policy formulation and implementation; the needed capacity to formulate and implement policy; and the proper role of other groups in the society.

Finally, in his speech to the First Conference of Ministers of Economy and Finance of French-Speaking Countries, he argues that developing countries cannot escape globalization, and indeed, that they should embrace it. He also supports regional integration as a

stepping stone toward full integration, highlighting the experiences of French-speaking countries, a path he has personally traveled.

Alassane Ouattara has invariably argued that the decisive changes for the better—for any country—must come from within. In the end, a country holds its destiny in its own hands, whatever the importance of international solidarity and whatever the contribution of international organizations. Through its own efforts, it makes the decisive difference. For that reason, he now leaves the IMF to once again serve his own country. We wish him well.

Michel Camdessus
Managing Director

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Better Integration into an Increasingly Globalized Economy

I am honored to be here to share with you the IMF's thoughts on the turbulent events of the past two years and what lies ahead. With growing signs that the worst of the financial crisis is over, we now have an opportunity to reflect on the weaknesses revealed and remedies needed. But that does not mean that we can afford to be complacent. We are being given a chance to right the wrongs, and delay would only sow the seeds of the next crisis.

Our globalized world offers many benefits, including the chance to quicken the pace of investment, job creation, and growth—something many developing countries, especially in East Asia, know quite well, because they have benefited greatly from their openness over the past few decades, with impressive economic growth and an enviable record on poverty reduction. And recent events, although they represent a setback—with very high social costs—do not undo that achievement.

But there are also many countries, particularly the poorest ones, that have not yet been able to benefit from globalization, and this is unacceptable! The international community and the countries themselves must redouble efforts—and urgently—to ensure more universal participation in the globalized world economy. This will entail creating a conducive economic setting, at the global and country level, and putting in the needed safeguards to minimize the risks of volatile capital flows and contagion. But before I go into the specifics, a few words on the economic environment in which we will be operating.

A Snapshot of the World Economic Environment

What sort of world economy is there likely to be at the dawn of the new millennium? Is the cup half empty, or is it half full? We at

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Remarks by Alassane D. Ouattara to the Group of 77 Preparatory Committee for UNCTAD X, Geneva, June 7, 1999.

the IMF would vote for half full, although this is no time to put away the saucer. After last year's slowdown, the IMF sees world growth bottoming out around 2¼ percent this year before a partial recovery to about 3½ percent next year. Such an outcome implies a more moderate and short-lived slowdown than the three previous episodes of global economic weakness since 1970. It also represents a significant achievement given the concerns about global recession risks that prevailed only a few months ago. Much of the credit goes to prompt policy responses in the crisis countries—as well as those threatened by contagion—and to timely moves to ease monetary policy in the major industrial countries. Moreover, timely and targeted policy advice and financial support from the IMF and other international agencies played an important role.

How about developing countries? They have reason to hope that they can resume their relatively strong rates of economic growth soon. Many Asian economies are showing clear signs of a nascent recovery. The spillovers from Brazil's financial crisis to markets elsewhere in Latin America have generally been moderate, and Brazil itself appears to be recovering faster than was widely expected. Investor sentiment toward the emerging markets is improving. Africa is ready to build on its markedly better performance of recent years. And global inflation remains subdued.

Moreover, despite a sharp slowdown in the growth of world trade in 1998 and the fall in commodity prices, there are virtually no signs of a generalized resort to protectionism. It is also striking that, with very few exceptions, countries have responded to the crisis by deepening their commitment to outward-looking policies and market-oriented reforms.

But there are several downside risks in the outlook. As regards the engines of the world economy, there is uncertainty whether the United States, after almost a decade of rapid growth, can achieve a "soft landing." There is uncertainty whether Europe can breathe new vigor into its flagging economic expansion. And there is uncertainty whether Japan can soon achieve its long-awaited recovery. Moreover, the uneven pattern of growth among the large currency areas since the early 1990s has resulted in a marked widening of current account imbalances—in turn, raising the risk of increased protectionist pressures or destabilizing movements in exchange rates.

At the same time, the emerging market economies are not completely out of the woods yet. Brazil must persevere with its economic reforms. Russia needs to lift the cloud of uncertainty that is hanging over it once again. And substantial challenges remain in Asia, where further progress with structural reform is needed to ensure sustainable recovery. We cannot rule out the possibility that setbacks in one or two key emerging market countries could trigger further financial market instability.

Yet if this should happen, are countries powerless? Can they take steps to make themselves less vulnerable to contagion? I believe they can. A recent IMF study (*World Economic Outlook,* April 1999) shows that the circumstances of countries that experienced foreign exchange market pressures during the major crises in the 1990s differed from those that did not. Those hit usually exhibited pre-crisis weakness in economic fundamentals, especially in their external positions and banking system vulnerability. Spillovers associated with trade linkages also played a role in some cases.

In other words, domestic economic policies play a central role not only in preventing crises but also in reducing vulnerability to contagion. This underscores the old virtues: pursuing fiscal and monetary discipline, avoiding large external imbalances and overvalued exchange rates, and addressing financial sector weaknesses and excessive short-term foreign borrowing—that is, making macroeconomic stability a top priority; otherwise, little else matters.

But here I would like to note that we are increasingly realizing just how important it is that sound macroeconomic policies are supported by transparency and accountability. Developing countries must persevere with their efforts to promote good governance and ensure respect for human rights. I am pleased to note that throughout Africa, political systems are gradually being liberalized, and a popular consensus is building for the establishment of more democratic systems. This means that checks and balances are being strengthened, creating a more secure environment for private sector activities to flourish.

Mutually Reinforcing Policies

Another lesson we have learned from the recent crises is the importance of mutually reinforcing policies at the country and glob-

al level. After all, if one hand doesn't know what the other is doing, it is unlikely that the desired outcome will be achieved. Sadly, there is far too much of the two hands not being coordinated—when it comes to trade policy, aid policy, and postconflict policy—and this has to end or we will never integrate all the developing countries, especially the least developed countries (LDCs), into the global economic system.

At this stage, an increasing number of LDCs face better growth prospects, thanks to improvements in policy implementation. But many still risk becoming further marginalized, which is worrisome given the well-recognized link between open trade regimes, economic efficiency, and growth. Thus, we must guard against reverting to the inward-looking policies of the 1960s that served countries so poorly.

The LDCs should latch onto trade as an engine for growth. They should also go to great lengths to attract private capital flows—especially the productive, longer-term flows—which, for the developing world, tend to be concentrated in a limited range of sectors in the relatively more advanced countries. Renewed efforts in these directions are essential to avoid an excessive dependence on official development assistance, which has fallen to a historic low for all developing countries—a trend that must be reversed!

For these reasons, the marginalization of the LDCs warrants exceptional treatment. Now here is where both hands must work together! If we are serious about development, the more outward-oriented policies of these countries must be met by greater openness around the world. The industrial countries in particular could help greatly by opening up their markets in which these countries have the greatest comparative advantage, such as agricultural products, textiles, and clothing. And they should grant across-the-board, duty-free access for all exports of the LDCs—as former World Trade Organization Director-General Ruggiero has proposed.

What can the IMF do to help developing countries' reform efforts? Besides putting the Enhanced Structural Adjustment Facility (ESAF)—our concessional lending window—on a self-sustained footing, and providing technical assistance, policy advice, and training, we are undertaking two special initiatives, one aimed at the poorest heavily indebted nations and the other at countries trying to rebuild after political turmoil, civil unrest, or armed conflict.

First, the IMF is working closely with the World Bank to provide more debt relief to a broader range of Heavily Indebted Poor Countries—by enlarging the so-called HIPC Initiative. We have heard the calls for faster, deeper, and broader debt relief, and are working hard, together with the World Bank, to strengthen the Initiative. We aim to agree on an enhanced Initiative this year, guided by the G-7 Summit in Cologne this month, and by the Annual Meetings of the IMF and World Bank this fall.

But however the Initiative is strengthened, more generous debt relief must go hand-in-hand with incentives that encourage countries to adopt strong programs of adjustment and reform, provide additional resources for greater investment in education and health that can contribute to poverty alleviation, and promise a clear exit from unsustainable debt burdens.

This is exactly what the IMF is trying to achieve under the ESAF—namely, high-quality growth, supporting sustainable development policies that will reduce poverty and improve living standards. To this end, we recognize the need for government and civil society ownership of ESAF-supported programs. And to this end, in turn, we recognize the need to better integrate social sector policies in these programs. This is why we are working more closely with our development partners to assess the poverty and social impact of these programs.

But let me go back to the right hand and left hand again for a moment. It makes no sense to offer debt relief to the poorest members of the international community while at the same time denying them the opportunity to grow their way out of poverty. Debt relief must go hand-in-hand with trade reform, geared toward the exports of low-income countries.

Second, efforts by the international financial institutions to enhance postconflict assistance need to be placed in the broader context of enhanced efforts by the international community as a whole. The IMF's Executive Board recently agreed on steps to improve the terms of postconflict assistance to our poorest members and, where appropriate, greater access to IMF resources over a longer period of time. We expect that many of the poor postconflict nations will eventually be able to avail themselves of the HIPC Initiative, including those with large and protracted arrears to the IMF. We are also mindful of the economic burdens and additional demands now being

faced by the so-called frontline states in Central and Eastern Europe. And as we reach out to the refugees in the Balkans, let us not forget the large number of refugees in Africa. A coordinated effort is needed to assist in the orderly transition from situations of conflict to conditions conducive to economic security, stability, and growth.

Creating a Healthier Global Environment

As the LDCs and other developing countries better integrate themselves into the global financial system, it will become even more imperative that the international community create a healthier global economic system—what we often refer to as strengthening the international financial architecture. With this in mind, we have been debating in many forums new "rules of the road" to help governments and businesses navigate the global marketplace, along with measures to ensure that contagion is contained and the social costs limited. These initiatives will change the very way that governments, banks, and enterprises promote economic development. They will also help ensure that developing countries benefit from globalization by reducing the risk of crises and enabling countries to better adjust when crises do occur, for they will.

So where does the international community stand on these efforts? In four of six major areas of activity, significant progress has been made: practices are changing, policies are being implemented, or broad agreement exists on how to go forward. Let me mention these briefly.

- First, improving ***transparency*** and raising ***standards*** are at the heart of the changes. And here we have, in fact, come the furthest. The IMF has strengthened its data dissemination standards, especially on international reserves and external debt; it is encouraging members to adhere to the code of good practices on fiscal transparency that was adopted last year; it is working with other agencies to finalize a similar code for transparency in monetary and financial policies; and we have moved swiftly to increase the IMF's own transparency.

  We now look to developed and developing countries to adopt these standards, and where possible, to do even better than the minimum. For a lack of transparency has figured in

all the recent crises, and it has been a pernicious feature of the "crony capitalism" that has plagued most of the crisis countries and many more besides.

- Second, on the ***financial sector***, the IMF and the World Bank are working closely to promote stronger financial systems, drawing in part on the internationally accepted Basle Core Principles. We look to all countries to align national practice with these principles, and we are stepping up our own efforts to assist them. In addition, the recently established Financial Stability Forum will make an important contribution as a vehicle for strengthening cooperation among agencies and expert groups with responsibilities for financial regulation and oversight. We support the efforts of the Forum to find ways to involve national authorities from countries outside the G-7.
- Third, on ***social policies***, the IMF has taken an increasingly active stance on social safety nets, the composition of public expenditures, and the equity aspects of economic policies over the past decade. Toward this end, we will continue to work closely with the World Bank and other UN agencies. We look to them to take the lead in helping developing countries better adapt social sector mechanisms to absorb the impact of the changes in factor markets that occur in a dynamic market economy and globalized markets.
- Fourth, on ***IMF financial assistance***, the newly established Contingent Credit Lines signal a fundamental change in the way the IMF operates, moving us from a reactive to a preventive mode. This facility will enable countries that are basically sound and well managed to put in place precautionary financing should their access to capital markets be threatened by contagion.

In two other principal areas of activity, the debate has clearly advanced, but a number of important issues remain to be resolved.

- First, on ***capital account liberalization***, we do not advocate a blind rush into lifting controls. As the Asian crises brought home, countries need to liberalize in an orderly, properly sequenced manner. We look to all countries to ensure that capital account liberalization is supported by a consistent macroeconomic framework and strengthened domestic finan-

cial systems—for only then will financial intermediaries and other market participants be able to manage risk.

- Second, on involving the ***private sector*** in forestalling and resolving crises, clearly the most complex area, considerable headway has been made but many difficult and contentious issues remain. We need to find a way to stop creditors from rushing for the exits when crisis strikes, and even trickier, to encourage them to act in a way that permits a more orderly process of adjustment for the country involved. To facilitate this search, we look to all countries to maintain effective communication with private capital markets, establish or strengthen high-frequency monitoring systems, and adhere to sound principles of debt management.

* * *

In closing, I would just like to emphasize that we are fortunate to now have a calmer economic constellation that permits us to press forward with our efforts to better integrate all countries into the global economic system. We must seize this opportunity to ensure that we have a healthy economic environment in which all countries can prosper and grow in the new millennium.

Africa: An Agenda for the Twenty-First Century

Introduction

At the dawn of the twenty-first century, Africa is at a crossroads. It must quickly select the path it wishes to follow. Either the continent takes its destiny squarely into its own hands, or it leaves the shaping of its future to chance or to special interests. Africa does indeed have a choice. On one hand, it can allow the forces of implosion and ethnic warfare to become the masters of its fate, to the advantage of a few potentates lacking in vision or warlords with transient alliances. Thus, history would repeat itself, with all the suffering that this entails, and this old continent will be at the mercy of all types of corruption. Africa would be stripped of the wealth of its soil and the promise of its youth and left marginalized, adrift in the wake of history.

But Africa could just as well opt for another course. It can say "no" to marginalization and fully integrate itself into the great global village that the world has become in this Internet era. It can become one with the world so that its youth can build a future brimming with hope, grounding its action so that each and every man and woman participates in developing the nation, ensuring both transparency in the management of public affairs and a sense of a common destiny. These are the foundations of a stable, inclusive, and predictable environment. Africa has to choose between all the models of development that have been implemented in the rest of the world, including those in Asia, with all their strength and caveats.

In this paper, I will first show that the economic landscape in Africa has changed dramatically in the past several years and that

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Article by Alassane D. Ouattara, published in *The Brown Journal of World Affairs*, Vol. V, No. 1 (1998). Reproduced with the permission of *The Brown Journal of World Affairs*. This article drew in part on Mr. Ouattara's recent speeches addressing a number of special issues facing Africa.

the seeds for a better future are germinating. Indeed, since the early 1990s, many countries in sub-Saharan Africa have been implementing sound macroeconomic policies and structural reforms to raise real per capita incomes, reduce inflation, and narrow financial imbalances. But despite these improvements, poverty remains widespread, private investment is subdued, and most African countries continue to depend heavily on external assistance. Moreover, macroeconomic imbalances are still sizable, and most countries remain highly vulnerable to changes in external conditions.[1]

There is today a widespread consensus—both within Africa and among its international partners—that intensified efforts are required to increase growth by fostering private investment through more open markets and trade and by ensuring a more secure environment. In the second part of the paper, I will review the content of such "second-generation reforms," which encompass not only economic, but also political and judicial dimensions. I will conclude with the main challenges facing Africa in an increasingly globalized world.

Africa's Economic Recovery

Sub-Saharan Africa has made substantial progress toward macroeconomic stability during the current decade. The most encouraging aspect of this turnaround is that it has been underpinned by determined efforts by an increasing number of African countries to implement sound financial policies and market-friendly structural reforms. These efforts have often been undertaken with the support of the International Monetary Fund (IMF) through its technical assistance and financial assistance under the Enhanced Structural Adjustment Facility (ESAF). This facility is specially tailored to the needs of low-income countries and is highly concessional, carrying an interest rate of 0.5 percent a year for loans that are repaid in 10 equal semiannual installments, beginning 5½ years and ending 10 years after the date of each disbursement. This economic "renaissance" can be illustrated with the help of a few key indicators.

[1]It is important to note that averages conceal large differences in performance among countries.

After years of stagnation, average real economic growth in sub-Saharan Africa has increased from about 1 percent in 1992 to about 5 percent in 1997 (see Table 1), and this positive trend is expected to continue. The strengthening of growth has been increasingly broadly based across countries. While in 1992 only 18 of the 47 countries in the region recorded growth of 3 percent or more, by 1997 the number had increased to 32. After five consecutive years of decline, real per capita gross domestic product (GDP) has started to rise—some 40 out of 47 countries are now showing a rise in their per capita incomes. This improvement has been accompanied by a welcome upturn in the ratio of gross capital formation to GDP from an average of more than 16 percent in 1992 to about 19 percent in 1997, and in domestic savings from less than 8 percent to about 13 percent over the same period.

There has also been some success in bringing down inflation. Many countries have already achieved single-digit inflation rates, and for the region as a whole, average inflation (as measured by the consumer price index) is estimated to have declined from a peak of 60 percent in 1994 to 22 percent in 1997.

Overall, countries have also reduced their internal and external imbalances. The region's external current account deficit, including

Table 1. Sub-Saharan Africa: Selected Economic and Financial Indicators, 1992–97

	1992	1993	1994	1995	1996	1997 Est.
			(Growth rates, in percent)			
Real GDP	1	1.8	3	4.5	5.7	4.9
Real GDP, per capita	–3	–3.7	–0.7	1.7	2.3	1.8
Consumer price index	45.5	43.5	60.3	46.7	43.0	22.3
			(In percent of GDP)			
Gross capital formation	16.6	17.6	18.1	18.3	19.1	19.4
Domestic savings	7.7	8.2	9.7	10.3	11.6	12.7
Central government fiscal balance	–9.2	–8.4	–7.2	–5.4	–5.2	–3.8
Current account balance, including official transfers	–8.4	–8.9	–8.2	–7.5	–7.5	–6.4
External debt outstanding	98.1	108.7	135.3	123.7	117.4	106.1

Source: IMF, *World Economic Outlook*, October 1997 (Washington).
Note: Excluding Nigeria and South Africa due to their large relative size.

grants, has fallen from an average of about 8 percent of GDP in 1992 to an estimated 6 percent in 1997, while the overall fiscal deficit has been cut from about 9 percent of GDP to about 4 percent over the same period. Moreover, the IMF and the World Bank have recently begun implementing the framework for action to tackle the external debt burden of heavily indebted poor countries (HIPCs), including their large multilateral debt. So far, six countries, four of which are in Africa—Burkina Faso, Côte d'Ivoire, Mozambique, and Uganda—have been considered eligible under the HIPC Initiative.

African governments have also made considerable strides in opening their economies to world trade. A good indicator of this is that 31 sub-Saharan African countries, almost all of them since 1992, have accepted the obligations of Article VIII of the IMF's Articles of Agreement, an agreement not to impose restrictions on payments and transfers for current transactions. Most countries have moved ahead with trade and exchange liberalization, eliminating multiple exchange rate practices and nontariff barriers, and also lowering the degree of tariff protection. Consequently, the number of countries in sub-Saharan Africa with "restrictive" regimes governing external current account transactions, that is, goods and services, has declined substantially with the great majority (about 40) implementing "substantially liberal" trade regimes.

Finally, the restructuring of many African economies is gaining momentum. Throughout the continent, government intervention in economic activity is on the wane. Administrative price controls are being removed and agricultural marketing has been widely liberalized. The process of restructuring and privatizing state enterprises has been under way for some time in most countries, though with varying speed and degree of success. Labor markets are also progressively being liberalized. Fiscal reform is gaining ground: African countries are taking steps to rationalize their tax systems, to reduce exemptions, and to enhance administrative efficiency. At the same time, they are reorienting expenditures away from wasteful outlays and toward improved public investment and spending on key social services, particularly health care and primary education. On the monetary front, most countries have made progress in establishing market-determined interest rates, eliminating selective credit controls, and gradually introducing indirect instruments of monetary policy. Greater attention is also being paid to rehabilitating weak

banks and promoting healthy and competitive banking sectors. In most countries, these measures, together with a lower rate of inflation, have resulted in an increase in money demand and in financial savings. However, a lot remains to be done to further improve financial intermediation and reduce the size of the nonmonetized economy.

The Need for Faster Growth

The recent achievements in Africa are undoubtedly encouraging, but are they sufficient to make a real dent in poverty?

The World Bank has produced some estimates of poverty elasticities. The poverty elasticity[2] varies according to the degree of inequality, which is measured by the Gini coefficient.[3] A study by the World Bank shows that "countries with Gini coefficients greater than 0.5 (such as Kenya, Senegal, and Tanzania) have an elasticity of only –0.5, implying that growth in excess of 8 percent is needed to reduce the number of poor. Even with Gini coefficients below 0.4 (for example, Uganda), the poverty elasticity reaches only –1.5. Thus, with population growth of 3 percent, a rate of economic growth of 5 percent is needed to reduce poverty." (See Table 2.)

Interestingly enough, an IMF staff paper argues for the need for higher savings and investment levels commensurate with trends in the labor force.[4] It concludes that the average investment/GDP ratio—which averaged about 18 percent during 1986–93—would have to increase to 25–30 percent to keep annual employment growth of 3.3 percent in line with the labor force; such an increase in investment corresponds implicitly to a rate of economic growth of the order of 6–7 percent. It is interesting to consider what it would take for African countries to attain one-half of today's real per capita

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[2]The need for high growth is calculated on the basis of a poverty elasticity, which measures the percent change in poverty measures for a 1 percentage point increase in growth. The higher the poverty elasticity, the lower the actual growth rate needed to reduce the number of poor.

[3]See World Bank, *World Development Indicators 1997* (Washington).

[4]Pierre Dhonte, "Three Propositions on African Economic Growth," IMF Paper on Policy Analysis and Assessment 95/9 (Washington: IMF, 1995).

Table 2. Required Growth Rate for the Number of Poor to Decrease

	Population growth (percent)			
	2.0	2.5	3.0	3.5
Poverty Elasticity				
–0.6	4.0	6.7	8.0	9.3
–0.8	3.4	5.6	6.8	7.9
–1.0	3.0	5.0	6.0	7.0
–1.2	2.8	4.6	5.5	6.4
–1.4	2.6	4.3	5.1	6.0

Source: World Bank.

income levels in industrial countries within a generation. The answer is that it would take sustained real per capita growth at an annual average rate of 8 to 9 percent.

The remarkable fact about such numbers is not that they are high, but that they fall within a range that an increasing number of policymakers would consider feasible. This, in itself, indicates the extent of the accomplishments of the past decade. However, if such growth rates are to be sustained, Africa urgently needs to become a better place to save and invest, first and foremost for Africans themselves, but also for foreign investors.

Toward Economic Security

When I took office as Prime Minister of Côte d'Ivoire, one of my first actions was to refurbish and re-equip the offices of the Supreme Court. I took this action at the time to underscore my commitment to uphold the rule of law; I refer to it today because I strongly believe in the need for widely sharing such a commitment at this juncture in Africa's economic history. Indeed, the basic objective of the "second-generation" of reforms before us, in the words of IMF Managing Director Michel Camdessus, is to expand the scope for private investment by promoting greater openness in domestic and external trade and to create a more secure environment. Meanwhile, it is essential that the focus be maintained on consolidating and extending the progress made in maintaining macroeco-

nomic stability. Let me detail this agenda before I turn to the instruments that can be used to advance it.

1. Appropriate regulations and their even-handed implementation are necessary to support free trade, which is critical for a better allocation of resources and to the spread of know-how and innovation. This requires the following actions:

Redefining the Role of Government

A redefinition of the role of the government away from direct involvement in production and toward the provision of essential public services is critical. While containing total government spending within available resources, countries need to place increased emphasis on the composition of expenditure, with a view to expanding the share of outlays devoted to activities that promote growth—such as education, including that of women, health care, and basic infrastructure. There is also an increasing need to focus on the quality of the tax system and give particular attention to avoiding distortions, fostering adequate incentives to save and invest, and promoting a predictable and credible fiscal environment. At the same time, the regulatory framework should be substantially liberalized.

More Rapid and Transparent Privatization

A more rapid and transparent privatization process is needed to create a scope for the private sector. In an increasing number of sub-Saharan countries, privatization of public enterprises has become a key instrument for promoting private sector development. The experience suggests that well-defined privatization programs help governments reduce the budgetary burden of subsidies and transfers to parastatals, as well as alleviate pressures on domestic banks from nonperforming loans to public enterprises. As the operations of public enterprises are commercialized and their management and ownership privatized, the scope for private production widens, a more competitive environment emerges in domestic markets, and productivity rises.

In supporting these efforts, a comprehensive privatization strategy comprising the following elements should be implemented:

- To prepare for privatization, public enterprises need to be operated on commercial principles that ensure that output prices cover costs and that managers are granted an appropriate measure of autonomy. Moreover, they have to adhere to the market discipline of hard budget constraints and well-defined performance contracts.
- Privatization should promote competitive markets by unbundling large public sector monopolies and increasing the number of financially viable and competing enterprises.
- Privatization should cover not only management responsibilities but also ownership, and should involve local as well as foreign investors. This is important for realizing efficiency gains and obtaining access to appropriate managerial and technical know-how as well as to financing.
- The establishment of an appropriate legal framework, along with effective regulatory policies and institutions, is essential to promote a transparent and predictable environment for investors, reduce the fear of expropriation, and foster healthy competition.

Financial Sector Reform

Financial sector reform that would strengthen savings mobilization and intermediation and promote soundness of the banking system is vital, as the Asian crisis has amply demonstrated. In many sub-Saharan African countries, the financial sector remains weak, and hence is an obstacle to mobilizing savings, financing productive activities, and attracting and retaining private capital flows from abroad. In particular, progress in restructuring state-owned banks and strengthening the institutional environment has been slow, often because of a failure to enforce existing prudential regulations. In part, this reflects a lack of government political commitment.

Therefore, these countries will have to move decisively with structural reforms designed to deepen and broaden their financial markets; establish independent and efficient banking supervision agencies, taking advantage of available technical assistance where necessary; open their banking sectors to healthy international competition; apply best practices in bank management, particularly through privatization; address the problems of distressed banks;

strengthen loan recovery; and improve the legal framework for banking activities and contract enforcement. At the same time, there is a need to develop institutions and instruments dedicated to long-term savings mobilization—stock exchanges, pension funds, insurance, and other contractual savings systems. There is also a need to explore how domestic financing facilities can be made accessible to small investors, including farmers. The sequencing of reforms—which would also have to include promoting a strong judicial system and appropriate accounting standards—is important. The IMF, in close collaboration with the World Bank and other interested parties, will continue to provide assistance in these areas through policy advice and technical assistance.

A Faster Pace of Trade Liberalization

Africa needs a faster pace of trade liberalization that would enhance the efficiency and competitiveness of domestic producers and help it integrate more fully into the world economy to better exploit the opportunities of globalization. The promotion of free trade is an important element in the IMF's work and complementary to that of the World Bank and the World Trade Organization (WTO). The industrial countries could also make an important contribution to the integration of African countries into the world economy by reducing or eliminating the barriers that limit the access of African producers to their markets.

Notwithstanding the progress made since the mid-1980s, trade regimes in sub-Saharan Africa remain complex and restrictive compared with most other countries in the world, partly because of the reliance on trade taxes as a major source of government revenue. Moreover, the aggregate supply response has not always materialized, owing to the adverse effects of tariff reductions on formerly protected firms. Widespread exemptions have compromised the anticipated revenue neutrality of tariff reductions and might have also distorted the structure of trade.

In the design of trade reform, all significant nontariff barriers should be eliminated since they are less transparent and involve more serious distortions than tariffs. Regarding tariffs, the first stage of reforms should include the elimination of statutory and discretionary exemptions, the amalgamation of various import duties and

charges into the basic tariff, and the lowering of rates to a range of 0 to 30 percent, with an average tariff of not more than 15 percent. Some sub-Saharan African countries have already reached this stage, and a number of others are close to it.[5] These countries can be encouraged to proceed to the second stage, which should aim at further reducing tariffs to a range of 0 to 20 percent, with an average tariff of about 10 percent, preferably within a period of at most three years. Export taxes should be substantially reduced, if not eliminated, and replaced with domestic taxes that do not discriminate against trade.

The benefit of trade liberalization would be enhanced if the process is supported by a properly sequenced and paced liberalization of capital flows in order to create a scope for increased contribution of foreign direct and portfolio investment. Moreover, trade liberalization and tariff reform should be well publicized and undertaken as part of a comprehensive medium-term tax reform program. In addition, one should carefully weigh the relative merits, in the African context, of a uniform versus moderately dispersed tariff structure. The uniform structure is conceptually clear, simple, and efficient, but if its implementation is not properly sequenced, it could result in a large and abrupt decline in effective protection, as well as in an increase in unemployment.

2. Ensuring economic security is critical for eliciting the participation of each and every individual in developing the nation. The steps to be taken to establish a secure economic environment are numerous:

Enhancing the Regulatory and Legal Systems

The transparency, predictability, and impartiality of the regulatory and legal systems must be guaranteed. This goes well beyond the respect of private property rights and the enforcement of commercial contracts. It also involves the elimination of arbitrariness, special privileges, and ad-hoc exemptions, even where these are intended to encourage investment.

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[5]The first group includes Kenya, Uganda, and Zambia; the second, Comoros, Madagascar, Malawi, and Tanzania.

Achieving Good Governance

Achieving good governance is very important. It means that national authorities spare no effort in tackling corruption and inefficiency, and in enhancing accountability. It also means reducing the scope for distortionary rent-seeking activities, eliminating wasteful or unproductive uses of public funds, and providing the necessary domestic security.

In July 1997 the Executive Board of the IMF, recognizing the importance of good governance for macroeconomic stability and sustainable growth, adopted guidelines to provide greater attention to these issues while limiting the IMF's involvement to the economic aspects of governance. The IMF's contribution focuses primarily on improving the management of public resources, in particular, through greater transparency and accountability, and supporting a liberal and stable economic and regulatory environment.

In the IMF's policy dialogue with African countries, high priority is therefore being given to the economic aspects of governance. This involves the provision of technical assistance, especially in the areas of tax reform and administration, budgetary procedures, and government financial management; improvement in these areas will reduce opportunities for bribery, corruption, and fraudulent activity. Substantial emphasis is also being given to improving the legal and judicial system to ensure respect for a fair and transparent system of property rights. In this area, the IMF draws primarily on the knowledge of other institutions, in particular, the World Bank.

Defining Property Rights

Well-defined property rights are a key element of economic security for small landholders and informal entrepreneurs; they are also a key requirement for the deepening of the financial system. Meeting this need requires imagination and a close coordination with stakeholders. Simply dumping the legal instruments of advanced economies on countries with diverse cultural and administrative backgrounds will not work.

3. A variety of instruments is available to support free trade and advance economic security. I will mention three:

Fiscal Management and Civil Service Reform

A capable and efficient civil service is a key ingredient to sound public administration. However, in many countries, limited skills, overstaffing, and deteriorating remuneration in real terms have contributed to low morale, weak incentives to improve performance, and illicit activities in the civil service. For many African countries, a key step will be overhauling their civil service. After all, a lean, efficient, highly qualified, and well-paid civil service lies at the heart of good governance. The civil service reform agenda is itself a complex one; it is important that tax administration and the accounting office be strengthened at an early stage, both for equity and efficiency reasons.

The substantial progress in reducing internal and external imbalances is partly a result of fiscal consolidation. However, fiscal consolidation has come primarily from public expenditure compression. In many countries, the revenue base remains inadequate. Revenue efforts should focus on broadening the tax base and strengthening tax administration—there is little room for higher rates. It is important to articulate a comprehensive medium-term approach to tax reform that would optimize the composition of revenue and take into account the impact of tax structure on investment incentives and income distribution. Given the dependence on trade taxes, tariff reductions should be coupled with measures to minimize the risk of higher fiscal deficits. Expenditure levels will continue to be constrained by available resources, and hence the efficiency of outlays remains the key to fiscal adjustment in the short term. As mentioned above, the composition of expenditure will need to continue to improve through the reduction of unproductive expenditures—including military expenditures—and through an increase in the share of education and health expenditure, as well as that of infrastructure.

Forging a Partnership with Civil Society

Forging a partnership with civil society to build a consensus on reforms, and to provide checks and balances, is essential. To succeed, African governments need to encourage actively the participation of all the segments of civil society in economic policy debates. As evidence increasingly shows, adjustment efforts work best when

reforms enjoy the broad support of the population, especially the intended beneficiaries. With this in mind, policymakers need to do a much better job of explaining the short-term costs, as well as the medium- and long-term benefits, of policy options.

Regional Integration

With closer economic integration, each African country has an interest in ensuring that appropriate policies are followed in its partner countries. This could be achieved by increased coordination of national policies within a regional context. Throughout the continent, African governments are coming together to coordinate their policies, and virtually all countries are now members of regional organizations. Efficient regional cooperation allows the economies of Africa to overcome the disadvantage of their relative small size and, by providing access to larger markets, to realize economies of scale.[6] The obligations of membership in some of these organizations also make it easier for each individual country to achieve further progress in regulatory and judicial reform (as is the case in the CFA[7] franc zone), to rationalize payments facilities and to relax restrictions on capital transactions and investment flows (as in the Cross-Border Initiative), and to develop a mutual economic infra-

[6]About 20 African countries have fewer than 10 million inhabitants, and 14 countries are landlocked.

[7] The 14 African countries of the CFA franc zone currently consist of two separate groups of sub-Saharan countries. The first group includes the eight members of the West African Economic and Monetary Union (WAEMU)—Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The WAEMU was established on January 10, 1994, and supplemented the WAMU (West African Monetary Union), which has been in existence since November 14, 1973. The WAEMU treaty was ratified and became effective on August 1, 1994. The second group includes the six members of the Central African Economic and Monetary Union (CAEMC)—Cameroon, the Central African Republic (C.A.R.), Chad, the Congo, Equatorial Guinea, and Gabon. The CAEMC was established on March 16, 1994, together with two supporting conventions (CAMU—the Central African Monetary Union—and CAEU—the Central African Economic Union) as well as the CAECU (the Central African Economic and Customs Union). The CAEMC has not yet been ratified.

The two groups maintain the same currency: the CFA franc, which stands for Communauté Financière Africaine in the WAEMU and for Coopération Financière en Afrique Centrale in the CAEMC.

structure (as in the Southern African Development Community). Enhancing trade links among African countries naturally also strengthens their ability to participate in trade on a global scale and could lead toward further progress toward nondiscriminatory multilateral trade liberalization.

The challenge of the future will be to ensure that these regional organizations are perceived as effective vehicles for the integration of African countries into the world economy, providing mutual support to their members in their reform efforts. Such organizations should not be considered as defensive mechanisms, intended to ward off the "negative" aspects of globalization. Common regional objectives should seek to push through reforms in the areas of legal and regulatory frameworks, financial sector restructuring, labor and investment code reform, and exchange and trade liberalization that seek to attain international standards as quickly as possible. The pace of progress should be what is feasible, not what is comfortable for the slowest member.

Conclusion

Economic security, good governance, and a better dialogue with civil society to build a social consensus for reforms should be the key concerns of African policymakers in the future, in addition to sound macroeconomic policies and bold structural reforms.

As I consider Africa's agenda for the twenty-first century, I am struck above all by its hopeful character. All items converge on the single objective of building institutions to release and support the initiative of each and every African. But I am also all too aware that African news headlines often tell a different tale, one of terrifying ethnic strife, cynical corruption, and widespread misery and disease. How can this hopeful agenda be reconciled with these stark realities? The answer lies in the power of human creativity, once it is released in a secure environment.

An African renaissance is unfolding before our eyes. Most countries, through most of their independence years, have been ruled by autocratic leaders; autocratic because, whether enlightened or not, they stood above the law. Today, the rule of law is asserting itself. It is doing so through the tenacious labors of a multitude of

civil servants, of media personnel, and ordinary citizens, with the support of many local communities, and local and foreign non-governmental organizations. There is unfolding before us an immense and multifarious struggle between the established autocratic domination and burgeoning rules-based institutions.

More than ever before, Africans are demanding accountability and honesty from their leaders, freedom from repressive governance, and the right to participate in influencing and formulating public policy. The growing demands for more participatory systems of political representation are overdue and will enable African governments to build a popular consensus behind their economic and social policies. Governments can benefit from public participation in assessing the causes of existing problems, in identifying and debating alternative solutions, and in implementing appropriate strategies. Public support is more likely to be strong if there is widespread confidence that policies are applied uniformly and equitably and that there is an avoidance of hidden subsidies, for example, or special treatment of vested interest groups.

Ethnic strife and widespread misery can only be resolved under the rule of law. The fuel of ethnic strife is an autocratic system of government. It takes a rules-based system to give each and every citizen equal rights under the law, which is the foundation of peace. The same is true in the economic field: an autocratic government causes permanent exposure to whimsical and predatory taxation. Initiative, investment, and savings cannot flourish outside the security of the rule of law.

A new partnership is needed to support sustainable growth and development in Africa. International support should be—and is—focused on those African countries that have the will to break clearly with the past, and which are ready to implement far-reaching economic and political reforms. Support of corrupt governments, dictatorships, or warlords is both counterproductive and morally untenable. It is in the interest of the international community to have democracies spread and market economies develop in Africa.

Let there be no mistake: the fight for economic security is political in nature. It is a fight for the substance of power. A new basis of power exists in Africa today in all the men and women who are struggling to establish a new order. In their hopes lies my hope for a more humane Africa.

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Political Dimensions of Economic Reforms

I. Introduction

Let me first say how pleased I am to be back in Berlin at the invitation of the Foundation for International Development and to participate in another policy dialogue on a matter of critical importance for Africa's future. Our first dialogue on Africa last December provided for a stimulating exchange of experience and ideas on how Africa could best face the challenges of globalization. Judging by our discussions thus far, this present dialogue will be just as successful. I hope I can prevail on our German friends to continue in this vein, and to build these dialogues into a regular forum for the exchange of views on issues of importance to Africa as it moves into the twenty-first century.

As I come to the end of my tenure as Deputy Managing Director of the International Monetary Fund, I can look back on more than thirty years of professional experience in the field of economic policy. I have had countless discussions during that time, with heads of state and ministers of government, with colleagues in international institutions, representatives of civil society, and with ordinary people around the world. As I reflect on these discussions, I come to the view that development rests on three pillars: good economic policy; a conducive legal and political environment; and attention to equitable social development.

None of these pillars can guarantee development on its own. Apparent economic progress may be built on feet of clay, if one or both of the other elements are neglected—economic success can often paper over political fault lines that could erupt into strife if the economic momentum falters; it can also hide social inequalities and mounting frustrations that become glaringly evident if growth

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Keynote address by Alassane D. Ouattara to the Foundation for International Development, Berlin, Federal Republic of Germany, June 9, 1999.

should slow. In fact, this may be a part of what we are seeing in East Asia in the wake of the financial crisis there—social and political issues that will have to be resolved, regardless of how quickly the economies of these countries recover from the crisis.

I will touch only briefly on the first of the three pillars, economic policy, because I think there is little disagreement among us as to what is required. I will then share with you some of my thoughts on the theme of our dialogue here in Berlin—the political aspects of economic reform—and the various elements that contribute to building the type of legal political environment that is so important for economic success. I will say relatively little here about social development, which is the final objective of all our efforts, and for which we would need an entire policy dialogue all on its own. Suffice it to say at this stage that the mark of successful development in any country, in my eyes, is a sense among its citizens of having a personal stake in their nation's development and a shared responsibility to contribute actively toward that development.

Finally, I will mention briefly the international environment in which Africa will be seeking to accelerate its development—the various reflections that are under way on how to improve the architecture of the international monetary and financial system, and how these reflections are of direct relevance to the topic of our discussions here in Berlin.

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II. Economic Policy—The Foundation of Development

I think we all agree that there can be no successful development without good economic policies. A broad consensus has developed among policymakers over the past few years on the basic elements of such policies. First, macroeconomic stability (sound fiscal policies, a prudent monetary stance, and appropriate exchange rates) aimed at achieving low inflation and facilitating growth. Second, structural reforms to remove bottlenecks and enhance the efficiency of resource allocation, liberalize market access, foster trade and investment, and create a propitious environment for private sector development as the principal vehicle of growth.

Most African countries have made much progress in improving the quality of their economic policies over the past 10 years, after many years of disappointment and stagnation, and the results are evident. Macroeconomic performance has improved considerably—growth is up, inflation is down, and external and fiscal imbalances have narrowed. But there is clearly a need to do more. Growth must be raised to achieve a significant reduction in poverty and offer Africa's rapidly rising population a chance for a better life. One area where African countries are lagging behind is in integrating their economies into the global marketplace. The risks of not doing so are much too high for a continent that is struggling to narrow the income gap and catch up with other developing regions. The advantages of integration are substantial—access to a wider range of goods and services at competitive prices, the benefits of exposure to international competition on the efficiency of domestic producers, and the ability to tap into the ever-expanding pool of international private capital to finance the investment that Africa needs so desperately to accelerate growth.

But the crisis in East Asia has also highlighted two important points. First, no country conducts its economic policy in a vacuum. In our increasingly integrated world, the policies of one country are affected by those of other countries. The degree of this interdependence varies and it is certainly not symmetrical. But it does put a premium on policy coordination and economic cooperation. For Africa, with its generally small economies, this underscores the importance of regional cooperation, which I see as an effective stepping stone to global integration. Second, in a world of interwoven markets, free exchange of goods, services, and ideas, and highly mobile capital, good economic policy can be much more effective, but the market's sanctions of poor policy have also been sharpened. Appropriate, consistent, and predictable policies are rewarded, but policy slippages and institutional shortcomings are punished, quickly and harshly.

Therefore, it is in every country's interest to ensure that the formulation and implementation of economic policy is as good as it can be. This leads me to three conclusions. First, governments must recognize the importance of the right institutional and political framework for policymaking and work constantly toward improving it, so as to limit the scope for potentially damaging policy mistakes.

Second, just as countries increasingly cooperate as equal partners, working together and learning from each other to strengthen their economic performance, so too should the state nurture the partnership with its citizens, cooperating with them in setting out the objectives of policy, and involving them as directly as possible in the process of their action. These first two issues are the subject of our dialogue.

And finally, since economic policy is not an end to itself, since it is but one of the pillars of successful development, policymakers must always ask themselves whether their decisions advance social development. This question must guide the debate over the objectives of policy, and decision makers must never lose sight of the social dimensions of the policies they advocate.

III. The Political Dimensions of Economic Reform

The "new" economic policy debate revolves around issues like transparency, accountability, governance, consensus, and participation. Five or six years ago, these concepts were not at the center of our reflections, but they have always applied. In fact, the countries that have developed successfully over sustained periods of time are those that have achieved transparency, accountability, governance, consensus, and participation, or at the least, have prevented shortcomings in these areas from gaining the upper hand. What the Asian crisis has also shown is that if such shortcomings do gain the upper hand, economic decline can occur, even after long periods of success.

I believe that strengthening transparency, accountability, governance, consensus, and participation requires finding the right answers to the following questions:

- What is the proper role of the state in the modern world?
- What is the necessary institutional framework for proper policy formulation and implementation?
- Does the capacity to formulate and implement policy exist, and if not, how can it be created? and
- What is the proper role of other groups in the society?

The Role of the State

One of the reasons for the disappointments of the 1970s and 1980s in Africa (as in some other developing regions) is that too much was expected of the state. It was to be a producer and employer, as well as an educator and healer. It was to protect the infant economy from the harsh world outside the borders, and also protect the "essential industry" from destabilizing competition within the borders. This role was too widely drawn, given the limited resources and administrative capacities of African governments, and the pervasive presence of the state in all areas of economic activity stifled private initiative.

So what is the proper role of the state in modern society? There is now a growing consensus on this issue: the state must establish a set of mutually agreed, fair ground rules for private activity and enforce them equitably and consistently; it must provide internal and external security for its citizens; and it must focus its limited resources on fostering the development of human capital (health and education spending) and basic infrastructure. If the state limits itself to these objectives and combines them with a credible and predictable policymaking environment, it will have made the best possible contribution to the development of the economy.

But when I say that the state should set and enforce the ground rules, I also mean that it must set the moral tone for social and economic activity. Private individuals and enterprises will take an example from their leaders. The state must therefore hold itself to the highest standards of ethical behavior—more than any other part of the society, the government must respect the rule of law that it is charged to uphold. There must be no tolerance for corrupt or inequitable behavior within the ranks of the government, and the state must be perceived to be guarding against abuses of power in any form. Only then will the government be seen by its citizens as a credible guardian of their freedom and a true partner in development.

The Necessary Framework for Policy Formulation and Implementation

This leads me to my second question—what is the necessary institutional framework for successful policymaking? All who are

engaged in the conduct of public policy know that a government must have some scope for flexibility, in order to respond to exceptional circumstances or to deal with challenges not anticipated in advance. But such discretion must be exceptional indeed, and strictly limited in its scope. A rules-based approach is the best guarantee of the impartiality, consistency, and predictability of government action.

This underscores the critical importance of the right framework for policy formulation and execution. On the one hand, this includes the regulations and legislation governing economic activity and all other areas of human interaction. On the other, it refers to the institutions of government, which must have clearly defined responsibilities and competencies, as well as the necessary human and financial resources to carry them out. Where the rules and regulations are clear, and where institutions apply them predictably and impartially, economic security will flourish, and social justice becomes possible.

What are some of these institutions? A competent and politically independent judiciary, particularly in the area of commercial law. An autonomous central bank charged with the conduct of monetary policy. Independent regulatory agencies charged with the supervision and prudential oversight of key sectors, such as financial institutions, insurance companies, public utilities, and health. Agencies that guard against anticompetitive practices in private industry, banking, and trade. A parliament that has access to all the information needed to exercise oversight and control over the executive branch, and the resources necessary to do so effectively.

Creating all these institutions is a major challenge. But a start can be made on as basic a level as the government budget. It should be programmed following established rules and open, transparent procedures; it should be submitted for discussion and approval by the parliament; it should be carried out as approved, with no recourse to extrabudgetary spending or unapproved taxation, under continuous internal supervision and control; and its execution should be subject to ex post verification and supervision. If these principles are followed, there will be transparency and accountability in government action, and predictability and consistency in the implementation of policy. This is what we mean by good governance in public affairs, and we will find it easier to demand good governance also in private corporate affairs.

Building the Necessary Capacity

We have made considerable progress in Africa toward improving the institutional setting of policy in recent years, but we are still at the beginning of a long process. We must make impartial and competent institutions the backbone of our society, and our reliance on them and trust in them must become second nature to us. But of course, institutions are only as good as the people that run them. The question is, therefore, does the necessary capacity for formulating and implementing good policies exist in Africa? Here we must clearly make a concerted effort to improve the situation.

In all my visits to African countries, I am consistently impressed by the quality and commitment of the younger generation of civil servants, trade unionists, bankers, and entrepreneurs. There is no lack of African talent. But we need to do more to encourage these bright young people to engage their efforts on behalf of their nation's development, in the civil service and in public institutions.

Civil service reform is the key to this. African civil services are too large. Remuneration levels are woefully inadequate, and consequently civil servants are demotivated and susceptible to the temptation to earn a little on the side. Under such conditions, it will remain difficult to attract and retain the best and the brightest. Most countries have made progress in controlling the civil service wage bill—now it is time to extend those efforts to the reform of remuneration and advancement systems, so that merit is justly rewarded, and to achieve a closer matching of skills and competencies with the requirements of the administrations and institutions. One area that I would like to underscore is commercial jurisprudence—the respect of contracts and property rights and all other aspects of economic security need an independent and qualified judiciary.

Another way to strengthen capacity is through exchange. There are many highly skilled Africans abroad, in private enterprise and international organizations. These citizens need not be completely lost to their home countries—they should be thought of as a resource that could be tapped. Governments should try to reverse the brain drain by making attractive offers to these skilled citizens to come back home and bring their skills into the public administration, if only for two or three years.

The international community can and must help in this capacity-building effort through technical assistance and financial resources where necessary. At the IMF we are making a concerted effort to intensify our technical assistance to African countries, as shown by the recent establishment of a Joint Training Institute in Côte d'Ivoire. I am also very encouraged by the clear recognition on the part of African leaders that technical assistance has to be tailored to the specific requirements of the recipient country and better coordinated and focused than it has been in the past.

The Role of Civil Society—Participation and Consensus Building

The final aspect of the political dimension that I would like to raise is the proper role of civil society. It is clear that reforms are most likely to succeed when the population is involved in setting the priorities of the reforms, and is kept fully informed of progress. This creates the necessary consensus for reform, and a sense of participation in the nation-building process. Consensus and participation, as well as open access to information about government actions, are also necessary to cement transparency and accountability in public affairs, because they create the basis of the regular oversight, supervision, and control of government actions.

Parliaments, trade unions, churches, professional associations, nongovernmental organizations of all sorts—they all have a very important role to play in identifying development priorities, helping to formulate policies to achieve them, and ensuring that these policies are indeed carried out. Independent and autonomous domestic institutions, civil and professional associations, and NGOs can all act as "agencies of restraint" to government action. The same can be true of membership in regional or international organizations and adherence to their common objectives.

The most fundamental agency of restraint, however, is the institution of free and fair elections, and their corollary, the smooth and peaceful transfer of political power. These are the outward manifestations of a firmly anchored democracy—they translate the social consensus into political choices and represent the population's most effective sanction of the actions of government.

With time, these institutional and other agencies of restraint will become an accepted part of the social fabric in Africa, but we are

still at the stage of building them up. We must thus be aware of how fragile they still are, and we must protect and nurture them. In particular, most African countries are only at the start of the arduous process of developing a tradition of democracy and establishing the institutions that safeguard it. Only when these institutions function well and automatically will Africa's people be assured that their interests are being represented and actively promoted by their regents. And only on this basis will there be any guarantee that government policy does indeed serve the fundamental objective of equitable and sustainable social development.

IV. Social Development—The Ultimate Objective of Public Policy

I have spoken of consensus and participation as essential to successful reform and to achieving broad agreement on the priorities of policy. These will, of course, vary from country to country, depending on the particular situation, history, culture, and requirements of each population. But certain key principles seem to be common to social development in any country:

- the rule of law, and the establishment of a system of checks and balances;
- participatory and representative systems of government;
- freedom from repression and the right to express preferences for all citizens; and
- an institutionalized sharing of power.

In the past decade, most African countries have recognized the importance of these principles, and are moving away from systems of autocratic leadership, however enlightened, toward rules-based institutions that guarantee the place of each citizen and where all have equal rights and privileges under the law. But let us not underestimate how difficult a task this will be. There will be formidable opposition from those that have a vested interest in the status quo. Developing these new institutions will take human and financial resources that are in short supply in many African countries. And focusing on the objectives of social development will require the willingness to break with old ways and embrace far-reaching economic, political, and social reforms.

V. The New International Environment

Africa's development will take place in a new international context—one of globalized and integrated markets for goods and services. The international financial crisis of 1997–99 has raised challenges for the international financial and monetary system that must be met, if future crises are to be prevented and our ability to deal with shocks enhanced.

As you all know, the International Monetary Fund and a host of other multilateral institutions and governments have been reflecting on ways to improve what we call the architecture of the international financial system. At issue is not the radical reform of the system, but adapting it to the new realities. And the instruments chosen are transparency, norms of surveillance and supervision, partnership of public and private sector in crisis prevention and resolution, confidence building through open discussion and information, and universally accepted rules and standards for international transactions.

One may ask how this affects Africa, which is not as closely integrated into the global economy and was thus able to escape the worst of the international financial crisis. The answer is, in the words of IMF Managing Director Michel Camdessus, that "the standards and principles now being formulated at the international level must be turned into more precise standards in individual countries and implemented systematically." Like every other region, Africa will have to implement these standards and principles. And not surprisingly, these standards and principles are those that Africa would have to achieve in any event, to promote its own development.

And so we see that transparency, accountability, governance, consensus, and participation not only are needed for social development at home, but will facilitate the integration of our African economies into the global marketplace. Africa has the advantage that, in many cases, these standards, codes, and institutions are being set up for the first time and can be made to correspond to international best practices from the outset. This is always easier than reforming existing institutions and overcoming entrenched practices.

As you know, the IMF has made the strengthening of transparency, accountability, and good governance in economic affairs an integral part of our policy advice to member countries. Our member-

ship has validated this concern by giving the staff the mandate to examine issues of economic governance. On occasion in recent years, we have even interrupted programs where there were serious misgivings about governance issues. The international community is also paying increased attention to such issues. More and more we will find that donors distinguish in their lending decisions between "good" and "bad" regimes, between governments that foster the active participation of the citizenry in the policy debate, and those that practice policies of exclusion. This may sound like "political" conditionality—but in fact it is the recognition that donor assistance will be most effective where all three pillars of development are in place.

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I have spoken relatively little today about purely economic policy. As I said at the outset, this is only one of the pillars of successful development, and the grand debates about what constitutes successful economic policy have for the most part already been held. We now need to be as frank on the need for accompanying political and institutional reforms as we are on the need for macroeconomic stability. We also need to recognize that reaching the necessary standards of governance, transparency, and accountability will be an arduous process, full of potential pitfalls. Africa has made a solid start toward this objective. We now need to maintain and intensify this effort. And I think African policymakers will find, as they continue this struggle, the support and encouragement not only of their external development partners, but of their own citizens. There is no better foundation for lasting success.

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Regional Integration in Africa: An Important Step Toward Global Integration

It is a great pleasure for me to participate in the first Conference of Ministers of Economy and Finance of French-Speaking Countries and to address such a distinguished audience. I shall take this opportunity to share with you some thoughts on the importance of regional integration as an intermediate step toward the integration of developing countries into the world economy. In this connection, I believe that French-speaking Africa's experience with regional integration has been very encouraging, has taught us much, and could serve as an example for other countries wishing to take the same route.

After two decades of uneven performance, Africa's economic situation has improved during the past four years, and the outlook is increasingly bright. What is even more remarkable is that this progress is attributable primarily to domestic adjustment efforts, rather than to exogenous factors. These efforts have featured the implementation of appropriate structural and macroeconomic policies designed to improve economic efficiency and create the conditions for greater integration into the world economy. Such policies can justify the optimistic view of what is now being called the beginning of an "African renaissance." However, this statement needs to be tempered by the risks posed by Africa's many internal conflicts, which call for decisive action at the regional and international levels.

Having said this, we must acknowledge that Africa still has a long way to go to regain the ground lost during the 1980s. Growth rates are not yet high enough to bring about a substantial reduction

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Statement by Alassane D. Ouattara at the First Conference of Ministers of Economy and Finance of French-Speaking Countries (Francophonie), Monaco, April 14, 1999 (translated from French).

in the widespread poverty, and African economies are still fragile and, therefore, vulnerable to domestic and external shocks. While it is true that the slow pace of their integration into the world economy has sheltered most African economies from the most violent effects of the recent financial crises, the reverse of the coin is that Africa is not able to reap the full benefits of globalization—a process that could increase the resources available for the productive investment that Africa needs so badly. With its low rates of domestic saving, endemic poverty, still-excessive dependence on commodities, and lack of market openness and liberalization, Africa risks being marginalized from the rest of the world.

I would like to focus on two propositions today. The first is that developing countries really have no choice—they must integrate into world markets if they wish to succeed. Second, for most of these countries, regional integration can facilitate integration into the world economy. The success of the European Union since the 1950s attests to the advantages of regional integration. However, the same can be said for French-speaking African countries, which have long cooperated in economic and monetary policy.

- ***Therefore, my first proposition is that developing countries cannot escape globalization, and they should not try to avoid it.***

For most of the past three decades, East Asia has demonstrated the advantages of an outward-looking, liberalized economy. However, the Asian crisis and its spillover into Russia and other emerging markets have overshadowed the advantages of globalization, shifting the focus of the discussion to the risks inherent in an increasingly integrated world economy. Leaders of countries that are not yet fully integrated into the world economy may rightly question whether it is in their best interests to further expose their countries to the risks faced by the Asian economies. Is globalization really good for small countries and, if so, under what conditions?

The Asian crisis has shown, first and forcefully, that economic openness is not enough. Sound macroeconomic policies, unfailing transparency, a stable and rational regulatory and incentive framework, robust financial systems accompanied by effective supervision mechanisms, and good governance in the public and private sectors are also required to take full advantage of globalization and to prevent the crises that struck several emerging countries.

This leads me to my second proposition:

- ***Regional cooperation can serve as a vehicle for nondiscriminatory liberalization of multilateral trade and integration into the globalized economy.***

If properly conceived, regional integration offers many advantages for developing countries. First, closer trading links between these countries would strengthen their capacity to participate in world trade. Regional integration would enable many countries to overcome the obstacles represented by their relatively small domestic markets, by enabling producers to realize greater economies of scale and benefit from the establishment of regional infrastructures. A regional approach in key structural areas—such as tariff reduction and harmonization, legal and regulatory reform, payment systems rationalization, financial sector reorganization, investment incentive and tax system harmonization, and labor market reform—enables participating countries to pool their resources and avail themselves of regional institutional and human resources in order to attain a level of technical and administrative competence that would not be possible on an individual basis. The regional approach also allows countries to assert their interests from a stronger and more confident position in the international arena.

Furthermore, the conditions and obligations associated with participation in an ambitious reform program within a regional organization also facilitate the work of the domestic authorities in implementing politically difficult measures, such as lowering tariffs or instituting wide-ranging reforms of the regulatory and judicial systems. In addition, regional surveillance and the dialogue between the various partners help reduce the risks of macroeconomic slippage, resulting in a more stable, predictable environment—clearly an essential factor for the private sector to flourish.

What Are the Conditions for Sound Regional Integration?

The real challenge is to ensure that regional organizations are perceived as effective vehicles for the integration of developing countries into the world economy, fostering mutual support among members in their reform efforts. Most important, these organizations

should not be perceived as mechanisms for defending certain established interest groups. Rather, they should be seen as pushing for openness to the rest of the world.

What is needed to achieve these objectives? First, there must be the political will to adhere to regional integration objectives and to give them priority over domestic considerations. Second, a resolute effort must be made to achieve greater institutional and economic policy convergence. This assumes that countries establish ambitious, but feasible, timetables for instituting reforms and establishing regional institutions, while realistically evaluating the resources required. Third, strong, efficient regional institutions are required. In fact, such institutions should be authorized to develop appropriate policies independent of national interests without, however, losing sight of each member's particular situation. They should also have enough human and material resources to assist member countries in implementing these policies.

Lessons from Regional Integration Initiatives in French-Speaking Africa

Almost all the countries represented here in this great assembly of the French-speaking countries are associated with some form of regional initiative. However, the CFA zone countries in particular have been able to transform their economic and monetary cooperation effort into a powerful driving force for economic policy coordination and integration. Moreover, their support of the integration effort extends well beyond the "economic" domain, strictly speaking. These countries are currently putting in place the structures required to achieve their ultimate objective, which is the creation of a genuine single market. To this end, they have established regional institutions, in which they have vested responsibility for regional integration initiatives. I am referring not only to the subregional commissions, but also to the West African Accounting System (SYSCOA), the Inter-African Conference on Insurance Markets (CIMA), the Inter-African Conference on Social Security (CIPRES), the two subregional banking commissions, the subregional stock exchange, and AFRISTAT.

It is true that the single currency (the CFA franc) has been and continues to be the cornerstone of this integration. Long experience with a monetary policy conducted by a strong institution that must preserve its independence vis-à-vis national governments has accustomed these countries to yielding some of their economic policy matters to a regional organization. Clearly, it will be more difficult for other countries that have not yet taken this step of close coordination to achieve similar institutional and policy convergence. Nevertheless, even if the objective of regional cooperation remains more modest, it would be beneficial for these countries to undertake an orderly expansion of the areas of responsibility and competence of their regional organizations and to strengthen the capacity and independence of these organizations vis-à-vis national governments.

Another aspect of regional integration in French-speaking Africa that should be emphasized is the Organization for the Harmonization of Business Law in Africa (OHADA), in which 16 African countries participate. Through this initiative, the leaders recognize the importance of economic security, protected by an effective judicial framework, for economic development. In addition to the provisions for harmonizing the legislation, it should be noted that this initiative attaches great importance to human resource training—a prerequisite for the institutions to operate effectively.

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Clearly, French-speaking African countries—particularly the CFA zone countries—have already subscribed to regional integration as the driving force for their integration into the world economy. They must persevere on this path, while ensuring a balanced distribution of the benefits of integration between maritime and landlocked countries. I would encourage the French-speaking countries that have yet to make such progress in regional cooperation to redouble their efforts, using the CFA zone's experience as an example—integration models worthy of imitation are not found only in Europe and Latin America! In general, I believe that all countries should engage in consultation, even outside a formal framework of regional cooperation. Under the leadership and thanks to the energy and enthusiasm of its Secretary-General, the International Organization of French-Speaking Countries (la Francophonie) offers a framework in

which to deepen this consultation. Despite the differences in the history, culture, institutions, and experiences of its constituent countries, it represents a structure for promoting better mutual understanding for the benefit of all its members and therefore of all humanity.

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Alassane D. Ouattara

Alassane D. Ouattara served as Deputy Managing Director of the International Monetary Fund from July 1, 1994, to July 31, 1999.

Mr. Ouattara obtained his B.Sc. (business administration) at Drexel Institute of Technology, Philadelphia (1965), and his M.A. (economics) (1967) as well as his Ph.D. in economics (1972) at the University of Pennsylvania.

Following his appointment as an Economist in the International Monetary Fund from 1968 to late 1973, he served as "Chargé de Mission" at the Central Bank of West African States (BCEAO) in Paris from late 1973 to early 1975, when he became Special Advisor to the Governor and Director of Research. He held this post until his appointment as Vice Governor of the BCEAO in 1983. In late 1984, he returned to the IMF as Director of the African Department, and simultaneously from 1987, as Counsellor to the Managing Director. In October 1988, Mr. Ouattara was named Governor of the BCEAO. While retaining the function of Central Bank Governor, he served in 1990 as Chairman of the Interministerial Committee for Coordination of the Stabilization and Economic Recovery Programme of Côte d'Ivoire, in Abidjan.

He was Prime Minister of the Republic of Côte d'Ivoire from November 1990 until December 1993.

Mr. Ouattara has received several honors, including Commander of the Ordre du Lion, Senegal; Commander of the Ordre du Mono, Togo; Commander of the National Order of Niger; Grand Officier of the National Order of Côte d'Ivoire; and Honorary Governor, BCEAO.

He has published widely in the political, economic, and social fields. He was born in Dimbokro, Côte d'Ivoire, on January 1, 1942, and is an Ivoirien national.