AFRICA
An Agenda for the 21st Century

Africa is at a crossroads. Will it continue to open up its political systems to broader participation and reform its economies to integrate them more fully into the global economy, or will it revert to political and economic practices that have delayed its integration into the economic mainstream?

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AT THE DAWN of the twenty-first century, Africa must quickly select the path it wishes to follow. On the one hand, it could 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 would 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.

On the other hand, it could say no to marginalization and fully integrate itself into the great global village that the world has become in this internet era. This would mean that its youth could build a future brimming with hope and every man and woman could participate in developing their nations, thereby 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.

Since the early 1990s, many countries in sub-Saharan Africa, the region on which this article is principally focused, have been implementing sound macroeconomic policies and structural reforms to raise real per capita incomes, reduce inflation, and narrow financial imbalances, thereby changing the economic landscape dramatically. But despite these reforms, 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.

Today there is 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 through economic, political, and judicial reforms.

Africa's economic recovery

Sub-Saharan Africa has made substantial progress toward macroeconomic stability during the current decade through sound financial policies and market-friendly structural reforms. The IMF has often supported these efforts by providing technical assistance

Sub-Saharan Africa: Selected economic and financial indicators, 1992–98

	1992	1993	1994	1995	1996	1997	1998 (Est.)
				(growth rates, percent)			
Real GDP	0.0	1.2	2.0	4.8	5.8	4.9	4.5
Real GDP, per capita	–3.6	–3.8	–1.4	2.5	2.8	1.9	1.3
Consumer price index	46.4	44.2	60.6	45.3	45.6	17.4	10.3
				(percent of GDP)			
Gross fixed capital formation	15.2	15.8	16.7	16.9	17.4	17.9	18.3
Domestic savings	9.3	10.3	12.5	12.1	13.3	14.2	13.9
Central government fiscal balance, including official transfers	–8.3	–7.2	–6.0	–4.6	–3.6	–3.4	–3.2
Current account balance, including official transfers	–7.0	–7.1	–5.8	–5.8	–5.3	–4.9	–5.5
External public debt outstanding	92.5	106.0	128.9	114.9	107.6	104.9	103.1

Source: IMF, *World Economic Outlook, October 1998* (Washington).

Note: Excluding Nigeria and South Africa owing to the relatively large sizes of their economies.

and making financial assistance available under various facilities, most prominently under its highly concessional Enhanced Structural Adjustment Facility (ESAF).

After years of stagnation, average real economic growth in sub-Saharan Africa has increased from an average of 1.0 percent during 1992–94 to about 5 percent during 1995–98 (see table). Strong growth has been seen in an increasing number of countries, and real per capita GDP has started to rise. Forty out of 47 countries are now showing increases in their annual per capita incomes. There has also been considerable success in bringing down inflation and reducing internal and external financial imbalances. For the region as a whole, average inflation (as measured by the consumer price index) declined from a peak of more than 60 percent in 1994 to some 10 percent in 1998. The region's external current account deficit, including grants, fell from an average of 7.0 percent of GDP in 1992 to 5.5 percent in 1998, while the overall fiscal deficit was cut from about 8 percent of GDP to 5.5 percent over the same period.

Meanwhile, the restructuring of many African economies has been gaining momentum. Government intervention in economic activity is on the wane. Administrative price controls are being removed, and agricultural marketing has been widely liberalized. Most countries have made considerable strides in opening their economies to world trade by eliminating multiple exchange rate practices and nontariff barriers and also lowering the degree of tariff protection. In most countries, the process of restructuring and privatizing state enterprises has been under way for some time, though it has proceeded with varying speeds and has enjoyed varying degrees of success. Labor markets are also progressively being liberalized. Fiscal reform is gaining ground: African countries are taking steps to rationalize their tax systems, reduce exemptions, and enhance their administrative efficiency while 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 introducing indirect instruments of monetary policy, such as reserve requirements and open market operations. Greater attention is also being paid to rehabilitating weak banks and promoting healthy and competitive banking sectors. Moreover, the IMF and the World Bank have recently launched a joint initiative to help heavily indebted poor countries (HIPCs) that pursue sound policies to tackle their external debt burdens, including their large multilateral debts. So far, five African countries—Burkina Faso, Côte d'Ivoire, Mali, Mozambique, and Uganda—have become eligible under the HIPC Initiative.

Need for faster growth

The recent achievements in Africa are undoubtedly encouraging, but are they sufficient to make a real dent in poverty? African countries would need to achieve sustained real per capita annual growth of 8–9 percent to attain one-half of today's real per capita income levels in industrial countries within a generation, and growth rates of 6–7 percent would be needed just to keep up with the expected increase in Africa's labor force. 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. If Africa is to sustain such growth rates, however, it 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

The basic objective of the "second generation" of reforms before us, in IMF Managing Director Michel Camdessus's words, is "to expand the scope for private investment by promoting greater openness in domestic and external trade and creating a more secure environment." Meanwhile, it is essential that the progress made to date in maintaining macroeconomic stability be consolidated and extended. Let me spell out this agenda before discussing how it may be advanced.

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

• A redefinition of the role of government away from direct involvement in production and toward the provision of essential public services is critical.

• A faster and more transparent privatization process is needed to create scope for the private sector. In support of these efforts, a comprehensive and well-defined privatization strategy—covering not only management responsibilities but also ownership, and involving local as well as foreign investors—should be developed and implemented. The establishment of an appropriate legal framework, along with effective regulatory policies and institutions, is another essential step in promoting a transparent and predictable environment for investors, reducing the fear of expropriation, and fostering healthy competition.

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• Financial sector reform that would strengthen savings mobilization and intermediation and promote the soundness of banking systems, together with the correct sequencing of reforms, is vital, as the Asian crisis has amply demonstrated. Sub-Saharan African countries will have to move decisively to deepen and broaden their relatively weak financial markets, establish independent and efficient banking supervision agencies, open their banking sectors to healthy international competition, apply best practices in bank management, and improve the legal framework for banking activities and contract enforcement. At the same time, they need to develop institutions and instruments dedicated to long-term savings mobilization—stock exchanges, pension funds, insurance, and other contractual savings systems—and make domestic financing facilities accessible to small investors, including farmers.

• Notwithstanding the substantial progress in trade liberalization sub-Saharan countries have made since the mid-1980s, their trade regimes remain complex and restrictive compared with those of most other countries. They therefore need to speed up trade liberalization and tariff reform to enhance the efficiency and competitiveness of their domestic producers and help them become more fully integrated into the world economy. These efforts should include the elimination of all significant nontariff barriers; a substantial, phased reduction of tariff levels; and the reduction or elimination of export taxes. The benefit of trade liberalization would be enhanced if the process were supported by properly sequenced and paced liberalization of capital flows, in order to create scope for an 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. The industrial countries could also make an important contribution to achieveing this goal by eliminating the barriers that limit the access of African producers to their markets.

Ensuring economic security is critical for eliciting the participation of each and every individual in developing the nation. The steps needed to achieve this goal include the following:

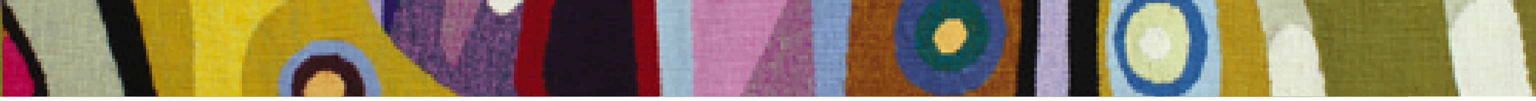
• The transparency, predictability, and impartiality of the regulatory and legal systems must be guaranteed. This should go well beyond ensuring respect for private property rights and the enforcement of contracts to include the elimination of arbitrariness, special privileges, and distortionary ad hoc exemptions.

• Achieving good governance is very important, and national authorities should spare no effort in tackling corruption and inefficiency and in enhancing accountability. In July 1997, the IMF's Executive Board, recognizing the importance of good governance for macroeconomic stability and sustainable growth, adopted guidelines to ensure that the IMF pays greater attention to these issues.

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

A variety of instruments is available to support free trade and advance economic security, including the following:

• A capable and efficient civil service is a key ingredient of sound public administration. In many countries, however, 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 services. The substantial progress already made in reducing internal and external financial imbalances has



resulted from fiscal consolidation, which has come primarily from compressing public expenditure, while 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. A comprehensive medium-term approach to tax reform is needed to optimize the composition of revenue and take into account the impact of the tax structure on investment incentives and income distribution. Expenditure levels will continue to be constrained by available resources. The efficiency of outlays thus remains the key to successful fiscal adjustment in the short term. Making further improvements in the composition of expenditure by reducing unproductive expenditures and increasing the shares of education, health, and infrastructure will also be essential.

• Forging a partnership with civil society to build a consensus on reforms, as well as to provide checks and balances, is essential. To succeed, African governments need to actively encourage the participation of all segments of civil society in economic policy debates and do a much better job of explaining the short-term costs, as well as the medium- and long-term benefits, of policy options.

• With closer economic integration, each African country has an interest in ensuring that its partner countries follow appropriate policies. Virtually all African countries are now members of regional organizations. Increased regional cooperation and coordination of national policies would allow African countries to overcome the disadvantages of their relatively small economies and geographic limitations and, by providing access to larger markets, make it possible for them to realize economies of scale. Enhancing trade links among African countries naturally also strengthens their ability to participate in trade on a global scale and could lead them to make further progress toward nondiscriminatory multilateral trade liberalization. The challenge of the future will be to ensure that these regional organizations establish common regional objectives and 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. The pace of progress toward this end 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 implementing 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 approaches 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 years of independence, 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. 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 popular consensus behind their economic and social policies. Ethnic strife and widespread misery can be resolved only under the rule of law, which is the foundation of peace and prosperity—initiative, investment, and saving cannot flourish without it.

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 that are ready to implement far-reaching economic and political reforms. It is in the interest of the international community for democracies to spread and market economies to develop in Africa.

Let there be no mistake: the fight for economic security is political. 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. F&D

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