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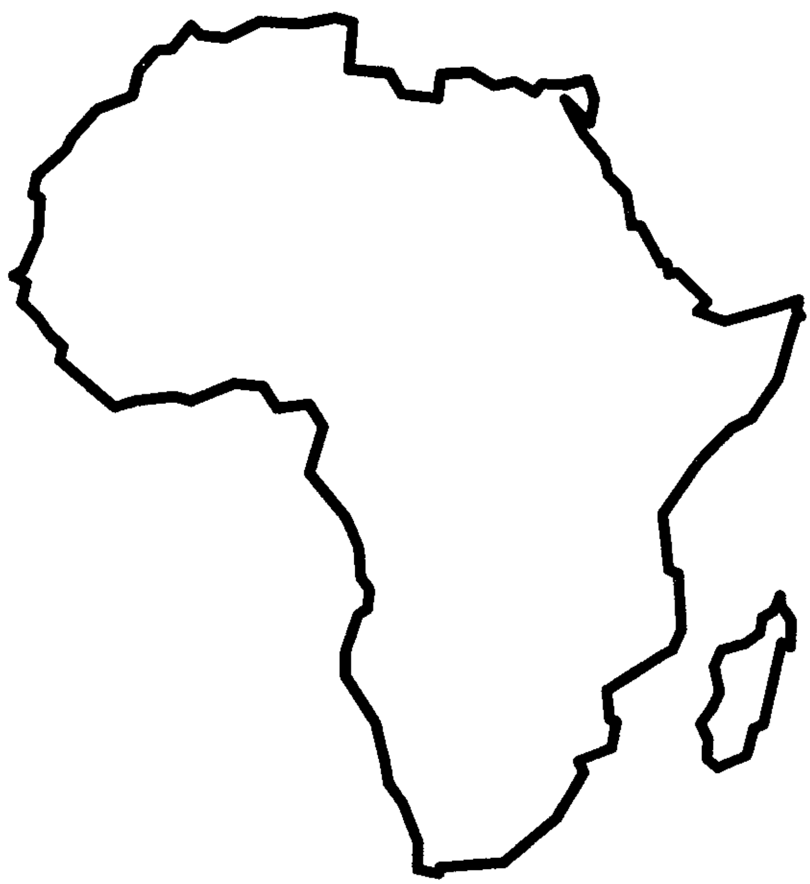
Report of the Fourth Session of the Conference of African Ministers of Finance



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Fourth Session of the Conference of
African Ministers of Finance

Addis Ababa, Ethiopia, 17-18 December 1991

REPORT OF THE FOURTH SESSION OF THE CONFERENCE OF AFRICAN MINISTERS OF FINANCE

I. OPENING CEREMONY

1. The Fourth Session of the Conference of African Ministers of Finance was held at Africa Hall, Addis Ababa, Ethiopia from 17 to 18 December 1991. The meeting was opened by His Excellency Mr. Fekade Gedamu, Vice Chairman of the House of Representatives of the Transitional Government of Ethiopia. Statements were made by Mr. Issa B.Y. Diallo, United Nations Assistant Secretary-General and Acting Executive Secretary of the Economic Commission for Africa (ECA) and Ambassador Bronson N. Dede on behalf of Dr. Salim Ahmed Salim, Secretary-General of the Organization of African Unity (OAU).

2. Opening the meeting, on behalf of His Excellency Ato Meles Zenawi, President of the Transitional Government of Ethiopia and the Peoples of Ethiopia, Mr. Fekade welcomed delegates to Addis Ababa and to the Fourth Session of the Conference of African Ministers of Finance. He informed the meeting that in addition to maintaining peace and stability in the country, the Transitional Government was devoting all its energies and time to reconstructing the country with the aim of changing the political, economic and social life of the peoples of Ethiopia.

3. Speaking on the newly announced "Economic Policy Programme" of the country, he stated that the programme was a blue print for future development efforts aimed at encouraging the private sector to play an effective role without prejudice to the role of the Government in the development process. In this connection, he laid particular emphasis on the need to revitalize and rationalize the private and public sectors, respectively.

4. Mr. Fekade noted with satisfaction the commendable work of the Intergovernmental Group of Experts preparatory to the Fourth Session of the Conference of African Ministers of Finance and expressed hope that the Conference would not only review the Report of the Group of Experts but also take the positive decisions aimed at redressing many of Africa's problems.

5. Mr. Fekade concluded his statement by urging the Conference not to lose sight of the rapid developments in the integration process the world over, and the European Economic Community, in particular, because of their likely wider impact on African countries, singularly and collectively.

6. In his statement on behalf of the Secretary-General of the OAU, Ambassador Bronson Dede recalled the Third Conference of Ministers of Finance held in Blantyre, Malawi in March 1989 which focused attention on some of the issues critical to Africa's economic growth and development. He, therefore, pointed to some of the agenda items of that Conference among which were the establishment of an African Monetary Fund, mobilization of internal and external financial resources for development as well as the critical question of Africa's external debt and debt servicing all of which he underlined were still valid, almost two and a half years later.

7. He also referred to the occasion of the End-of-Year statement of the Acting Executive Secretary of the ECA presented to the entire diplomatic corps and international community in Addis Ababa on 12 December 1991 which contained a comprehensive analysis of the African economic situation. The review of the African situation by Mr. Diallo of the continent's economic performance in 1991 indicated that the African economy remained fragile and prospects for 1992 were rather mixed. The overall economic performance of African countries in 1991 reveals that growth in Africa was estimated at 3.3 per cent, while agricultural production (in particular that of cereals) was estimated to be about 86.9 million tonnes as against 76.5 million tonnes in 1990. However, the African economic situation was overshadowed by the orthodox structural adjustment programmes which reduced public investment for building and maintenance of critical infrastructure.

8. Turning to the issue of debt, he lay emphasis on it as the most critical bottleneck constraining Africa's recovery and development. The alleviation of the debt burden was a political and economic imperative, if Africa was to develop. The long term solution to debt problems remained gloomy despite several international initiatives, from Baker to the Trinidad and Tobago initiatives that have been put forward. The stock of external debt had grown to over 270 million US dollars by the end of 1990, while servicing obligations had reached a level exceeding 30 per cent of total export earnings. The servicing of debt owed to multilateral financial institutions alone, accounted for nearly 40 per cent of Africa's total debt servicing obligations. This situation was further worsened by the poor external resource flows in the form of Official Development Assistance (ODA). There was no improvement in resource flows in 1991 over the estimated figure of US$32 billion for 1990, and the debt service obligations were estimated to vary between US$20 and US$26 billion dollars, annually.

9. The OAU Representative urged African countries not to be complacent to developments in the international environment. Africa needs to be more foresighted in its response to such development and more importantly show determination and commitment to African economic co-operation and integration. As the world was moving fast, Africa could not afford to be left behind.

10. He stated that the establishment of an African Monetary Fund, accelerating the process of monetary and financial integration, harmonization of the operations of multilateral payment systems, establishment of national and regional money markets, coordinated establishment of stock exchanges and effective co-operation in the fields of banking and insurance, were necessary prerequisites to Africa's monetary and financial integration as called for in articles 44 and 45 of the Treaty establishing the African Economic Community.

11. Mr. Issa B.Y. Diallo, United Nations Assistant Secretary-General and Acting Executive-Secretary of the Economic Commission for Africa (ECA) welcomed the Ministers to Africa Hall and to the Fourth Session of the Conference of African Ministers of Finance.

12. Mr. Diallo called the attention of the Ministers to the Report of the Intergovernmental Group of Experts which he said dealt with various important issues and therefore needed careful consideration by the Conference of African Ministers of Finance.

13. He recalled that African countries had established banks and development finance institutions after independence which were intended to assist African countries in mobilization of resources for financing the development process in Africa. However, what subsequently transpired was that these institutions became catalysts in distributing rather than mobilizing domestic savings and external resources for development. As a result a number of those institutions became insolvent and in some cases bankrupt and had to be wound-up. However, he welcomed the efforts of those African countries who had embarked on the liberalization of the financial sector in order to improve its efficiency with a view to enabling that sector to contribute to the process of effective mobilization of both domestic and external resources.

14. He pointed out that the 1980s were a "lost decade" for Africa, notwithstanding the fact that a number of African countries had implemented economic reform programmes. He specifically highlighted the constraints faced by Africa in alleviating the debt burden, in spite of the various plans and relief initiatives that had been put forward. He urged the Ministers not to marginalize the contribution of certain important segments of the international community, especially influential citizens, government officials and prominent persons of creditor countries in resolving the African debt problem. In this connection, he referred to the forum he had jointly convened with the Reverend

Dr. Leon Sullivan, Chairman of the First Africa/African - American Summit at the United Nations Headquarters in New York on 28 October 1991 in which deliberations were made on the African debt crisis in an environment devoid of preconceived stands on the issue.

15. Concerning the African Monetary Fund, Mr. Diallo underlined the importance of the Fund as a catalyst in Africa's economic, monetary and financial integration process. He therefore expressed his concern that it should not be underrated, particularly in the light of integration efforts currently in progress in other regions of the world.

16. In concluding his statement Mr. Diallo reminded the Ministers that Africa was experiencing winds of change similar to the political transformation which had brought independence and self-rule in Africa. In this respect, he stressed on the need to respond to the challenges that the region would face and has to deal with. He further assured the Ministers that the ECA took these developments seriously and recognized the need for the Secretariat to respond accordingly. He looked forward to his informal consultations with the Ministers on how ECA could effectively assist African countries to respond to the challenges of the 1990s.

17. On behalf of the African Ministers of Finance and their representatives at the Conference, His Excellency Mr. Abdel Wahab Ahmed Hamza, Minister of State for Finance of Sudan moved a vote of thanks. He expressed deep gratitude and appreciation to the Government and People of Ethiopia for the warm welcome extended to all delegates.

II. ATTENDANCE

18. The Fourth Session of the Conference of African Ministers of Finance was attended by the following countries: Algeria, Angola, Burundi, Cameroon, Congo, Cote D'Ivoire, Djibouti, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Guinea, Kenya, Liberia, Libyan Arab Jamahiriya, Madagascar, Malawi, Mali, Mauritania, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Sudan, Swaziland, Tchad, Tunisia, Uganda, United Republic of Tanzania, Zaire, Zambia and Zimbabwe.

19. The following Organizations attended as observers: the African Development Bank (ADB), the Preferential Trade Area for Eastern and Southern African States (PTA), the Organization of African Unity (OAU), the Liaison Office with the ECA of the United Nations Development Programme (UNDP) and the West African Clearing House (WACH).

III. ELECTION OF THE BUREAU (Agenda item 2)

20. The Conference of the Fourth Session of the African Ministers of Finance elected the following countries to constitute its bureau:

Chairman	Gabon
First Vice-Chairman	Ghana
Second Vice-Chairman	Swaziland
Third Vice-Chairman	Senegal
Rapporteur	Kenya

IV. ADOPTION OF THE AGENDA AND PROGRAMME OF WORK (Agenda item 3)

21. The Conference adopted its Programme of Work and the following agenda:

1. Opening ceremony

2. Election of the Bureau

3. Adoption of Agenda and Programme of Work

4. Consideration of the Report of the Intergovernmental Group of Experts of the Fourth Session of the Conferences of African Ministers of Finance

5. Report of the Second Meeting of the Enlarged Ministerial Committee of Libreville on the Establishment of an African Monetary Fund

6. Date and venue of next Conference

7. Adoption of the Report and closure of the meeting

V. ACCOUNT OF PROCEEDINGS

<u>Consideration of the Report of the Inter-governmental Group of Experts of the Fourth Session of the Conference of African Ministers of Finance</u> (Agenda item 4)

22. Under this agenda item, the Chairman of the Conference invited the Chairman of the Inter-governmental Group of Experts to present the Report (Doc. E/ECA/TRADE/91/35) of the Inter-governmental Group of Experts before the Conference proceeded to consider the issues brought to its attention by the Experts.

<u>The role of indigenous banking and development finance institutions in the mobilization of financial resources for development</u>

23. In reviewing the roll of indigenous banking and development finance institutions in the mobilization of financial resources for development, the Conference noted the existing imbalance between saving and investment requirements in Africa. This situation was mainly due to several reasons, among which were the following: low income of potential savers; limited number of branches of financial institutions and their concentration in the capital cities and major towns to the exclusion of the rural areas. Similarly, the Ministers mentioned among others, the rigidities related to the credit conditions towards the rural borrowers; the practices of the concerned institutions to emphasise short-term financial operations instead of financing development projects; and the external origin of assets of these institutions. Furthermore, prior adherence to classical saving and credit instruments, such as interest and discount rate policies, that were not quite suited to these areas.

24. The Conference further noted a number of other obstacles to effective mobilization of domestic and external resources for development. It listed in particular the stagnation of Africa's major export products; continuous importation of capital goods; inadequate financial support from the international community; risks arising from fluctuations in the exchange rates of the main currencies; inadequacy

of investment programmes due particularly to inadequate budgeting for such projects and their management.

25. The Conference concluded the discussion by recommending needed action in order to improve mobilization of domestic and external resources through indigenous banking and development finance institutions: an in-depth re-structuring and revitalization of the banking systems was needed in most African countries. As commercial banks were often biased towards financing speculative activities rather than productive activities, appropriate measures should be taken to promote the establishment of cooperatives and development banking institutions. Such facilities should be promoted to address the needs of the agricultural sector and domestic productive investments. Furthermore, the Conference called for an improvement in financial intermediation in rural areas in order to provide rural producers with confidence and easy access to credit and their savings. To this end, African countries were called upon to improve basic transport and communication infrastructures in rural areas with a view to facilitating extension of financial networks; grant fiscal incentives to financial institutions in order to encourage them to mobilize and build-up savings capacity in rural areas; institutionalize the collection of informal savings, such as "tontines" and other informal financial institutions; encourage production of capital goods; revitalize the role of financial institutions by strengthening monetary and capital markets, enhancing their asset portfolios and diversifying their activities; stabilizing macro-economic environment with a view to achieving external and internal budgetary balances for long term development objectives; and broaden and deepen the financial intermediation process in their countries.

The mobilization and management of domestic and external resources, including foreign direct investment, for financing development

26. The Conference considered the issue of mobilization of domestic and external resources, including foreign direct investment, for financing development in Africa. Attention was focused on problems relating to mobilizing domestic and external resources for development in Africa with a view to lessening the heavy current dependency by Africa on external financing of its development process. The Conference expressed great concern at the continuous downward trends of domestic savings in Africa, whose ratio to Gross Domestic Product (GDP) during the period from 1980 to 1988 had declined. It noted that the main factors responsible for such a decline in domestic savings included among others, the low per capita incomes in many African countries, the predominance of the rural population and its inability to accumulate savings in the form of financial assets due in part to a lack of financial institutions and lack of clear understanding of the operations and mechanisms of formal financial banking systems. Added to the above, the question of overvalued exchange rates that tended to trigger capital flight was noted. The conference also highlighted the importance of liberal and progressive reform in the financial and monetary sector in the promotion of domestic savings.

27. Referring to the public sector, the Conference noted as major obstacles to domestic resource mobilization, the low level of public revenue arising from a narrow tax base. Other factors inhibiting effective resource mobilization include the decline in export earnings during the last decade and reduced access of African exports to international markets. Furthermore, Africa's heavy dependence on primary commodities whose prices tended to be lower than those of manufactures imported on a large scale which rendered Africa's efforts at resource mobilization more difficult. Rationalization of spending and appropriate budgeting actions were proposed as essential ingredients for the public sector to contribute to the effective mobilization of domestic resources for development.

28. In the discussion that followed, the Conference felt that the issue of new measures, (including in particular the strengthening of intra-African trade as a source for mobilizing or generating savings)

warranted more attention. The Conference was of the view that promotion of intra-African trade should become a preoccupation of Africa in view of the continuing decline in Africa's terms of trade, restricted access of African countries exports in the international markets and the limited scope for further export diversification under the prevailing international economic environment.

29. Regarding capital flight and its adverse implications for African countries, the Conference recalled a number of experiences in the French Franc Zone that had shown that monetary stability can curb capital flight and thereby contribute to effective mobilization of resources. However, it was felt that the causes of capital flight in Africa required further analysis since the ones mentioned in the document only provided a partial explanation.

30. As to the general principles for domestic savings mobilization, the Conference stressed the necessity for efficient utilization of resources by ensuring optimal allocation to financing productive investment.

31. The Conference was informed of various national experiences worth emulating including the Islamic Banking System whose objective was to mobilize resources for the financing of investments based on the Islamic principle of profit and loss sharing. The Conference also considered the possibility of increasing indirect taxes as well as the establishment of social assistance funds to alleviate the burden of the disadvantaged and to increase the lending levels of Banks with a view to mobilizing adequate resources for financing economic development.

32. The Conference therefore stressed the need for action to speed up mobilization and management of both domestic and external resources, including foreign direct investment. It called for further studies on how to improve resource mobilization in Africa. This was, therefore, to include inter-alia, reduction of institutional rigidities in the formal banking system and the possible creation of systems that are oriented towards the African environment (including the provision of an environment which is conducive to direct foreign investment). In view of the reduced potential for external resource flows to Africa, including both export earnings and aid flows involving multilateral and bilateral organizations, dependency on the outside world should inevitably contract.

33. Similarly, that this required that intra-African trade to assume a greater role in meeting the needs of Africa in order to lessen the need for external financing to support African capital formation and consumption. The Conference acknowledged that every effort should be made to attract and increase the volume and quality of direct foreign investment but that caution should be exercised in ensuring that national private capital was involved.

Mechanisms for harmonizing the operations of subregional clearing and payments mechanisms for the promotion of intra-African trade

34. On this item, the provisions of the Lagos Plan of Action which recommended the establishment, at the appropriate time, of subregional clearing and payments arrangements to be harmonized into an African Payments Union, was recalled.

35. The Conference reaffirmed the major objectives of the mechanisms themselves, which were aimed at facilitating intra-African trade transactions by minimizing the use of foreign currencies and encouraging direct relations among African banks. It noted that about 80 to 90 per cent of transactions in Africa continued to be carried out in foreign currencies. For various reasons other than those mentioned above, among which were North-South trade imbalance and the need for foreign exchange

by African countries for debt servicing, the Conference deplored the fact that the use of clearing and payments arrangements had been rather restricted in certain subregions. Also, parallel markets and non-recorded trans-border trade had tended to impede the use of such arrangements.

36. The Conference was of the view that harmonizing the operations of sub-regional mechanisms required a careful review of the disparities between them, such as the transactions, credit and debit lines and transactions procedures. As to how a payments union could operate as a multilateral mechanism in order to ensure clearing as well as financing of balance-of-trade deficits, the Conference stressed that economic and monetary stability must first be achieved. It also indicated that the Payments Union had major advantages, particularly its ability to enhance intra-and inter-regional trade transactions.

37. It then recommended a greater dissemination of information, exchange of publications and staff as well as periodical meetings among the various managements as the means of efficiently harmonizing the operations of the various clearing houses. Operations and procedures could be reviewed at those meetings for the purpose of exchanging experiences and harmonizing operations. A gradual harmonization as well as closer operational relations among the various arrangements could lead to an effective establishment of the African Payments Union.

38. The experience of the PTA, where about 60 per cent of trade transactions were channelled through the PTA Clearing House was brought to the attention of the Conference. The volume of transactions through the PTA had started low, for several reasons, but increased following the elimination of various non-tariff barriers. The Conference also noted that PTA member States had recently decided to place all trade transactions under the open General Import Licensing Regime and that all trade transactions had to go through the Clearing House by 1993. The Conference was also informed that the PTA Clearing House was not faced by any payment/settlement problems because of the efficient system currently in place. The transactions period in the PTA Clearing House was two months followed by a settlement period of 15 days. Penalty interest was applied beyond that settlement period at current special drawing rights (SDR) rates for the first week, plus one percentage point for each subsequent week. The Conference considered the experience of the PTA to be worth emulating in other subregional arrangements.

39. The Conference also considered the question of lack of correspondence arrangements between commercial banks in the region as a major impediment to the optimal functioning of the subregional payment arrangements. In convertible currencies and the existence of parallel currency markets were also highlighted as some of the reasons why African economic operators did not resort to official channels such as the Clearing House.

40. Another issue considered by the Conference was whether the establishment of Clearing Houses should precede the development of inter-regional trade or whether the development of intra-regional trade was a pre-requisite for the creation of Clearing and Payments mechanisms. The Conference was of the opinion that both were closely linked and that measures to expand intra-African trade should be carried out with regard to establishing and improving communications link as well as reduction of tariff and non-tariff barriers, including the free movement of goods and people.

41. With regard to the progressive harmonization between various Clearing and Payments arrangements in the region, the Conference considered it necessary to intensify the dissemination of information on their operations and procedures and closer contacts through working visits, meetings and exchange of staff. The Conference therefore recommended that technical assistance should be sought with the support of such bilateral and multilateral organizations as ECA and UNDP.

The economic reform programmes in Africa and the debt problem

42. The Conference drew attention to the adoption by the African Heads of State and Government in 1987 of the "African Common Position on Africa's External Indebtedness" that was supposed to serve as a framework for African countries in effectively dealing with the debt crisis, with the support of the international community. However, the African debt crisis has persisted, notwithstanding the various initiatives put forward to alleviate the debt burden of the countries, a view which had also been reiterated by the Acting Executive Secretary of ECA in the opening statement and earlier on by the newly elected Secretary-General of the United Nations. The matter was of such crucial importance that the African Heads of State and Government of the Organization of African Unity (OAU) established a Contact Group on Debt to sensitize the international community on Africa's debt burden.

43. Turning to Africa's external debt profile and the economic reform programmes undertaken in Africa, the Conference observed that there seemed to be a consensus on the diagnosis of Africa's debt problem, in spite of the fact that some divergence remained on the modus-operandi for a lasting solution. The African countries on their part believed in a holistic, instead of a case-by-case approach to the crisis. It also noted as a precedence debt cancellations for Egypt and Poland as proof of the need for a political solution rather than a technical one for alleviating the debt overhang and in paving the way for sustained economic recovery in Africa. Similarly, it suggested that recent measures undertaken by the industrialized countries to deal with the debt problem were inadequate and incapable of making a significant dent in the region's debt overhang.

44. On the other hand, creditors favoured a case-by-case approach to the problem due to their perception of marked disparities in the debt profile and economic realities of individual African countries. The former's strategy included a number of initiatives, invariably accompanied by strong economic adjustment programmes, aimed at particular groups of countries and applied on an individual basis. This divergence of views had become a stumbling block to progress towards a lasting solution.

45. The Conference noted that during the decade of the 1980s, Africa's external debt stock had nearly trebled reaching US$272.9 billion in 1990. On average, the ratio of debt outstanding to GDP had reached nearly 91 per cent, with some countries' ratios rising as high as 165 per cent. Africa's capacity to service its debt had become ever limited as debt service payments had risen to nearly one third of exports of goods and services. The composition of African debt had also changed substantially: private lenders had practically withdrawn from the African scene, while the share of commercial debt stock had declined to about 15 per cent and that owed to official bilateral creditors and multilateral institutions had increased to nearly 84 per cent. These factors had compounded the ability of the African economies to deal effectively with sustainable economic reform programmes.

46. The Conference further considered the issue relating to the mandate and composition of the OAU Ministerial Contact Group on Africa's External Indebtedness after briefly analyzing its activities in the period 1988-1991 at the level of both the Heads of State and Government and at the Ministerial level itself. It then also noted changes proposed by the OAU Secretariat in the structures of the Group: (a) The member States of the Group should consult on the possibility of associating ministers in-charge of debt management in the work of the Group, since the latter dealt with these issues. He also pointed out that hitherto, meetings of the Contact Group had mostly been attended by Ministers of Foreign Affairs or their ambassadors based in Addis Ababa. These meetings have been held only during Ordinary Sessions of the Organization of African Unity with very little time devoted to debt issues, (b) It was against the above that the Joint Secretariat was proposing a number of proposals to strengthen

and improve the effectiveness of the Contact Group, including proposals for changes in the structure of the Group.

47. Following further explanation by the representative of the OAU Secretariat and in the light of the debate, the Conference was of the view that to bring the Contact Group under the authority of the Conference of African Ministers of Finance as proposed by the Secretariat of the OAU would not be possible without the approval of the Assembly of the Heads of State and Government of the OAU. The Conference consequently decided not to take any decision on the matter since it was not within its competence.

48. Additional information was also provided by the representative of the OAU Secretariat on preparatory work for an International Seminar on Africa's External Indebtedness proposed to be held in Kampala, Uganda. The Seminar will be organized with a view to assessing all the measures that have so far been taken to resolve the African debt problem. The Conference also took note that although the OAU Advisory Committee on Budgetary and Administrative matters did not provide resources for the Kampala Seminar, nor included it in the Calendar of Conference of the OAU, that did not in itself abrogate the decision taken by the 26th Summit of the OAU and reaffirmed by the 27th Summit to convene the Kampala Seminar. In any case the matter would be submitted to both the Contact Group and the Council of Ministers in their meetings scheduled for February 1992. In the meantime, the joint Secretariat will continue its efforts in preparing for the Seminar and seeking financial resources for convening it.

49. In the discussions that followed the submissions by the secretariats of the Organization of African Unity and the Economic Commission for Africa, the Conference commended the two Secretariats for the excellent work done and deliberated on the issues raised.

50. In discussing the issue of economic reform programmes in Africa and the debt problem, the Conference took note of the various programmes currently being implemented by African countries, some of which had been taken at substantial political and social cost to African countries concerned. However, to be effective, these reforms should deal with short-to-medium term economic problems as well as encompass the human and political dimensions of African realities. Earlier debt relief initiatives were directed mostly to balance of payment support rather than to improving productive capacity and were also intended primarily to provide some relief to heavily indebted middle-income countries. Other initiatives sanctioned the principle of debt relief. At the same time, it was noted that the magnitude of this relief has been quite modest, with projections indicating that rescheduling terms were likely to have only a small effect on the future stock of debt. In the same connection, the Conference acknowledged that the debt relief should also include the middle-income African countries.

51. However, due to the terms and conditions attached to some of these plans, they cover only a subset of the heavily indebted countries in Africa. The Conference also reviewed the initiatives of the multilateral institutions, principally the World Bank and the IMF focusing on their experimenting with various schemes designed to alleviate the debt burden of heavily indebted low income countries. All in all, the Conference still reiterated the persistence of the debt burden weighing heavily on most African countries including middle income countries. the Conference called for a comprehensive solution aimed at both improving Africa's capacity to service its debt and an overall strategy for revitalizing Africa's human and economic infrastructure.

52. The Conference therefore drew further inspiration from the 1991 End-of-Year Statement of the Acting Executive Secretary of ECA. In particular his underlining that development in Africa was a

long-term transformation process and should include efforts to build African capacities, human and economic infrastructure, combining equity and efficiency, market and public policy. In other words, economic reforms should not concentrate in the narrow view of enabling Africa just to service its debt through financial stabilization, but should also allow for sustainable growth and human-centred development.

53. With regard to economic reform programmes, the Conference acknowledged that African countries should embark upon economic and financial reforms. Rules and regulations governing financial institutions should be updated with a view to coping with current environment of African economies. Such reforms should include restructuring of existing financial institutions and creation of new ones where needed, significant reduction of Government controls on financial institutions as well as liberalizing foreign exchange policies.

54. Some delegations felt that the question of a political solution to the African debt problem is an inadequate approach for alleviating the problem of debt since most of the debts incurred by the African countries are multilateral; making repayment mandatory. Furthermore, they stated that while it may be true that the African debt problem had become intractable and that a "political solution" was needed to deal with the issue, nonetheless they cautioned against writing off the importance of "technical solutions". Political and technical tools should not be seen as opposites but rather complimentary in designing a comprehensive strategy for a lasting solution to the debt problem. This should, among other things, include a critical analysis of what has brought African countries to the current situation in order to avoid repeating the same mistakes in future. The attention of the Conference was also drawn to the emergence of new technical instruments. For instance, such as debt-equity swaps, debt-environment programmes and currency swaps as possible alternatives that needed examining. The experience of Nigeria was cited as an example where swaps had been tried. However, since these swaps relate to commercial loans, their impact on African countries would be limited because the proportion of commercial debt in Africa's debt stock is small. They believed that currency swaps could be arranged on trade agreements to avoid the consequences of exchange rate fluctuations. The international organizations should also be urged to use some of these methods.

<u>Impact of new developments in the European Monetary System (EMS) on Monetary and Financial Arrangements in African countries</u>

55. The Conference considered the anticipated impact of new developments in the European Monetary System (EMS) on monetary and financial arrangements of African countries, noting the other categories within Africa apart from those defined as belonging to the CFA Franc Zone.

56. In considering the possible impact that the new developments in the EMS could have on non-English speaking African countries, not members of the CFA Franc Zone, the Conference took into account the substantial volume of trade with the European Economic community (EEC).

57. In terms of monetary policy, the Conference also took account that African currencies are pegged to currencies of various foreign or basket of currencies while others were on floating exchange regimes.

58. The Conference observed that depending on the volume of trade that a country had with the EEC, the effects of the new EMS developments on a particular country would to a certain extent depend on their impact on trade flows, especially the currency in which transactions are made. Accordingly, the new developments could have an impact on trade flows between the EEC and the

countries in question, especially on such variables as: (a) trade balance and price levels; (b) reserve holdings; and (c) the African debt burden. The Conference acknowledged that the direction of the possible impact was difficult to determine both at such an early stage and in the absence of indepth studies and analysis.

59. The Conference was of the view that it was imperative for the African countries to institute appropriate policies and strategies with a view to ameliorating the adverse impact of these developments on their economies. Such, measures would have to provide and/or strengthen monetary and financial cooperation, including strengthening subregional clearing arrangements.

60. Turning to the likely impact on African countries, members of the CFA Franc Zone, the Conference was of the view that the new developments in the EMS were such fundamental changes that the analysis of their possible impact merited careful consideration. Accordingly, a number of issues including the monetary and financial system of the CFA Franc Zone, adjustment of the monetary and financial system of the CFA Franc Zone taking account of developments in the EMS towards establishment of a European economic and monetary union, had to be reviewed. A set of scenarios of how African countries could respond to such developments and an overall evaluation of these scenarios and their impact on the CFA Franc Zone economic policies also needed careful consideration.

61. However, the Conference reviewed the main elements of the CFA Franc Zone that include a common currency of a fixed exchange parity relative to the French Franc, a community management of exchange reserves and freedom of transfer of financial resources within the Zone. It was indicated during the debate that membership of the Zone has provided certain advantages to member countries including a degree of stability in the region and currency convertibility that facilitates free transfer of resources in addition to easier access to external financing. Furthermore, the restrictive monetary policy pursued by the Zone has kept inflation in check which in turn has had a moderating influence on interest rates.

62. The Conference noted four possible scenarios that had been presented by the secretariat as possible options of how the CFA Franc Zone could respond to the new developments in the EMS. These options included: (a) possibilities of automatic adjustment of the system by assuming that the exchange system remained fixed and the CFA Franc continued to be pegged to the European Currency Unit (ECU); (b) flexibility or partial adjustment; (c) transformation of the CFA Franc Zone to a more African perspective; and (d) the integration of CFA Franc Zone with the EMS itself. The Conference noted further that the developments at the Masstricht Summit included an agreement to associate the CFA Franc to the ECU.

63. The Conference noted that this association would ultimately have a favourable impact on the relative stability of the exchange rates in the Franc Zone which would be further enhanced by this association. However, these new arrangements would require that member States of the Zone continue implementing adjustment programmes with a view to checking inflation and promoting real positive interest rates.

64. Some participants were of the opinion that the association of the CFA Franc Zone in the new arrangements of the European Currency Unit (ECU) could enhance monetary stability in the Zone and promote economic growth. The Conference was also informed of the efforts being made within the Ministry of Finance of Cameroon to analyze the effects of the new arrangements in the EMS on the Franc Zone. To this end, three scenarios were being examined.

65. In dealing with the anticipated impact on the monetary and financial arrangements of English Speaking African countries, the Conference observed that their post-independence period witnessed the disintegration of financial systems and monetary disharmony, followed by the establishment of individual central banks in many of these countries with national currencies initially tied to the Pound Sterling reinforced by the Sterling Area Agreement.

66. The Conference also noted that following advances made in the 1970s towards European monetary and financial integration, a further package of measures were adopted in 1985 to strengthen the European monetary system. The "Single European Act" set a time-table and method for creating a unified economic area with freedom of movement of persons, goods, services and capital. The "Internal Market Programme" was designed to further liberalize the movement of capital flows. Among the most important results of the above actions, the irreversible interlocking of exchange rates could lead to a convergence of nominal interest rates. However, this convergence could be at a lower level or higher level depending on the final path of monetary integration process adopted in the EMS,.

67. The Conference observed further that it was rather difficult as this material time to fully assess the extent to which new developments in the European Monetary System (EMS), particularly the irreversible interlocking of exchange rates of the currencies of the EMS or a move towards a Single European Currency, would bring to bear on or affect exchange rate policies as well as interest rate levels in Anglophone African countries. It however, stressed that much would depend on existing exchange rate regimes in countries in question and whether the changes would result in an appreciation or depreciation of currencies of EMS or the Single European currency against currencies of Anglophone African countries. Nonetheless, an appreciation or a depreciation of the European currencies or of the Single Currency would inevitably have implications on major macro-economic variables of these countries, like the balance of payments situation, inflation and output. Furthermore, an appreciation of the Single European currency vis-a-vis such countries could accentuate the African external debt crisis.

68. Other significant developments of the anticipated impact, with likely repercussions included the possibility of establishing a Single European Central Bank or a Federal Reserve System, especially for a number of those that maintain banking relationships with Central Banks of the EEC and other financial institutions and accordingly have access to EEC financial institutions. New developments in the EEC could lead to a significant transformation of this relation, as the priorities of the Single European Central Bank will not necessarily coincide with the priorities of individual Central Banks of the EEC. Financial resource flows to African financial institutions (and countries) could in this respect be significantly impaired.

69. In discussing the Secretariat's analysis of the anticipated impact of new development in the European Monetary System (EMS) on monetary and financial arrangements of the three groups of African countries, the Conference while appreciating the preliminary analysis by the ECA secretariat, pursuant to the decision of the Third Conference, however it warned against making sweeping statements, especially as regard to the direction of changes in exchange rates of African countries as a result of changes in EMS which could give rise to currency speculation.

70. All the same, the Conference felt it important to call for further analysis of how these new developments could affect African economies in practical terms. Accordingly, African countries were called upon to critically evaluate the challenges posed by these new developments. African countries were also called upon to forge a united approach in dealing with these changes. To this end, the

Conference advocated greater solidarity and encouraged the consolidation of whatever small gains that had been made in the process of economic and monetary integration.

71. The Conference called for the need for African countries to formulate long term programmes for economic stabilization and transformation. It was recommended that the pursuit of a well designed strategy related to trade financing required putting in place certain market mechanisms at various levels and these ought to be comprehensively examined with a view to devising adequate techniques in response to the unique European market.

72. The Conference recommended that all initiatives by the secretariat should be generalized and intensified in order to enable the African economies to survive the shocks created by the European monetary and financial integration process. In conclusion, the Conference stressed that the effects on the economies of African countries as a result of the process of achieving greater integration within the EMS cannot be predicted in their totality as the situation may change in the long run.

73. Nonetheless, given the rapid developments taking place in the EEC, and other regions of the world, the Conference felt that Africa should also attempt to proceed in tandem with its efforts of market and monetary integration, rather than merely reacting to developments in the EEC's integration process.

The role of African Ministers of Finance in the Implementation of the Treaty establishing the African Economic Community

74. On this item, most delegations were of the view that the issue of establishing the African Economic Community was a central concern of their respective Governments. Participants discussed the measures taken by member States in order to speed up the process of economic and monetary integration of the continent. In this connection, the delegation of Senegal indicated that his country had set up a ministry specifically responsible for integration. The delegation of Madagascar recalled the establishment of the Indian Ocean Commission which was to deal with the specific interests of countries in its subregion.

75. During the ensuing discussion, participants stressed the need for speedy ratification of the Treaty establishing the African economic community. That would, among other things, help to launch the activities of the specialized technical committees referred to in Article 25 of the Treaty.

76. The Organization of African Unity, the African Development Bank, the Economic Commission for Africa and the African Centre for Monetary Studies were requested to organize jointly for officials dealing with monetary and financial issues in Africa, workshops and/or seminars at which they would share experiences with a view to implementing the subregional programmes and the regional programme for monetary integration.

77. It was also proposed that a contact group should be set up for monetary harmonization and integration as had been done with the debt problem. In that regard, participants highlighted the role that the joint OAU/ECA/ADB/ACMS secretariat should play in order to bring those subregional groupings pursuing monetary harmonization and integration programmes to hold broader consultations and to coordinate activities on a sustained basis in the implementation of their respective programmes. In this context, participants were informed about the efforts being made within the Arab Maghreb Union.

<u>Report of the Second meeting of the Enlarged Ministerial Committee of Libreville</u>
(Agenda item 5)

78. In introducing the report related to the above agenda item, the Chairman of the Enlarged Ministerial Committee of Libreville on the establishment of an African Monetary Fund, Ethiopia, underlined the fact that reference to the issue had already began during debate of agenda item 4. He then briefed the Conference on the main conclusions and recommendations of the Second meeting of the Enlarged Ministerial Committee of Libreville which was held in Addis Ababa, Ethiopia, from 29 to 30 November 1990.

79. Concerning the conclusions of that meeting, the Conference was informed that the existing economic and financial conditions in Africa were not conducive to the establishment of a fully-fledged African Monetary Fund. Nonetheless, such a proposition could be considered in future.

80. In broad terms, the Libreville Committee reached consensus that the main objective of the Fund would be to improve resource flows and promote monetary and financial integration in Africa and contribute towards economic integration of the African economies.

81. Although the Committee appreciated the need for institutions like an African Monetary fund, it was nonetheless, felt that the Feasibility Study had not provided convincing arguments for a fully-fledged African Monetary fund to be established at this time but that this could be considered in the long-term. The Committee proposed an alternative arrangement by which the African Development Bank (ADB), the African Centre for Monetary Studies (ACMS), and subregional monetary and financial institutions would undertake the following inter-related functions connected with providing balance of payment support and technical monetary and financial support to member States. To this end:

(a) The African Development Bank could be consulted to provide balance of payments support to member States. Resources for such financing should be raised by that institution;

(b) The African Centre for Monetary Studies should be strengthened to carry out its mandate to develop capacity for policy analysis in Africa and to assist member States in drawing-up credible economic programmes. The Centre could also be requested to act as a forum for coordination of Africa's collective action in international monetary and financial issues;

(c) Subregional monetary and financial institutions could be assigned the role of "policy co-ordination" among their member States as a basis for continent-wide monetary co-operation.

82. The Chairman of the Committee also submitted on behalf of the Committee to the Conference the following recommendations that:

(i) There was a need for an institution to be established to deal with regional monetary and financial issues. However, it is not financially feasible at present to establish a fully-fledged African Monetary Fund because of prevailing economic and monetary problems facing African countries, and the difficulties in making subscriptions to the capital of the Fund. Moreover, since it has been

determined that the Fund could not mobilize incremental resources at this stage, the rationale for such a Fund could not currently be reaffirmed. Therefore, a gradual approach to its establishment is being suggested. In the interim period, an alternative arrangement had to be made by which some of the functions of the proposed Fund should be carried out by the African Development Bank, the African Centre for Monetary Studies, and subregional monetary and financial institutions;

(ii) The proposal for the establishment of the fully-fledged Fund should be reviewed after a period of five years and concrete proposals should be submitted to African Ministers of Finance on whether or not a fully-fledged Fund should established. Accordingly, the current Ad-hoc Technical Sub-Committee of Governors should become a Standing Committee to review the issues during the transitional period;

(iii) The African Development Bank, should be called upon in conjunction with the United Nations Economic Commission for Africa, to carry out a technical study on the possibility of the ADB providing balance of payments financing to member States and to update the Feasibility Study for Establishing the African Monetary Fund. These studies could be co-ordinated by the Joint Secretariat of the ADB, ECA, ACMS and OAU.

83. Following the presentation of the report, a representative of the secretariat informed the Conference about the main activities undertaken pursuant to the above recommendations. He pointed out that the African Development Bank has indicated to the ECA secretariat that it was not in a position to provide <u>additional balance of payments support</u> to African countries as this could impair its portfolio balance between "programme lending" and "project lending".

84. After exchange of views the Conference adopted the recommendations contained in the report of the Second meeting of the Enlarged Committee of Libreville. Convinced that an African Monetary Fund could play an important catalytic role in the monetary and financial integration process of Africa, the Conference decided to follow-up on the recommendations of the Enlarged Committee of Libreville on the possibility of the African Development Bank providing balance of payment support to member States. In this respect, the Conference agreed to establish a Ministerial Committee to follow-up this issue with ADB. To this end, the Conference entrusted this task to its current Bureau which will be assisted by the ECA Executive Secretary.

VI. DATE AND VENUE OF THE NEXT CONFERENCE OF AFRICAN MINISTERS OF FINANCE (Agenda item 6)

85. The Conference discussed the date and venue for its next meeting and agreed that the Fifth Session shall be held in 1993 in Addis Ababa, Ethiopia.

VII. ADOPTION OF THE REPORT AND CLOSURE OF THE MEETING (Agenda item 7)

86. The Conference adopted its Report as amended and three Resolutions.

RESOLUTION 1 (IV)

THE AFRICAN DEBT CRISIS

The Fourth Session of the Conference of the African Ministers of Finance meeting in Addis Ababa, Ethiopia on 17 and 18 December 1991,

*Recalling that the African Common Position on Africa's External Indebtedness adopted by the Extraordinary Summit of the Assembly of Heads of State and Government of the Organization of African Unity held in December 1987 remains the framework without which no lasting solution to the African debt problem can be achieved;

Recalling further that the African debt crisis persists notwithstanding the various economic programmes undertaken by member countries, at times, at great socio-economic and political cost;

Noting that notwithstanding the various debt relief initiatives that have been so far announced to alleviate the debt burden of African countries, the debt crisis still persists and constitutes a major obstacle to the socio-economic recovery of the African continent as a whole;

Aware that although some laudable initiatives have been announced by creditor countries, these, to a large extent, remain unimplemented and have been discriminatory against middle-income countries which continue to suffer from indebtedness;

Convinced that a lasting solution to Africa's external debt crisis remains necessary for the sustained recovery of African economies;

1. Welcomes the decision of the new Secretary-General of the United Nations to make alleviation of the debt burden of the poorest countries of the world a major priority area for the United Nations during his term of office;

2. Further Welcomes the initiative of the Acting Executive Secretary of the Economic Commission for Africa for having organized the Africa Debt Day in New York in October 1991 which proved a useful forum for impressing upon the international community the persistence of Africa's external indebtedness;

3. Calls upon African Governments to devote greater effort to debt management at the national level, while at the same time taking care not to marginalize the contribution of certain important segments of the international community, especially influential citizens, government officials and prominent persons from creditor countries in resolving the debt issue;

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* Adopted with reservations from the delegation of Morocco.

4. Requests the Executive Secretary of the ECA to continue in his efforts to make the African/African-American Forum and other like-minded organizations, important avenues for bringing African economic and social issues to the attention of the international community;

5. Further requests the Executive Secretary of the ECA, in collaboration with the Secretary-General of the Organization of African Unity, the President of the African Development Bank and the Director General of the African Centre for Monetary Studies, to continue to provide technical assistance, to African countries at their request with a view to enabling them find a durable solution to the debt problem in its totality including that of African middle-income countries;

6. Calls upon the Executive Secretary of the ECA to report to the next meeting of the Conference of African Ministers of Finance on new initiatives that will have been taken to deal with the African debt problem (including debts owed to multilateral institutions) within a framework which establishes a linkage between debt, trade, and development.

RESOLUTION 2 (IV)

THE ROLE OF INDIGENOUS BANKING AND FINANCIAL INSTITUTIONS IN THE MOBILIZATION OF FINANCIAL RESOURCES FOR DEVELOPMENT

The Fourth Session of the Conference of African Ministers of Finance meeting in Addis Ababa, Ethiopia on 17 and 18 December 1991,

Concerned that most of the African financial institutions operating in Africa have been ineffective in mobilizing financial resources to finance the development process on the continent;

Further concerned that the imbalances between the volume of savings and investment requirements remain large in most African countries and have perpetuated the overdependence of African countries on external development financing;

Aware that the low level of domestic savings in Africa is partly due to the low levels of per capita income in most African countries, inadequate financial networks and substantial budget deficits incurred to finance unproductive investments;

Further aware of the need for complementarity between the implementation of broad macro-economic adjustment policies (such as economic liberalization and privatization policies) with a view to broadening and deepening financial intermediation in Africa so as to secure effective resource mobilization;

Calls upon African countries to put in place appropriate policies that will raise real incomes and savings of the African people, especially in rural areas, as well as implement financial reform programmes aimed at broadening and deepening the financial intermediation process;

Invites African countries, with the technical support of the Executive Secretary, if called upon, to carry out case studies with a view to identifying and eliminating obstacles to the mobilization of domestic and external resources for financing economic development in Africa and thereby reduce the continent's overdependence on external resources to finance this process.

RESOLUTION 3 (IV)

ANTICIPATED IMPACT OF NEW DEVELOPMENTS IN THE EUROPEAN MONETARY SYSTEM (EMS) ON THE MONETARY AND FINANCIAL ARRANGEMENTS OF AFRICAN COUNTRIES AND THE NEED TO ACCELERATE MONETARY INTEGRATION IN AFRICA

The Fourth Session of the Conference of African Ministers of Finance meeting in Addis Ababa, Ethiopia on 17 and 18 December, 1991,

Noting the rapid pace of monetary and financial integration currently taking place in the European Economic Community (EEC) and the decision by the Community members to adopt a single European currency by the year 1999;

Considering that these developments will have an impact on the monetary and financial arrangements of African countries by virtue of the relationships between the African economies and those of countries of the European Economic Community;

Mindful of the importance of coordinated monetary and financial policies in the integration process and aware of the debilitating impact of uncoordinated monetary policies on Africa's economic integration process;

Recalling the Treaty establishing the African Economic Community and in particular its provisions on monetary integration;

Taking note of the preliminary analysis undertaken by the ECA secretariat to evaluate the impact of these new developments in the EMS on the major macro-economic variables of African economies;

Further taking note of the possible impending association of the CFA Franc Zone in the new arrangements of the European Monetary System;

1. Calls upon the Executive Secretary of ECA, the Secretary-General of the Organization of African Unity, the President of the African Development Bank and the Director-

General of the African Centre for Monetary Studies to assist member States in monitoring the evolution of the international monetary systems, including the EMS, and in evaluating their possible impact on the macro-economic variables and integration of African countries;

2. Also calls upon African countries to accelerate the ratification of the Treaty establishing the African Economic Community and to ensure the speedy implementation of its provisions on monetary integration.