Press Releases

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African Finance Ministers Conference: ECA Head Enthuses about Capital Markets, Cautions Flexibility in Implementation of HIPC Debt Initiative

Addis Ababa, 31 March, 1997: Political change has given impetus to increased activity in African capital markets and enthusiasm in stock market development is evidenced by the surge of Wall Street interest in Africa, said a high-ranking United Nations official today, citing this as one of a number of positive developments in Africa that were a cause for optimism.

K.Y. Amoako, United Nations Under-Secretary General and Executive Secretary of the Economic Commission for Africa (ECA), was addressing the 6th Session of the Conference of African Ministers of Finance as well a stop-policy makers from the World Bank, International Monetary Fund (IMF),the African Development Bank (AfDB) and investment and major stock exchange leaders from around the world.

"The increase in investment funds being traded in New York and Europe-- from zero in 1992 to over US$1 billion currently -- and the increase in the number of exchanges are all testimony to a sea-change in perceptions",Mr Amoako said.

Mr. Amoako disclosed that since 1994 more than 12 Africa-oriented funds have been set up. Initially focused on South African markets, the base has been broadened to include a number of other African countries such as Botswana, Cote d'Ivoire, Ghana, Kenya, Mauritius, Zambia and Zimbabwe.

The ratios of return on Foreign Direct Investment (FDI) has been much higher than in other regions.

According to a 1994 World Bank document, he added, rates of return on FDI in Sub-Saharan Africa averaged 24-30 per cent, compared to 16-18 for all developing countries. The ECA Executive Secretary stressed that:

- African capital markets should prepare themselves for the day whentheywill trade debt instruments;
- Africa should build on the experience of the Abidjan market and createregional capital markets;
- The region should network intensively these markets develop in ordertokeep up with the rate of innovations.

It was precisely to network that at an ECA-sponsored Conference ofHeads of State and investment experts, held in Accra last June, a number ofprivate and public institutions, with the support of ECA, announced thecreation of an African Capital Markets Forum (ACMF). The Forum brings together expertise within Africa with leaders ofmajorexchanges and financial experts from around the world to share information,provide training opportunities and commission research. Mr. Amoako was careful to remind Ministers of the resource flowsenvironment in which Africa operated. Net aid to developing countries hadstagnated or declined over the past decade. Measured in constant 1994 dollar, net development assistance receivedby developing countries during 1986-1994 ranged between US$53-61 billion.In 1995, it actually dropped. Grants and official low-interest credits, which account for the bulkofforeign aid, fell by an estimated US$ 1.4 billion during the same year,representing a 3 per cent drop in real terms from 1990 levels. Mr. Amoako, at pains to address Africa's need for capital markets,alsosaid that Africa depends significantly on this form of developmentassistance. In Sub-Saharan Africa official development assistanceaccountedfor a higher proportion of external financial flows than to any otherdeveloping region. In sharp contrast to official development assistance, record levels ofcapital were flowing to developing countries from US$44 billion in 1990 toUS$ 244 in 1996, 73 per cent of which went to only 12 countries -- mostlyinAsia and Latin America. Africa received a lowly 3 percent. Africa lost out because investors chose countries with stablepoliticaland social environments, Mr. Amoako observed. He posed Africa's challenges:- To deepen or restore macro-economic stability to help improve thegeneral investment climate;- To pursue regional cooperation and integration to expand domesticmarkets;- To push for more outward looking and market-based investment regimesand expand Africa's financial, human and institutional infrastructure;- To promote favourable labour market policies;- To put a stop to civil strife and conflict. Turning to the unsolved African debt problem, the ECA ExecutiveSecretary turned to the World Bank/IMF-sponsored Heavily Indebted PoorCountries (HIPCs) Initiative launched by the multilateral agencies inSeptember 1996. Addressing the concerns of ECA's member States, Mr. Amoako focused oneligibility and fiscal burden of debt as a central variable in the debtsustainability analysis. Of no less importance to the Executive Secretary,however, was the question of the length of the work-out period which couldbe as long as six years and the Bretton Woods institutions'/donors'commitmentto adequate amounts of financing. Calling for the application of the Initiative in a flexible manner,Mr.Amoako said that maintaining the right perspective will be fundamental tothe success of the Initiative. "There is a danger that if the HIPCs [initiative] is implementedwithout due flexibility, it will end up like the mountain that gave birthtoa mouse". OAU Secretary-General Salim Ahmed Salim, in his address, reminded theconference that the debt issue -- with the total debt currently at US$ 340billion and a debt service burden of US$ 24 billion -- was a burning topicadecade ago, and called for the African Common Position on debt to berevised. The implications for Africa of the HIPCs initiative will be discussedin detail tomorrow, along with the challenges and opportunities of Africa'semerging capital markets. Also addressing delegates at the three-day meeting were Ethiopia'sDeputy Prime Minister, Dr. Kasu Ilala and AfDB Vice-President FerhatLounes. Today's discussions, in the form of a brainstorming discussion,focusedon Financial sector reforms in Africa.

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