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ECONOMIC COMMISSION FOR AFRICA

**Sixth Session of the Conference of
African Ministers of Finance**

**Addis Ababa, Ethiopia
31 March - 2 April 1997**

ECONOMIC COMMISSION FOR AFRICA

**Meeting of the Intergovernmental
Group of Experts**

**Addis Ababa, Ethiopia
25 - 28 March 1997**

AIDE MEMOIRE

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I. Introduction

The increasingly dynamic pace of Africa's development and the global investment market present new opportunities and demands for the mobilization of domestic and international resources for development on this continent. Many governments have taken steps to liberalize financial sectors to better foster national development and to compete for the burgeoning supply of global savings.

It is against this backdrop that the Sixth Session of the Conference of African Ministers of Finance will meet to discuss some of the most timely issues facing Africa's policy-makers:

- the role of multilateral financial institutions;
- financial reform in Africa;
- the challenges of African debt problems (in which there will be expert review of the new Heavily Indebted Poor Countries (HIPC) Initiative); and
- the challenges and opportunities of emerging capital markets in Africa.

The discussions will benefit from senior experts from Africa as well as the global public and private sector. The meeting will be conducted to permit a free flow of ideas.

These meetings come after a major ECA-sponsored international conference in Accra on Reviving Private Investment in Africa in which a number of African Heads of State and leading international Chief Executive Officers participated. At that conference, the African Capital Markets Forum was launched. The meeting will be followed up in May 1997 by ECA's Conference of Ministers Responsible for Economic Planning and Development at which there will be expert panels and ministerial discussions on trade and investment in Africa as well as on the national informatics infrastructure opportunities and challenges facing Africa. Sectoral applications will be reviewed in key areas. A meeting of Experts, in the days prior to the Ministerial meeting will review these topics and will benefit from additional expert presentations of leading authorities.

The Theme of the Conference is "Financial Sector Reforms and Debt Management." The Ministerial segment of the Conference has been organized into two plenary and three panel sessions. The topics for plenary sessions are:

- (a) Growth and Development Finance in Africa at the Turn of the Century:
What Role for Multilateral Financial Institutions
- (b) Wrap-up session

The topics for panel session are:

- (a) Financial Sector Reforms in Africa: Realities, Problems and Lessons from
Country Experiences
- (b) Challenges of the African Debt Problem
- (c) Emerging Capital Markets In Africa: Challenges and Opportunities

II. Description of the Conference Sub-Themes

- (a) Growth and Development Finance in Africa at the Turn of the Century:
What Role for Multilateral Financial Institutions

Multilateral financial institutions have come to occupy a key position in Africa not only as suppliers of development finance African countries, but also as advisors to African Governments on development issues as well as a reference point for donor funding to Africa. Accordingly, as Africa approaches the twenty-first century it is essential to take stock and examine future roles of these institutions in Africa's development process, notably regarding the challenges facing African countries to achieve sustainable development, reduce poverty, and be fully integrated in a globalizing and liberalizing world economy.

- (b) Financial Sector Reforms in Africa: Realities, Problems and Lessons from
Country Experiences

Many African countries have in recent years embarked on financial sector reforms, in the context of the overall reforms of their economies. These reforms have focused on reducing financial repression, restoring bank solvency, and improving financial infrastructure. In a number of these countries such reforms have been designed to: increase competition in the financial sector by opening up entry and exit from the sector; increase the range of financial instruments available to both savers and investors through expanded financial infrastructure and instruments; improve the determination of interest rates in order for them to reflect the opportunity cost of financial resources; improve the allocation of foreign exchange and the determination of exchange rates to reflect opportunity cost; and improve the overall process of financial intermediation, mobilization and allocation of financial resources.

Notwithstanding the positive aspects financial sector liberalization has brought to a number of African countries, implementation of such reforms has created initial problems in some countries. Accordingly, the Conference will discuss both the positive and negative effects of financial sector reforms with a view to allowing African countries to share best practices. Among the issues to be discussed will be the need to formulate, design, and sequence financial sector reforms taking into account the state of the financial system and its structure; appropriate sequencing of reforms; and the need for developing effective interbank markets.

(c) Challenges of the African Debt Problem

The debt problem constitutes a major constraint on Africa's development. Hence the importance of addressing this problem within the context of restoring the growth and development momentum in the continent. The recently announced Heavily Indebted Poor Countries (HIPC) Initiative has been warmly welcomed in a number of quarters including several African countries, which constitute the majority of the targeted group of poor countries to benefit from it. The HIPC Initiative is indeed a serious commitment by the international community to tackle the external debt problem of heavily indebted poor countries, and more especially, it focuses on multilateral debt which was previously excluded from the external debt renegotiation and reduction process.

Furthermore, the Initiative is conceived within the overall framework of assisting poor countries to achieve debt sustainability in the context of overall economic development. In this respect the Initiative recognizes the intricate linkages between debt sustainability; efficient, transparent and accountable economic management; good governance; trade expansion and diversification, combined with market access; and economic and social development.

Although a number of African countries have welcomed the Initiative, some issues are yet to be made clear and the Conference will be an ideal forum to discuss some of these, among which are those relating to the working of the Initiative; its practical benefits; and whether it would result in expanded capital flows to African countries. A number of technical questions arise regarding definition of debt sustainability and the criteria used to delineate countries; the issue of the determination of the cut-off date for multilateral debt which has never been rescheduled before; and the magnitude of the resources to be made available under the Initiative.

(d) Emerging Capital Markets In Africa: Challenges and Opportunities

African countries have come to acknowledge the important role capital markets have played in other regions of the world in the mobilization of both domestic and external resources to support investment. Accordingly, concerted efforts are underway in many of these countries to strengthen such markets wherever they exist or establish them where they do not.

The conference will deliberate on issues relating to the expansion and deepening of capital markets in Africa as instruments for resource mobilization and allocation; the legal, regulatory and supervisory framework the effective functioning of capital markets; and the role of regional capital markets in Africa.

As part of the Conference, two Break-out Sessions will be organized on " Capacity Building in African Capital Markets" and "Making African Capital markets Attractive Through Regional Stock Exchanges and Information Technology" which will feature investment bankers and representatives of capital markets who will make presentations as related to Africa. The events are intended to foster frank and productive interaction between the Ministers and Central Bank Governors and investment bankers on ways of strengthening the momentum of

establishing and strengthening capital markets in Africa.

III. Main Issues Before the Conference

The Conference has been structured to allow maximum exchanges of views on a number of key issues in the field of money and finance. A number of special sessions of the main Conference will be held on topical issues such as "Growth and Development Finance in Africa at the Turn of the Century: What Role for Multilateral Financial Institutions; Financial Sector Reforms in Africa: Realities, Problems and Lessons from Country Experiences; Challenges of the African Debt Problem; and Emerging Capital Markets in Africa: Challenges and opportunities. The Conference of Ministers will be preceded by the preparatory Meeting of Experts from Ministries of Finance and Central Banks. The Experts will discuss issues of "Exchange Rate Management", "Financial Sector Reforms", "Development of Capital Markets in Africa" and "Debt Management." The recommendations of the Meeting of Experts will be considered by the Conference of Ministers.

IV. Objectives and Expected Outcome of the Conference

The need for Africa to adapt to the changing international economic and financial environment has become more imperative than before. Developments dictate that the continent adapt rapidly to these developments if it is to become an effective partner in the world economy. The globalization and liberalization of the world economy has brought in its wake increased competition for physical and financial resources. Furthermore, technological advances are making many of the production, and marketing processes obsolete. Significant advances have also been made in the international financial system both in terms of the range of financial instruments that have emerged and the institutional framework needed for effective financial intermediation. In such an environment, only those countries that have or could develop the necessary capacity to adapt to such changes can effectively survive and take advantage of the new opportunities.

The discussion on the role of multilateral financial institutions in Africa at the turn of the century is intended to situate the deliberations of the Conference and stimulate dialogue between

African countries and these institutions as to what can be expected of them as the continent enters the new millennium. This is the more important as Africa's financial sector remains a weak element in the continent's development equation. Accordingly, the Conference is designed to assist African countries to understand and appreciate the role a dynamic financial sector can play in the development process; lessons of experience in perfecting the financial sector in Africa, and new options available to Africa's policy-makers to mobilize necessary resources for development.

V. Dates and Venue

The Sixth Session of the Conference of African Ministers of Finance will be held at the Headquarters of the Commission in Addis Ababa, Ethiopia, from 31 March to 2 April, 1997 and preceded by the Meeting of the Intergovernmental Group of Experts Preparatory to the Session from 25 to 28 March, 1997.

VI. Participation in the Conference

The Conference is expected to be attended by all African Ministers of Finance of member States of the Economic Commission for Africa (ECA) and the Governors of Central Banks, the majority of whom have already accepted to attend. The Conference will also benefit from participation of high ranking officials from the Organization of African Unity (OAU), the African Development Bank (ADB), the World Bank, the International Monetary Fund, the Paris Club, European Union and Chief Executives of African Stock Exchanges, and investment and commercial banks. Also invited are international, regional and sub-regional organizations in the field of money and finance as well as the specialized agencies of the United Nations.

VI. Contact Points

For further information about the Conference please contact:

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VII. Documentation

The following documents will serve as background materials for the Conference:

A. Documentation for the Ministerial Conference

1. Financial Sector Reforms in Africa, document E/ECA/ESPD/CMF6/2;
2. An Overview of Africa's Debt in the Context of the Highly Indebted Poor Countries (HIPC) Initiative, document E/ECA/ESPD/CMF6/3;
3. Financial Systems and the Effectiveness of Monetary Policy in African Countries : A Policy Perspective, document E/ECA/ESPD/CMF6/4

B. Documentation for the Meeting of the Intergovernmental Group of Experts:

1. The Development of Capital Markets in Africa: Constraints and Prospects, document E/ECA/ESPD/EXP6/2;
2. Review of Techniques for Debt Reduction and Conversion (SWAPS) and their Application to the African Situation: A synopsis, document E/ECA/ESPD/EXP6/3;
3. Exchange Rate Management Policies in Africa: Recent Experience and Prospects: Introductory Note by the ECA Secretariat, E/ECA/ESPD/EXP6/4;
4. Financial Sector Reforms in Africa: Lessons from North African Countries, document E/ECA/ESPD/EXP6/5;
5. Financial Sector Liberalization in Africa in the Framework of Economic Reform Programmes, E/ECA/ESPD/EXP6/6.