

CSAE CONFERENCE 2023



STEFAN DERCON, CSAE DIRECTOR, SPEAKS TO ABEBE AEMRO SELASSIE, DIRECTOR OF THE AFRICAN DEPARTMENT AT THE INTERNATIONAL MONETARY FUND

Stefan Dercon

Welcome to the CSAE Conference. It's a great pleasure for me to have you here. It's nice to be able to briefly talk around some of the issues that Africa is facing. So allow me to start with a general question. We observe a global slowdown, we observe all kinds of issues, of course, the fallout from COVID, the global food crisis, food price crisis, inflation pressures in lots of countries, macroeconomic issues. What does it look like as seen from Africa?

Abebe Aemro Selassie

Stefan, thank you so much for inviting me, it's very good to be here in person. I think the region is going through one of the most difficult economic periods of the last few decades. As we speak, the region is facing a really brutal funding crunch, for example. But in a way, how we got to where we are starts around the development model that countries were pursuing in the 20 or so years since the turn of the century, a period, of course, where tremendous development progress was made, tremendous. We underestimate just how much improvement there has been, pretty important development indicators, declines in poverty, life expectancy increases, even the level of schooling, etc., which have all gone up to varying degrees across the region. In a generalised way there's been really very, very strong progress, not as much progress perhaps on poverty reduction, but still a period where there was a lot of progress. And this was paid increasingly over the years through more expensive forms of financing. As aid declined, countries made more and more recourse to commercial borrowing, so by 2015/16 debt vulnerabilities in the region had increased. And what happened is that the regions have been hit by a series of really brutal shocks increasingly pushing countries over the edge. And so right now, I think one generalised comment I can make is that macroeconomic imbalances are back with a vengeance in the region. What this has done is divert much needed resource and attention from continuing to make progress on development outcomes that are so important for the future of the continent. And then right now things are so acute in the wake of the Russian invasion of Ukraine, as you said, commodity price increases and countries being shut out of markets. What we're seeing is this really very tight financing conditions that governments are facing. And one worry we have is will even the countries where this macroeconomic situation is manageable and debt levels are affordable be able to stay in this vein because liquidity is drying up? And, as you know, even solvent companies, solvent countries can become insolvent for lack of liquidity. So it's a moment when the region requires both some

external financing and internally a big rethink about the kind of a development model we want to follow in the coming years.

But I should also say that whenever I'm on the ground, I continue to be impressed by just how much resilience there is in the region now. By how much opportunity there is going forward. So that's my take on where we are.

Stefan Dercon

It's interesting that you mention reflecting on the development model that has been followed. But of course, there's been a lot of diversity in the last ten, 15, 20 years with some countries growing considerably faster than others. Ghana has been able to half extreme poverty over the last 30 years, while Nigeria remains a highly impoverished country with increasing numbers of extreme poor. Is there something to be said about certain countries in the current crisis on maybe being punished for the kind of development models that they were using? And is there a case to be made to think in a much more differentiated way about the experience of countries?

Abebe Aemro Selassie

One comment I want to make on Nigeria is just the heterogeneity of circumstances in Nigeria itself. I mean, if you compare what's going on in the southwest with the northeast there's a huge difference in circumstances and economic outcomes. My sense is you would have a lot more of the Ethiopia/Ghana story in the southwest, even big chunks of the centre of Nigeria, so there is a lot of similarity and we have to allow for that. But overall, Nigeria hasn't lived up to the tremendous potential that it has in aggregate, so that point remains.

Now to turn to other success stories, and it's not just Ethiopia and Ghana, there are many other countries where we saw quite a bit of progress, it's not so much that we're being blamed, but I don't think there's enough appreciation as to how much external factors have contributed to the macroeconomic difficulties countries are facing right now, how much exogenous factors have contributed? I think there's not enough of an appreciation for that. Now, this said, at the end of the day, countries have a lot of agency, the most agency. And importantly there were some things that were not done well. In both Ethiopia and Ghana, but others too. There was a lot of investment in the right areas, but not enough effort to capture these rates of returns into a viable tax system in particular. Countries also have not perhaps focussed on the tradable sector enough relative to capital investment. So again, there is some attention that needs to be paid to that. Not having paid enough attention is a contributing factor, in varying degrees, to the difficulties that we are seeing.

But, I think all told, what is needed at the moment is three things. One is a lot of counter-cyclical support because it is the massive shift in external circumstances that has pushed many countries over the edge. Second, countries need to do a lot of reforms to get the macroeconomic imbalances under control. And also improving the value for money that you get from public spending, we are no longer in the era of cheap, excellent borrowing or even domestic borrowing. And then the third thing that is going to be just as important is to revisit and rethink about official development

assistance, which over the years has been declining. It was one thing when that decline happened, when countries could easily go out and replace the Soviet Union with borrowing from capital markets, from new creditors like China. But now in this world where money's not readily available and I'm afraid to say the hit that will happen is going to be felt much more acutely. So I think that there is work to be done in all of these areas going forward.

Stefan Dercon

So one of the striking things that we observe is the fact that ODA saw that official development assistance, so essentially aid, has not been acting counter-cyclical during the crisis. Now it's not increasing, if anything a lot of countries seem to be cutting aid. So maybe we're discovering again that aid as seen from donor countries is a bit like charity, we spend more on it when our incomes go up, but we actually bring it down when incomes are indeed going down.

How can we think more about this? Is this something that we can change?

Abebe Aemro Selassie

So a few thoughts on this, my argument is not that official development assistance should be sustained no matter what. But in circumstances where good reforms are being pursued and also in areas where the development gaps are really largest, if we don't support these countries, it's really failing to invest in the future of the global economy. One number that really hit me with quite a lot of force when I discovered it some years ago, is that, by 2050, one out of every two new entrants into the global labour force will come from sub-Saharan Africa. So these are the people reaching the age of 15 by 2050. These kids have been born, they are going to school or should be going to school. They should be getting a really good education now because they are the ones that are going to be the future key members of the labour force. And a lot of investment has to happen through aid because governments just do not have the wherewithal to be able to generate enough tax revenues to build enough schools, to build enough clinics and universities that are needed.

By failing to support human capital development in the region now, we are harming ourselves. We don't think enough about where we are going to be in ten, 15 years from now, the urgency, as always, carves out the really important and strategic investments that need to be made. I don't see those kind of intellectual arguments being made enough now by the champions of development. So I think we need to unpack our messaging on this front.

And then the other thing I want to say is, in our case at the International Monetary Fund (IMF), we provided between 2020 and 2022 something in the order of \$60 billion in financing, many multiples of the amount of financing we provided over the previous decade, and rightly so. But our ability to continue providing this kind of financing is now constrained because we've run out of the resources we need to subsidise and lower the cost of financing for our Poverty Reduction and Growth Trust (PRGT) window. I guess this is much the same for the World Bank because they also made a big push to provide the financing figures. So I think using the balance sheet of these entities is one of the important avenues in this difficult period so that we can support countries.

Stefan Dercon

That is quite an important point that you make. We have to try to change the discourse from the overseas development assistance, that is the official development assistance that's being given, as something that is some kind of charitable act from countries that you are really appealing on the economic self-interest of countries, given that Africa is where the labour force will be.

And finally, our conference attracts a lot of young scholars, especially from Africa, that want to work around key challenges, issues of African economies. What would you advise a scholar trying to work on African economies? What would you recommend they should be looking at? What are the key questions you feel that need to be addressed?

Abebe Aemro Selassie

Okay, I'm going to show my bias towards more policy relevant questions, things that we are looking at the IMF. I think one really big question that I keep asking myself, we keep bringing up, is higher domestic savings the really important ingredient in self-funding of countries going forward? I don't see enough of those kind of research questions. I think we have gone away from asking these kind of big questions, talking more about tractable questions in academia. I would love to see thinking again about things that can be done to engender more domestic savings in developing countries, in the poorest countries. The demographics play a role, but other than that, are there any other policy prevention steps that we could be thinking about? That's one question that's really important.

Another one revolves around (these are all related to the current macro challenge) ways in which more resources can be mobilised by the government. I remember once saying something along the lines of 'the existential development challenge is the inability of governments to capture the rates of returns in all projects that they invest', and when I see all the efforts countries have made in recent years to build roads, to increase energy supply, but having failed to install tolls to collect enough revenues to pay for the roads that they've built or raised utility tariffs sufficiently to allow the interest of the company to be paid, going both at the macro level, but also even at the project level, what is it that can be done to allow governments to better capture these rates of returns on these investments? I think this, again, is an area which is really ripe for some research. Like all questions about revenue mobilisation, this, of course, is a deeply political question. So there's no getting around the fact that this is related to the social contract, and even the political economy has been something you yourself have been asking. But then also I think there is some more technical research that can be done, I think that's another area where some attention could be paid.

Stefan Dercon

The last 30 years clearly have been very good for development. And in fact, ever since the end of the Cold War, there's clearly much more space to work as, for example, the IMF, as a more technocratic organisation. Of course, politics is always there, but in a sense, geopolitics wasn't really determining the direction. Now we are definitely living, not least since the start of COVID and

then the start of the war in Ukraine, in an age where geopolitics has become so much more important. What do you think that means for organisations like the IMF, but also what does it mean for countries and how can they deal with the challenges that it brings?

Abebe Aemro Selassie

Thanks for a very important and profound question. I strongly agree with you that the period since the end of the Cold War has allowed multilateral institutions to be less political. Because we no longer had these competing camps, ideologically there was a strong consensus around, although consensus itself is a loaded phrase, but I think there was a lot of pragmatism in terms of making sure that there was policy experimentation but also peer to peer cross-country learning, something that the IMF facilitated over the years. And I think, as always, when you have geopolitical tensions, this increasing fragmentation makes it a little bit more difficult for multilateral institutions to continue functioning and in a purely technocratic way. Thankfully, after now, I think we've warded off a lot of interference at the IMF, we continue to try, at least on the economics side, to make the right calls and continue to provide that technical advice to our members. But going forward, we have to warn against challenges to global supply chains or policies, for example, industrial policies. The interesting thing right now is that it's broader, not just geopolitical issues that have been impacting industrial policy, but even how much support do you make for new emerging industries like climate, for the tension between Europe and the US? So the schism has not just been along the bigger geopolitical rivalries. So, it is definitely a period where we have to continue to make the case for multilateralism.

And on the countries' side, maybe continuing in the same vein that countries were trying to be in the 1980s. I don't know if you remember the Non-Aligned Movement? Basically making clear that countries have strategic interests in their engagements with a broad gamut of the global economy, global economic leaders, and sustaining that approach would be very important. If you're asked to choose one cup over another, God forbid we have that kind of fragmentation, the cost is going to be borne by the poorer countries, which have less resilience, which are going to be asked to disrupt trade or financial aid to one camp or the other. I think that the region really cannot afford to say I'm going to do one thing, or another.

Stefan Dercon

It's a great pleasure to have you here.

Abebe Aemro Selassie

Thank you so much for inviting me. It's really very good to be here.