Capacity Building in Africa: The Role of International Financial Institutions

The important and interrelated components are essential to economic development: capacity building, good governance, and economic reform. Capacity building—the development of skills and institutions—is critical to the achievement of sustained economic growth. But acquired skills cannot be exploited fully, and institutions cannot operate effectively, without good governance. And economic reforms cannot be implemented properly without well-functioning institutions.

Rationale and evidence

The influence of capacity building on economic growth has been the subject of an increasing body of economic research in recent years. The emerging consensus is that the quality of institutions—itself a reflection of the extent to which capacity building has taken place—matters for economic growth. Institutions matter because they provide the framework within which people and firms participate in the economy. Thus, they contribute to the incentives for investment and the efficiency with which resources are allocated.

Two basic sets of institutions can be distinguished. First, there are institutions that support the efficient functioning of the market. These include a clearly delineated system of property rights that protects the assets of investors and the returns on these assets; a regulatory system that limits fraud and anti-competitive behavior; social and political institutions that mitigate risk and manage social conflicts; and, finally, the rule of law and "clean" government (Rodrik, 1999). Second, there are institutions that provide a stable economic environment through sound economic and financial policies. These institutions, such as the ministry of finance and the central bank, are responsible for economic and financial management.

Several recent studies provide support for the importance of institutions. It is striking to recall that Africa's growth potential in the 1960s was sometimes ranked ahead of East Asia's. Easterly and Levine (1997) provide empirical results suggesting that the failure of this potential to materialize has been closely related to a number of social and political factors, including insufficient schooling, political instability, and inadequate infrastructure. This is consistent with a study by Rodrik (1997) that shows that an index of institutional quality performs extremely well in explaining growth differentials across East Asian countries—differentials that cannot be attributed to classical economic variables such as capital accumulation, technical progress, and increases in the supply of labor. A World Bank study (1998) suggests that significant improvements in the quality of management in developing countries could add a full percentage point
to their growth rates. In a comprehensive study of 133 countries, Hall and Jones (1999) find that institutions that favor production and some form of private ownership will foster the accumulation of human and physical capital, eventually increasing total factor productivity and thereby expanding domestic output. These studies, among others, underscore an important fact—namely, that capital accumulation is not enough to ensure growth. Recognizing that the quality of institutions and capital accumulation are complementary is essential to the success of countries' efforts to achieve long-lasting growth.

What, then, is the evidence on the quality of institutions in Africa?

A survey of 23 African countries (Sievers, forthcoming) gives Africa's governmental and judicial institutions a mixed review: they are "better than conventional wisdom assumes, but lower than needed for sustained high growth." Questioned about such issues as corruption, the quality of the rule of law, and the effectiveness of the national legal system in enforcing contracts, African companies responded with scores that, on average, were equal to, or slightly lower than, those in other developing countries. These scores suggest that institutions in Africa have not yet progressed sufficiently to make a significant contribution to development.

The institutions responsible for economic management in Africa have been developing, in terms of their capacity both to formulate policies and to implement them. The development of these institutions gained momentum over the last decade, as evidenced by the general improvement in policy implementation and economic performance in Africa (see Calamitsis, 1999; and Fischer, Hermández- Catá, and Khan, 1998). Even so, in recent years there have been frequent lapses, and a number of countries that had made progress in policymaking have suffered setbacks. This suggests that institutions in Africa are not yet strong enough to permit countries to continue pursuing appropriate policies.

Role of international financial institutions

International financial institutions have different specific objectives and different areas of specialization and expertise. Take the IMF, the World Bank, and the African Development Bank. The "enhanced partnership for sustainable growth and poverty reduction" recently announced by IMF Director and World Bank President underscores the different core mandates of the two institutions—with the IMF focusing on promoting "international financial stability and the macroeconomic stability and growth of member countries," and the World Bank emphasizing helping member countries to "reduce poverty, particularly by focusing on the institutional, structural, and social dimensions of development." Even so, there are areas of overlap, such as financial sector reform. Collaboration—to ensure the complementarity of policies in a comprehensive approach—is therefore essential. The African Development Bank has a regional mandate to "contribute to the economic development and social progress of its regional members," with an operational focus on agricultural and rural development, human resource development, private sector development, governance, economic integration and cooperation, and environmental and gender issues.

In spite of the different mandates of these institutions, there are similarities in the broad types of contribution that they make to capacity building and in the mechanisms through which these contributions are made. The emphasis that these institutions have placed on coordination and the complementarity of their efforts strengthens the effectiveness of their contributions to capacity building.

First, international financial institutions provide financing—usually loans but also, in some cases, a significant grant element—to help the country's authorities attain objectives agreed upon in consultation with the former. The financing may support specific investments—in, for example, infrastructure and capacity building—or it may be part of a sector-specific or economy-wide adjustment program.

Second, international financial institutions support national authorities' efforts to design policies to achieve specific economic and social targets. This usually entails extensive consultations with both officials and private sector representatives, and between the headquarters and resident staffs of the international financial institutions to identify the bottlenecks and most important issues that the country faces. These are generally followed by preparations of a written report summarizing the findings and proposed policy recommendations of the international financial institutions' staffs. The policy package agreed upon may include funds or other assistance specifically targeted on enhancing capacity in social or economic areas.

Third, international financial institutions encourage the development, dissemination, and adoption of internationally accepted standards and codes of good practice in economic, financial, and business activities. The adoption and implementation of such standards and codes contribute to the development and improved functioning of domestic institutions, which, in turn, can help countries better integrate themselves into the world economy and benefit from growing globalization.

Fourth, international financial institutions provide training on a
multitude of topics. This training can take place within the framework of a specific project that a country implements with the support of an international financial institution—for example, projects calling for reform of public enterprises, the civil service, tax administration, or the financial sector. It can also be provided in courses, workshops, and seminars offered by the raining institutions of international financial institutions.

And, fifth, international financial institutions collaborate—in Africa and other regions—with regional training and research institutions (including the African Capacity Building Foundation and the African Economic Research Consortium) to facilitate knowledge transfer; train economic analysis, officials, and “trainers”, and support economic research.

While international financial institutions can play a significant role, it is important to underscore that they should play only a supporting role and that the countries themselves should, and do, have a primary responsibility for building their capacities.

**IMF support for capacity building**

The IMF has played an important role in capacity building through its interactions with a broad spectrum of government agencies in African countries. These interactions go far beyond the IMF’s lending and debt-reduction efforts. In fact, the IMF contributes to building expertise and economic policymaking capacity as an integral part of all its major activities. There are basically four channels through which the IMF contributes.

First, economic training offered by the IMF Institute (and other departments of the IMF) is a critical channel of involvement. Courses on macroeconomic management and on specialized topics target different levels of civil servants and different types of agencies. In the past 20 years, more than 3,000 officials from African central banks; ministries of finance, economy, and planning; and other government agencies have participated in IMF Institute training. (See below.)

Second, technical assistance provided by the IMF is another important channel. In 1999, the time spent by the IMF’s staff on technical assistance was five times higher than in 1991. Through its technical assistance program, the IMF seeks to meet the wide variety of needs expressed by its member countries. For example, the Fiscal Affairs Department has provided assistance in revenue mobilization and tax and customs administration; public expenditure management, including budget preparation and execution; central bank organization and management; central bank accounting; clearing and settlement systems for payments; and monetary operations and money market development. The Statistics Department has been extending technical assistance to members working to meet internationally accepted standards of statistical reporting, notably in monetary, balance of payments, real sector, and government finance statistics.

Third, the IMF’s consultations conducted periodically with each member country in accordance with Article IV of its Articles of Agreement, or charter, provide a less explicit, albeit equally important, channel. During these consultations, the IMF and the national authorities—including technical analysts, senior staff members in key ministries and the central bank, and higher-level government policymakers—engage in a far-reaching dialogue involving a detailed analysis of the economy, a review of policy options, and the formulation of policy actions. Partly because these consultations require these officials to participate in a dialogue, they prompt different agencies, as well as units within agencies, to collaborate more closely, which helps to build the country’s capacity to analyze problems and design solutions. In addition, in recent years, the IMF has increasingly sought to encourage its members to achieve greater transparency and adopt and adhere to international standards. Its emphasis has been on enhanced transparency in monetary and fiscal practices, improved banking regulation and supervision, and better data dissemination.

Fourth, the dialogue surrounding the design of IMF-supported programs and the monitoring of their implementation is an additional channel. Even more than Article IV consultations, IMF-supported programs mobilize experienced analysts and policymakers from member countries and other international financial institutions. This common effort greatly helps to strengthen core units of economic management, especially in ministries of finance and central banks. The upgrading of expertise and knowledge in these units is cumulative and, over time, creates increased capacity in many aspects of policy management. IMF resident representatives also play a key role in helping member countries to implement their programs, contributing to capacity building.

**Role of IMF training**

Training enhances the economic policymaking capacity of countries by developing the skills of officials in formulating and implementing macroeconomic and financial policies. Furthermore, it complements technical assistance, because better-trained officials are able to benefit more from sector-oriented technical assistance. This complementarity is evidenced by significant and parallel increases in the demand for training and technical assistance. During the 1990s, the average number of participants from Africa in IMF Institute
courses—in Washington and overseas—tripled, averaging about 300 a year, compared with 100 a year during the 1980s.

What is particularly important is that the strong demand for training has originated with the African authorities. This signals a deep shift regarding the perceived need for capacity building and suggests the authorities’ increased sense of ownership of reforms. A survey, conducted by an external consulting firm, of national authorities on the IMF’s training provided in Africa indicates that it has improved the analytical skills and expertise of agencies’ staffs in a wide range of areas, including macroeconomic analysis and financial programming, budget preparation, and the implementation and development of treasury systems. In addition, many African officials who participated in IMF training have gone on to higher positions in their respective agencies. This training has clearly strengthened their countries’ capacities in economic management. Policymakers get more useful advice and are themselves better trained than their predecessors.

Although the amount of training the IMF provides to African officials has increased considerably, more needs to be done to meet the growing demand for training in Africa. Demand is particularly high for technical courses in macroeconomic management and policies, macroeconomic statistics, and public finance. According to estimates obtained from the above-mentioned survey, over the next five years there will be about 8,000 potential candidates from Africa for IMF training courses, or more than five times the number of African participants trained during 1995–99.

**The Joint Africa Institute**

The Joint Africa Institute (JAI) was established in Abidjan, Côte D’Ivoire, in November 1999 as a collaborative effort between the African Development Bank, the IMF, and the World Bank. This partnership has provided African nationals with more opportunities to obtain training closer to their home countries. Moreover, by establishing this training center in Africa, the three institutions have been better able to integrate into the training program issues relevant to the region and to make fuller use of the skills of African trainers. The JAI provides high-quality, policy-related training to a wide spectrum of participants, including government and central bank officials and representatives of civil society of African countries. With about 400 participants a year attending its courses and seminars, the JAI should have a significant impact on capacity building in Africa.

To meet part of this strong demand, the IMF Institute has been expanding its coverage of topics and issues, fostering its regional partnerships, and diversifying training. The following specific steps have been taken:

- Offering yearly high-level seminars on policy issues particularly relevant to Africa, such as private sector development, trade liberalization and regional integration, the liberalization of capital movements, and structural adjustment in sub-Saharan Africa;
- Intensifying long-standing collaboration with the training centers of the Central Bank of West African States and the Bank of Central African States;
- Expanding partnerships in Africa to include Anglophone countries through collaboration in offering courses with the Macroeconomic and Financial Management Institute in Harare, Zimbabwe, and the West African Institute for Financial and Economic Management in Lagos, Nigeria;
- Introducing distance learning to meet the training needs of officials who are unable to attend long courses abroad; and
- Establishing, together with the African Development Bank and the World Bank, the Joint Africa Institute in Abidjan, Côte D’Ivoire (see box).

**Conclusion**

The thinking on economic development and capacity building continues to evolve. We have come a long way since the days when development was thought to be only about rapid capital accumulation. We now know that effective market-supporting institutions an institutions of economic management are indispensable to the development process, and the international financial institutions need to build on this premise in formulating their approaches to capacity building. The IMF makes a distinctive contribution—in many facets of its operations, including training—to capacity building.

Saleh M. Nsouli, “Capacity building in Africa: the role of international financial institutions.” *Finance and Development*, December 2000, International Monetary Fund. This article is adapted from the author’s opening remarks at the inauguration of the Joint Africa Institute in Abidjan, Côte D’Ivoire, in November 1999. For the full list of references, please consult the original article.