Draft Technical Report

Establishing the Macroeconomic Convergence Monitoring, Surveillance, and Performance Unit in the SADC Region

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Nathan–MSI Group

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Executive Summary

In July 2001 SADC's Committee of Ministers of Finance and Investment (CMFI) approved a Memorandum of Understanding (MOU) on Macroeconomic Convergence, calling on the Committee of Senior Treasury Officials to make use of or establish a structure to implement the MOU. This report, based on consultations at SADC headquarters and in six member states in March–April 2003, reviews institutional options for that structure, referred to here as the Monitoring, Surveillance, and Performance Unit (MSPU), and presents recommendations for its methods of operation.

The MSPU's central function is to conduct the staff work allowing the CMFI to execute the task it has set for itself in the MOU, notably to "establish a collective surveillance procedure to monitor macroeconomic convergence in the SADC Region, determine specific targets, assess progress relative to these targets and provide advice on corrective actions." In this connection the MOU requires member states to present to the CMFI an annual convergence program including a review of recent economic developments, progress relative to previous targets, medium-term objectives for agreed convergence indicators, and specific targets for the indicators over a 3-year period.

Macroeconomic convergence is to be measured and monitored by four indicators, namely a member state's inflation rate, budget deficit/GDP, public and publicly guaranteed debt/GDP, and the balance and structure of the current account. An early task of the MSPU will be to recommend to the CMFI target values for these indicators. We refer to another consultant's March 2003 paper that proposes criteria for determining the target values. Until the CMFI has approved common targets, and member states have formally submitted convergence programs, the MSPU's monitoring task will be one of analyzing and comparing targets and performance of individual member states with respect to the four indicators.

In order to record up-to-date performance of SADC economies, apart from receiving data directly from member states, the MSPU will be able to tap several online databases. We mention three: (1) up to 250 indicators for each country, collected by the secretariat of SADC's Committee of Central Bank Governors (CCBG); (2) 32 indicators produced semiannually by the International Monetary Fund (IMF)'s African Department; and (3) the World Bank's *World*

Development Indicators, providing more than 550 indicators with a somewhat greater lag than the first two sources. The World Bank is also providing technical assistance to the statistics units of SADC and six member states.

A significant facet of the MSPU's work program is the gathering of information on member states' targets and policies for enhanced macroeconomic stability. Any country that has requested IMF financial assistance and accepted the IMF's performance conditions for disbursement of the funds has by definition set targets and adopted policies for achieving macroeconomic stability; in other words it is actually implementing a convergence program. Five SADC member states—Democratic Republic of Congo, Lesotho, Malawi, Mozambique, and Tanzania—are currently implementing IMF programs, another (Zambia) recently concluded a program without achieving all targets, and two others (Angola and Zimbabwe) have requested the fund's assistance in the recent past but has not been able to meet its conditions.

The other six member states, like all IMF members, receive annual Article IV consultation missions and engage in dialogue with the fund about their economic situations and policies for improving macroeconomic stability. The missions' reports represent convergence programs recommended by the fund. No contractual agreements with the fund obligate these countries to implement the programs, but in most cases the authorities have a greed to a greater or lesser extent with the recommendations. In some cases, statements by the authorities appended to the mission reports constitute an implicit convergence program.

We recommend that the MSPU begin its work on prospects for convergence by drawing maximum information from IMF reports available to it. Currently Article IV reports dating from mid-2001 or later are publicly available, in hard copy and on the Web, for 10 SADC countries, and recent country policy statements in the form of Letters of Intent/Memoranda of Economic and Financial Policies are available for 8 countries. The MSPU may be able to obtain documents directly from some member states that have not authorized the IMF to publish such materials.

Article IV reports give "medium-term scenarios," allowing projection and comparison of SADC's four convergence indicators over a period of up to 5 years. By way of illustration, we present graphs of three of these indicators; the fourth is omitted because the reports do not cover the present value of public debt, a more significant measure of debt burden than nominal debt outstanding.

Once SADC's macroeconomic convergence program is under way and member states have submitted their individual programs to the CMFI, the question will arise of the relationship between MSPU and IMF monitoring. Officials interviewed by Nathan Associates in six countries expressed concern about the burden of dealing with a plethora of international missions with overlapping interests. This puts a premium on coordination between IMF and

MSPU missions and on making it as simple as possible for the authorities to "repackage" their submissions to the fund in a form acceptable to SADC.

We find it useful to conceive of a continuum of options for the organization of the MSPU. The aforementioned consultant report outlines a fairly elaborate structure, with a president, deputy president, administration, and four functional divisions, that we place on one end of the continuum. Our preference, at least in the foreseeable future, is a structure close to the opposite end, consisting of one senior and one junior economist.

The team's location in the SADC Secretariat's organizational structure raises several questions. Some interviewees thought that placing the MSPU outside the current structure of four directorates would improve its stature and credibility relative to the CMFI; others preferred having it report to the secretariat's management through the Trade, Industry, Finance and Investment (TIFI) Directorate. We view this issue as related to the question of whether a separate unit is established, inside or outside TIFI, to monitor the SADC trade protocol.

In some interviews the question arose whether the MSPU's reports and recommendations to the CMFI should be filtered through a panel of Eminent Persons along the lines of the New Partnership for Africa's (NEPAD) African Peer Review Mechanism (APRM). The idea here would be to establish panels of respected economists and business people who would review MSPU reports and prepare commentaries and recommendations accompanying their submission to the CMFI. Some interviewees considered this desirable to improve the credibility of the reports; others feared that the cost of mobilizing the panels would outweigh the benefit. In any case it was agreed that the first priority for MSPU reports to the CMFI was to portray current trends according to existing data sources.

Nathan Associates was asked to investigate staff requirements for the MSPU's national counterpart units, that is, agencies that would prepare and implement their countries' SADC convergence programs. The general opinion expressed in country interviews was that this topic did not constitute a distinct portfolio with full-time staff; rather, the SADC dossier would be added to the responsibilities of staff currently interacting with the IMF. Interviewees welcomed the prospect of recruiting additional professional staff but did not expect that budgeters would consider the added task of SADC convergence as justification by itself.

In the same vein, offerings of a variety of in-service training courses, in Africa and abroad, are listed in this report that augment the capacity of staff involved in macroeconomic programming. Many personnel at counterpart agencies already participate in these courses, which are not targeted specifically at SADC issues.

Finally, the report examines the convergence model established by the West African Economic and Monetary Union (WAEMU), which of all exercises in regional integration is clearly the most relevant to SADC. To be sure, WAEMU's convergence is much further along than SADC's, first and foremost because its eight member countries have long shared a common central bank, and second, because the structures of the respective member economies exhibit much less divergence than do SADC's.

Nonetheless, useful lessons for the structure and operational methods of the MSPU may be learned from the experience of WAEMU's Commission, which monitors the convergence of member countries toward quantitative targets for four primary and four secondary criteria, and reports on them to WAEMU's Conference of Heads of State and Government and its Council of (Finance) Ministers. The eight criteria include all four of SADC's convergence criteria.

Extracts from two WAEMU documents cited in our report and reproduced in Appendixes B and C, show how the commission reports on the performance of member economies according to the eight criteria and projects their fulfillment or otherwise by a target date. (In effect, none of the criteria was met by the December 2002 target date, which has now been postponed by 3 years.) Evidently WAEMU's Heads of State and Government and ministers of finance accept penetrating analysis of their economic policies by the commission staff and allow the staff the liberty of making recommendations for improvement.

Our report concludes by suggesting, as a goal, that SADC's MSPU acquire sufficient technical capability and credibility to provide insights to the CMFI (through SADC's Executive Secretary) analogous to the perceptive analysis of member economies that WAEMU's Commission submits to that region's political leadership.

1. Introduction

This report was prepared under the General Business, Trade, and Investment (GBTI) component of the U.S. Agency for International Development's (USAID) Support for Economic Growth and Institutional Reform (SEGIR) project. The scope of work called for "technical assistance to the SADC Trade, Industry, Finance and Investment (TIFI) Directorate to develop and highlight the functions of a Monitoring, Surveillance, and Performance Unit (MSPU) within the context of guidelines contained in the Macroeconomic Convergence MOU [Memorandum of Understanding]."

The consultant began field work between March 17 and 21, 2003, in Washington, where he interviewed officials at the International Monetary Fund, World Bank, and USAID.

Between March 22 and April 8, the consultant interviewed officials of the Southern Africa Development Community (SADC) and central banks and finance ministries of Botswana, South Africa, Mozambique, Namibia, Swaziland, and Malawi. Persons interviewed during the field work are listed in Appendix A.

2. Tasks for the Monitoring, Surveillance, and Performance Unit

The Memorandum of Understanding (MOU) on Macroeconomic Convergence, approved by the Committee of Ministers for Finance and Investment (CMFI) in July 2001, sets forth the tasks of SADC's Monitoring, Surveillance and Performance Unit (MSPU). This chapter outlines the tasks described in the MOU.

According to the MOU,

> [t]he Committee of Ministers for Finance and Investment will establish a collective surveillance procedure to monitor macroeconomic convergence in the SADC Region, determine specific targets, assess progress relative to these targets and provide advice on corrective actions.

Next, the MOU describes the content of an annual convergence program that each member state must present to the CMFI.

> The program will include:
>
> - A review of recent economic developments in the Member State;
> - Progress relative to previous targets;
> - Medium-term objectives for the agreed convergence indicators; and
> - Specific targets for these indicators over a three-year period.

Finally, the MOU provides that the CMFI

> will evaluate and monitor the annual convergence programs submitted by Member States, determine whether they satisfy the common guidelines, advise on possible changes, compare outcomes with previous programs and make recommendations they may deem appropriate in accordance with the SADC Treaty.

This particular provision of the MOU appears to define the tasks facing the MSPU—namely, the central function of the MSPU is to perform the work that allows the CMFI to accomplish the tasks it has set for itself. The result should be submission of an annual report to the committee, according to the content outlined in the MOU. Defining the structure and staffing of the unit thus becomes a matter of determining the type of organization and staff required to prepare such a report. To this end we consider first the corresponding requirements for data and analysis and the availability of relevant data.

3. Requirements for Data and Analysis

According to the MOU, the requirements for data and analysis are as follows:

- Data
  - — Agreed convergence criteria (or "guidelines") approved by the CMFI
  - — Annual convergence programs submitted by member states
  - — Macroeconomic performance and recent economic developments in member states ("outcomes")
- Analysis
  - — Comparison of member state convergence programs with the criteria;
  - — Determination of feasible changes in convergence programs that would accelerate fulfillment of criteria;
  - — Comparison of performance and recent economic developments with convergence programs; and
  - — Recommendations to ministers on actions to be taken by the CMFI to accelerate achievement of the objectives in the MOU.

Convergence Criteria

Currently neither agreed criteria for convergence nor explicit SADC-oriented convergence programs exist.

According to the MOU,

> macroeconomic convergence in SADC will be measured and monitored by the following indicators:
>
> - The rate of inflation in each Member State;

- The ratio of the budget deficit to GDP;
- The ratio of public and publicly guaranteed debt to GDP; and
- The balance and structure of the current account.

Hereinafter we will refer to these four parameters as the "MOU indicators."

One of the first tasks of the MSPU should be to prepare, for presentation to the CMFI, a set of options for target values of the MOU indicators. The MSPU can use as a source an extensive analysis of alternative target values prepared by Professor Eric Schaling.[1] The unit can also draw from the values determined by the West African Economic and Monetary Union (WAEMU) for its convergence criteria (see Chapter 10).

Until the CMFI has determined a set of target indicators or, in the MOU's language, guidelines, the MSPU must set itself the more limited tasks of (1) analyzing each member state's targets and performance for those indicators and (2) comparing targets and performance among the member states.

Convergence Programs

Most governments in the world declare their adherence to policies designed to promote macroeconomic stability. Under Article IV of the International Monetary Fund's (IMF) Articles of Agreement, the fund sends missions—almost annually—to nearly all its member countries (including industrial nations) to review their economic policies in consultation with the national authorities. If the authorities agree with the missions, the fund releases, both in hard copy and online, staff reports on these consultations project key macroeconomic variables for several years.

As a rule—and this applies to all 10 SADC countries for which the latest Article IV staff reports are publicly available—these forecasts portray *de facto* convergence programs whereby parameters that are not consistent with macroeconomic stability are projected to move toward stability, on the assumption that the authorities follow prudent policies recommended by the IMF.

COUNTRIES WITH POVERTY REDUCTION AND GROWTH FACILITIES

For countries receiving financial assistance from the IMF, policies, along with values of the most policy-sensitive parameters over the next 12 to 18 months, are prerequisites for periodic

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[1] Schaling, E. A *Macroeconomic Convergence Program for SADC.* Rand Afrikaans University and Genesis Group, Johannesburg, March 28, 2003.

disbursements from the fund's loans. As of March 31, 2003, IMF Poverty Reduction and Growth Facilities (PRGF) were in place in five SADC member states—Democratic Republic of Congo, Lesotho, Malawi, Mozambique, and Tanzania. A PRGF for a sixth member state, Zambia, had expired 3 days earlier (March 28).[2]

The so-called "benchmark" values of a country's policy-sensitive parameters are spelled out in a written agreement with the fund and can thus be regarded as the initial stage of that country's convergence program. No legal agreement commits the country to the IMF staff projections for subsequent years made in the Article IV staff report. However, the projections are decided in consultation with the authorities and, barring policy statements to the contrary (which to our knowledge do not exist in any of the six aforementioned countries), can be regarded as the country's medium-term convergence program.

COUNTRIES WITHOUT POVERTY REDUCTION AND GROWTH FACILITIES

As of March 31, 2003, six SADC countries—Botswana, Mauritius, Namibia, Seychelles, South Africa and Swaziland—had no financial arrangement in effect with the fund, and no online documents by the IMF about the countries mention any outstanding or expected applications for assistance. Hence, the countries are in no way committed to projections made in their Article IV staff reports.

Nevertheless, to the extent the projections reflect the authorities' own expectations and policy intentions, they can be regarded as implicit convergence programs (see Chapter 4). Before the MSPU could describe such figures and the underlying policies publicly as a member state's convergence program, however, it would need to seek the authorities' reaction to them.

ANGOLA AND ZIMBABWE

Angola and Zimbabwe represent special cases for the IMF. Angola has periodically requested assistance from the fund. In 2000–2001 the Angolan government formulated, in consultation with fund staff, two consecutive programs to be monitored by the staff (SMPs, or staff-monitored programs), initially with no commitment of fund resources but intended to lay the basis for an eventual financial arrangement. A February 2002 Article IV Consultation Report describes the 2001 program as having lapsed and indicates that measures discussed during the 2002 mission did not lead to an SMP. No convergence program, implicit or explicit, is available publicly.

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[2] The PRGF expired with an undisbursed balance of SDR 41.38 million, equal to 15 percent of the approved amount of SDR 278.90 million (see March 31 and April 21 issues of *IMF Survey*). Expiration without full disbursement implies that the borrower failed to comply with one or more conditions of the facility.

Zimbabwe has had several IMF programs over the years, the latest involving an August 1999 Stand-By Arrangement (SBA), of which only 17.5 percent was drawn. As of March 31, 2003, Zimbabwe was overdue on payments of SDR 159 million and had been declared ineligible for financial or technical assistance from the fund. A November 2001 Article IV staff report presents a medium-term scenario assuming that stability-oriented policies will be instituted.

CONCLUSION

Until the SADC member states prepare and submit SADC-oriented convergence programs, the MSPU must restrict itself to inferring the existence of such programs, either from the aforementioned IMF documents or from information submitted by member state authorities in response to MSPU's queries.

Data on Macroeconomic Performance and Recent Economic Developments in Member States

The ultimate goal of the MSPU is to have close communication with counterpart agencies in the SADC member states, receiving directly from them timely data on economic performance and policies designed to promote convergence. However, realistically, it will be a number of years before such a relationship can be established with most member states.

In the meantime, the MSPU will want to make maximum use of data available from secondary sources. Often the most effective way to obtain useful data from national authorities will be to submit such information to them, ask them to review it immediately, and wait for their comments and corrections. The purpose of this section is to describe key secondary sources and indicate what kinds of data are currently available from them. Three existing sources deserve mention.

1. An electronic database downloadable from the website of SADC's Committee of Central Bank Governors (CCBG), www.SADCbankers.org. As the CCBG's secretariat, the South African Reserve Bank's Research Department collates up to 250 series of data supplied by the central banks of member states. As of May 2003, the database covers the period 1990–2001. In early April the secretariat publishes a report titled "Recent Economic Developments and Statistics for SADC Countries." The report provides data series for the latest 6 years, through the year concluded 3 months previously, and an average of three pages of text on economic developments in each country.

2. An electronic database (Excel spreadsheet) covering 10-year series of 32 variables for 52 African countries, prepared by the IMF's African Department semiannually (September and March). The March version gives preliminary data for the year just ended; the September version gives revised data.

3. The World Bank's online database *World Development Indicators (WDI)* (http://www.worldbank.org/data/wdi2003/index.htm), which covers more than 550 parameters for member countries. Although this database is more comprehensive than the preceding two, it lags them by 14 months (for instance, data for 2002 will be available around May 2004).

The following subsections further discuss sources 1 and 2 and a new initiative by the World Bank known as 2nd Generation Live Database.

CCBG DATABASE AND ANNUAL REPORT

The report "Recent Economic Developments and Statistics for SADC Countries" contains four sections:

1. Graphs comparing four parameters (namely, GDP growth, inflation, budget outturn/GDP, and year-end bank rate) for the member states for 2002
2. Summaries of recent economic developments (RED; the 2003 edition lacks sections for Democratic Republic of Congo and Seychelles)
3. Tables of the abovementioned series
4. Thirty pages of definitions of table entries

The graphs show only two of the four MOU indicators. The external current account balance as a ratio to GDP could easily be added because it is included in the series. The graphs also show central government foreign debt, although external government guaranteed debt is not indicated separately from domestic guaranteed debt. Nor is there an entry for the present value of external debt.

The RED summaries provide factual descriptions of trends observed in the past year or so and give few indications of future policy intent or projected evolution of key parameters.

The data series are grouped under the following headings:

- Population and employment
- National accounts
- Price indices
- Balance of payments and exchange rates
- External assets and liabilities
- Government finances
- Central government debt
- Interest rates

- Money and banking, encompassing central bank accounts, deposit money banks, monetary survey, other depository corporations, and broad money supply

Numbers of gaps in the series vary widely among countries; a majority of SADC countries have no entries for total external debt (central government plus other), accounts of other depository corporations, and broad money supply.

In summary, the CCBG database will provide the MSPU with a rich source of data on historical and recent trends in the SADC economies. When figures differ from those in the IMF database, the MSPU will want to reconcile them in consultation with its correspondents in member states, with the CCBG Secretariat, and potentially with the IMF as well.

IMF'S AFRICAN DEPARTMENT DATABASE

The IMF has indicated its willingness to regularly provide the information in the African Department's database to the SADC Secretariat. Using the data in the September 2002 version, we created a simple Excel macro that groups the series for the 14 SADC countries and calculates averages for the region. From that spreadsheet we plotted five indicators of economic performance, as illustrated in Figures 1 to 5. The graphs in Figures 1 to 3 correspond to indicators in the CMFI MOU.

The graphs in Figures 4 and 5 were also calculated from data in the IMF tables and correspond to "second-order" convergence criteria used by WAEMU. However, instead of serving as potential additional convergence indicators for SADC, these indicators tend rather to emphasize the dichotomy between the two regions.

For its part, WAEMU seeks convergence at or above 17 percent for the ratio of tax revenue to GDP ratio and at or below 35 percent for the payroll-to-revenue ratio. In contrast, the much greater differences in economic structure among SADC Member States are indicated by the range of 5.5 to 48.6 percent for the former ratio (Figure 4) and 12.6 to 54.5 percent for the latter (Figure 5).

A fourth indicator from the MOU is the ratio of external public and publicly guaranteed debt to GDP. As Professor Schaling points out in his report, it makes sense to use the present value of future debt payments as the numerator of this ratio, because the economic burden varies with the composition of debt as between concessional and nonconcessional. The IMF database gives simply the face value of total public debt outstanding; Professor Schaling derived his present value series from the World Bank's *World Development Indicators*. As indicated earlier, WDI figures for a given year are available 14 months later than the IMF and CCBG data.

Figure 1
SADC: Average Annual Inflation, 1999–2001

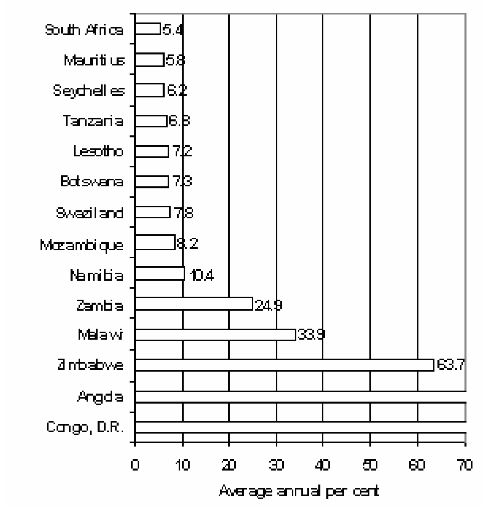


Figure 2
SADC: Average Primary Fiscal Balance, 1999–2001

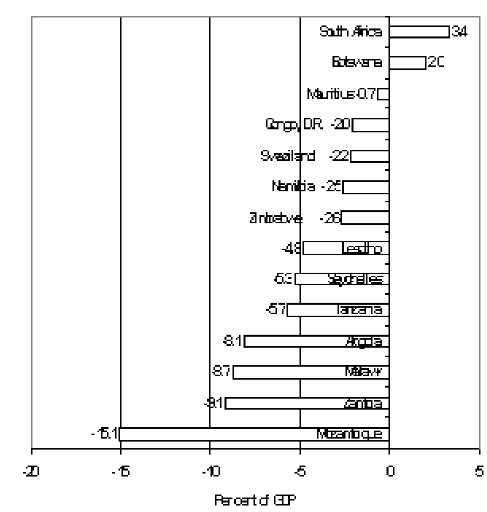


Figure 3
SADC: Average External Current Account Balance, 1999–2001

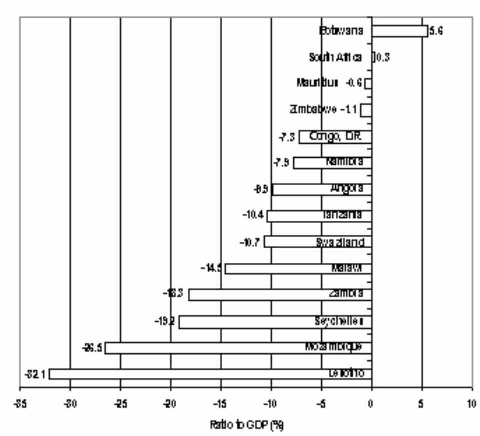


Figure 4
SADC: Average Ratio of Tax Revenue to GDP, 1999–2001

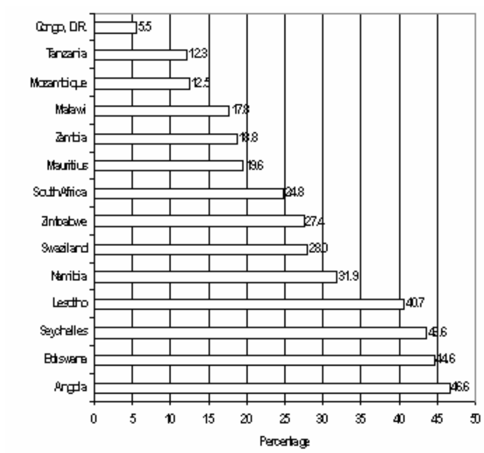
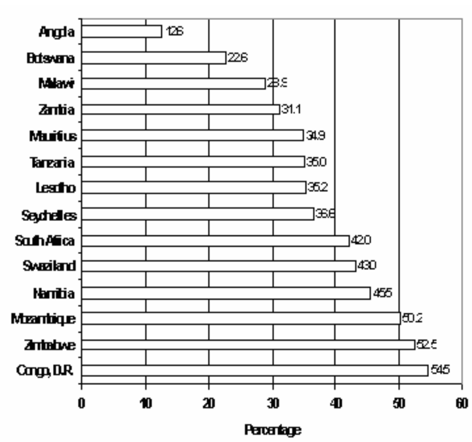


Figure 5
SADC: Ratio of Government Payroll to Tax Revenue



WORLD BANK'S SECOND GENERATION LIVE DATABASE

The Web-based 2nd Generation Live Database (2gLDB) is a World Bank initiative designed to help African national and regional statistics agencies improve their organization and dissemination of data. The database includes a central data warehouse, instant updates, open architecture, and other features that give participating agencies ready access to data. It is accompanied by technical assistance to support installation and help agencies customize their use of the system.

In 2002 the bank approved a $460,000 grant from its Institutional Development Fund for an activity, to be managed by the SADC Secretariat, called "Statistical Capacity Building for Poverty Reduction Strategies." The project is designed to strengthen the statistical capacity of the Secretariat and six Member States, namely Angola, Botswana, Lesotho, Mozambique, South Africa, and Zambia. Among other things, it will support installation of the 2gLDB in those agencies.[3]

It appears that the project will emphasize monitoring of poverty and the outcome of efforts to reduce it, which is somewhat peripheral to macroeconomic convergence in SADC. However, strengthening the participating statistical services will undoubtedly help member states provide more accurate and timely data to the MSPU.

POLICY ANALYSIS AND PERFORMANCE PROJECTIONS

The IMF website (www.imf.org) is a rich source of documents attributed to (1) member country authorities and (2) the IMF Executive Board and staff. In the first category, countries borrowing or seeking to borrow from the fund describe their macroeconomic policies and, in a limited number of cases, project policy-sensitive parameters. Documents attributed to the fund report on countries' situations, comment on policies, recommend actions to promote macroeconomic stability, and establish benchmarks for key parameters that will determine whether conditions of loans made by the fund have been met and, accordingly, countries qualify for disbursements, or new loans, or both.

For countries not borrowing or seeking to borrow, relevant documents are confined largely to staff reports on Article IV consultations and public information notices (PINs) describing the Executive Board's position in response to those reports. In some cases, a document also contains a response by a country authority or the fund's executive director representing the country.

[3] Source: Africa Live Database (www4.worldbank.org/afr/stats/ldb.cfm) and applications by SADC for assistance from the Institutional Development Fund (IDF) and Trust Fund for Statistical Capacity Building (TFSCB).

COUNTRY DOCUMENTS

Currently, documents attributed to member states generally fall in four categories:

1. Letter of Intent: describes the policies a country is implementing or commits itself to implement in the context of an IMF program.
2. Memorandum of Economic and Financial Policies (MEFP): Sometimes a document is called Letter of Intent and MEFP. Sometimes the Letter of Intent, normally signed by the finance minister, briefly introduces an MEFP that follows it.
3. Poverty Reduction Strategy Paper (PRSP): serves as a basis for the Poverty Reduction and Growth Facility (PRGF), which replaced the IMF's Enhanced Structural Adjustment Facility (ESAF) in September 1999. Many countries began preparing interim PRSPs; some now prepare full-blown PRSPs and are submitting PRSP progress reports. The main country pages on the IMF website (www.imf.org/external/np/prsp/prsp.asp#cp) provide only tables of contents of these documents, but clicking individual links on a specific country page provides access to the full documents.
4. Statement by the country authorities, or the relevant executive director on their behalf, commenting on the Article IV staff report, and/or PRGF review, and Executive Board discussion thereof.

IMF STATEMENTS

Relevant documents attributed to the IMF Executive Board and staff may also be grouped under four headings:

1. [Country name] [year] Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice (PIN) [Press Release] on the Executive Board discussion.
2. [Country name] Selected Issues and Statistical Appendix.
3. [Country name] Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility and for the First Annual Program--Staff Report; Staff Statement; and Public Information Notice [and/or Press Release or News Brief] on the Executive Board discussion.
4. [Country name] [n^{th}] Review under the Poverty Reduction and Growth Facility [often followed by "and Request for an Extension of the Arrangement and Waiver of Performance Criterion."] This review is often combined with an Article IV consultation.

Table 1 lists the latest documents in these categories that were available on the IMF website as of May 1, 2003. The table is presented to illustrate the nature and timeliness of the documentation available from that source, rather than the specific documents that the MSPU can tap when it begins operation. By that time, many, perhaps most, of the documents will have been updated.

Table 1
Latest Documents on IMF Web Site with Data for Projecting SADC Macroeconomic Convergence (as of May 1, 2003)

Member State	Staff Report	Public Information Notice on Executive Board Action	Preliminary Conclusions of IMF Mission	Letter of Intent or Memorandum of Economic and Financial Policies	Poverty Reduction and Growth Facility Review	Interim Poverty Reduction Strategy Paper	End Year of Projections
Angola			Feb. 19, 2002	Feb. 17, 2001			
Botswana	Nov. 5, 2002	Nov. 1, 2002					2007
Democratic Republic of Congo	July 30, 2001	Apr. 16, 2003	.	Apr. 13, 2002	Mar. 24, 2003	Mar. 31, 2002	2005
Lesotho	May 3, 2002	Mar. 21, 2002		Sept. 5, 2002	Oct. 4, 2002	Dec. 31, 2000	2007/08
Malawi	July 19, 2002	Aug. 16, 2002		Aug. 22, 2002			2005
Mauritius	Apr. 22, 2002	July 15, 2002					2007
Mozambique	July 9, 2002	July 9, 2002		June 3, 2002	July 9, 2002	Apr. 30, 2001	2005
Namibia	[Only available document is a PIN on the Executive Board's conclusion of Article IV consultation on Feb. 11, 2002]						
Seychelles	[Only available document is a PIN on the Executive Board's conclusion of Article IV consultation on Nov. 3, 2000]						
South Africa	June 6, 2002	July 19, 2002					2007
Swaziland	Nov. 13, 2002	Dec. 19, 2002					2003
Tanzania	Nov. 4, 2002	Nov. 18, 2002		Aug. 31, 2001	Nov. 4, 2002	Oct. 1, 2000	2003
Zambia		Dec. 6, 2001		Nov. 8, 2002		Mar. 31, 2002	
Zimbabwe	Nov. 29, 2001	June 19, 2002		July 16, 1999			2007

Table 1 shows the IMF Executive Board issuing statements on Article IV consultations for three countries—Namibia, Seychelles, and Zambia—for which the corresponding staff reports are not available on the website. Presumably this is because the country authorities did not give permission for public release of the reports. But it is quite possible that they would authorize release of the reports (or that they themselves would provide copies of the reports) to a SADC agency.

From the documents listed in the table, the MSPU can (1) draw information about member state policies to attain macroeconomic stability and (2) view near-term projections of key indicators. The largest volume of such information is available for the five countries where Poverty Reduction and Growth Facilities are in effect and the IMF has made available, through its website, staff reports on those economies. By definition, the authorities in those countries have committed themselves to stability-oriented policies spelled out in the reports, so their near-term convergence programs are clearly stated.

As stated earlier, Zambia had a PRGF program through March 2003; however, its Article IV staff reports and PRGF reviews are not given on the IMF website, presumably because the authorities did not give the IMF permission to release them. The website does include a Letter of Intent/MEFP dated November 8, 2002, and a PIN December 6, 2001, on the Executive Board's discussion of the 2001 Article IV staff report. From those sources (or updated versions thereof) the MSPU can derive much information about policies the Zambian authorities had indicated their intent to follow and were actually following at the dates in question.

The staff reports and Executive Board statements for PRGF countries list IMF Program Benchmarks for the coming 18 months or so, and typically project about 40 parameters over the following three years. The parameters include (or provide data facilitating calculation of) the four convergence criteria in the CMFI MOU. In some but not all cases the debt parameter is the net present value of total external debt outstanding, not just the face value.

The benchmarks reflect commitments undertaken by the country authorities, to be monitored by the IMF, for the budget deficit, revenue collection, central bank credit, money supply, foreign reserves, nonconcessional borrowing, short-term external public debt, and external payments arrears. A separate set of structural performance criteria and benchmarks typically include commitments on legislation to be submitted to parliament, such as reforms in tax administration (e.g., creation and operation of a tax unit focusing on large taxpayers), as well as strengthened control of public expenditure and supervision of commercial banks.

Even without obtaining further information from the national authorities, for PRGF countries the MSPU could thus prepare a report on trends of the four convergence criteria, projected forward 3 years from the dates of the latest available reports, covering also convergence of each economy towards any given set of targets, and on policy commitments designed to facilitate convergence.

For non-PRGF countries, the MSPU will have at least a summary of the IMF's perception of where the economy is headed and what policies the government is following, as well as the IMF's opinion of the policies and recommendations on how the authorities should act differently. If the authorities submit a statement to be appended to the Article IV staff report, the MSPU will see their reactions to the report.

The most thorough statement of this type currently available is an eight-page document from the executive director for South Africa, dated July 1, 2002, reacting to the Article IV staff report of June 6, 2002. The executive director thanks the IMF staff for its reports (including some not released publicly) and says, "My authorities are in broad agreement with the staff's analysis."

The thrust of the statement is to demonstrate how the South African authorities are pursuing, with considerable success, the stability-oriented policies recommended by the IMF staff. In effect, the MSPU could take this document as a point of departure for South Africa's SADC convergence program, and ask its South African counterparts what additional points should be included in the program.

PERFORMANCE PROJECTIONS

As noted previously, Article IV reports project key macroeconomic parameters several years ahead. The reports describe these as "medium-term scenarios." The table indicates the end years for such scenarios for 10 SADC countries for which Article IV staff reports are available on the Web. In two cases (Swaziland and Tanzania) the scenarios go only one full year (through 2003) beyond that in which the report is issued (2002). For the other eight countries the projections range from 2005 to 2007 (in Lesotho's case, fiscal year 2007–2008).

Figures 6 to 8 compare Article IV report projections, for the 10 countries, of three of the four MOU indicators, namely, inflation and the fiscal and external current account balances. As already noted, the projections foresee convergence toward parameters consistent with macroeconomic stability, specifically,

1. The inflation projection (Figure 6) shows the countries (including Malawi, Zimbabwe, and Democratic Republic of Congo, whose initial rates are "off the chart") converging on an average annual inflation rate below 6 percent.
2. The projection of the fiscal balance (including external grants) (Figure 7) shows the countries converging on budget deficits of no greater than –4 percent, in some cases even surpluses.
3. The external current account projection (likewise including grants) (Figure 8) shows convergence on deficits of no greater than –6 percent, in some cases even surpluses.

Figure 6
SADC: IMF's Projections of Average Annual Increase in Consumer Price Index

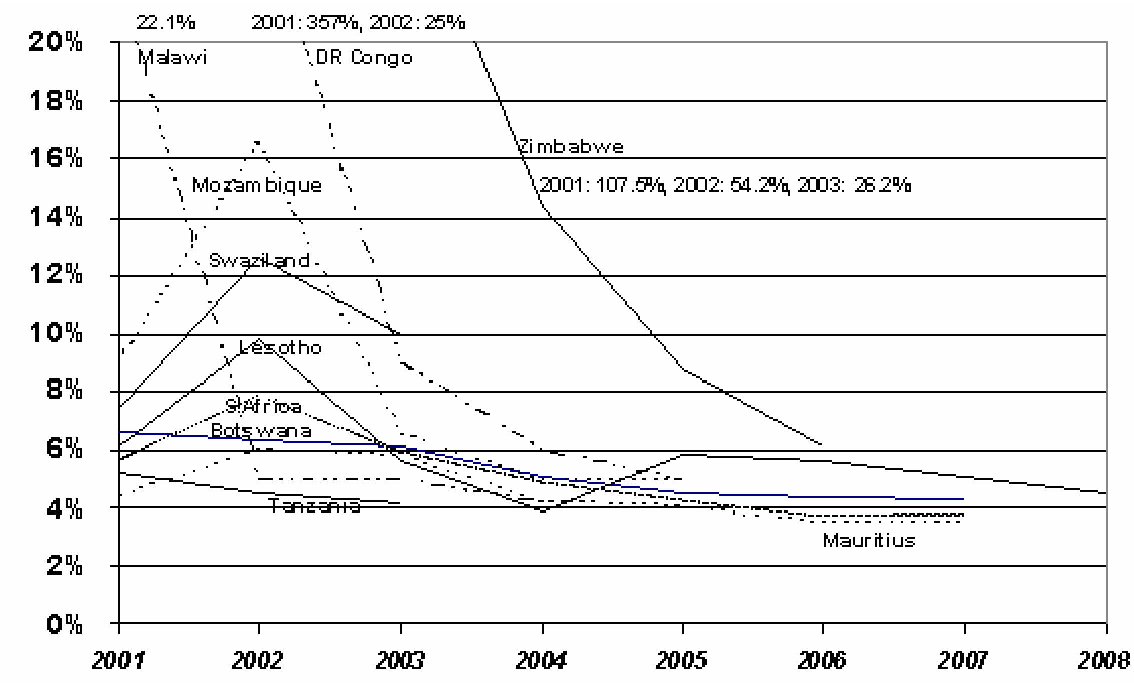


Figure 7
SADC: IMF's Projections of Overall Fiscal Balance (Including Grants)/ GDP

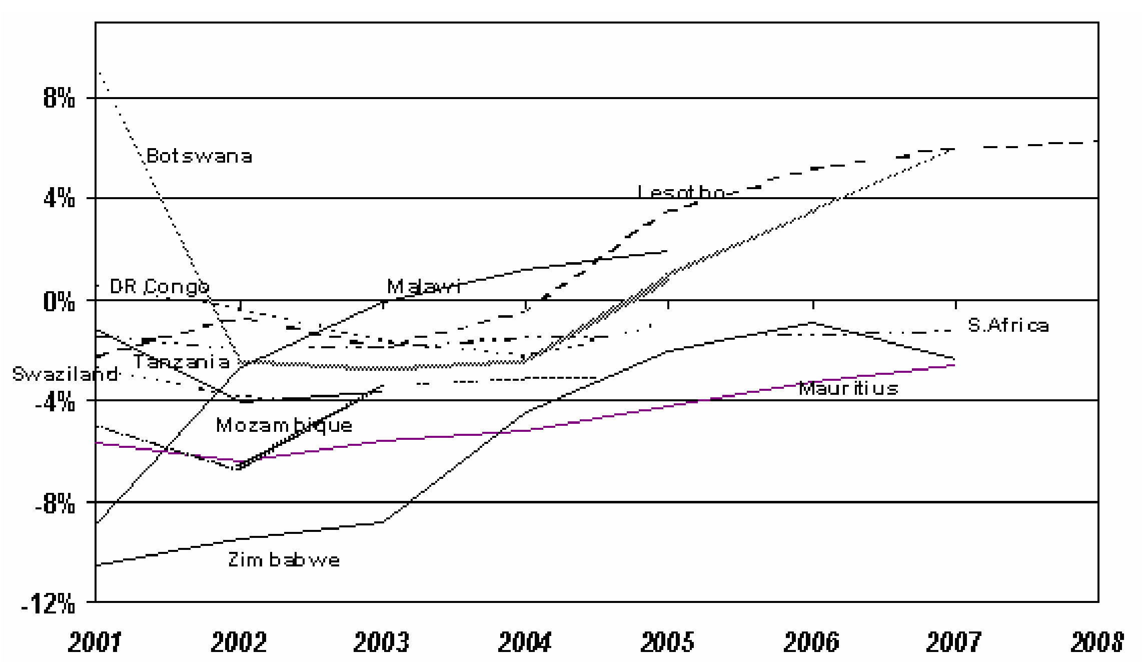
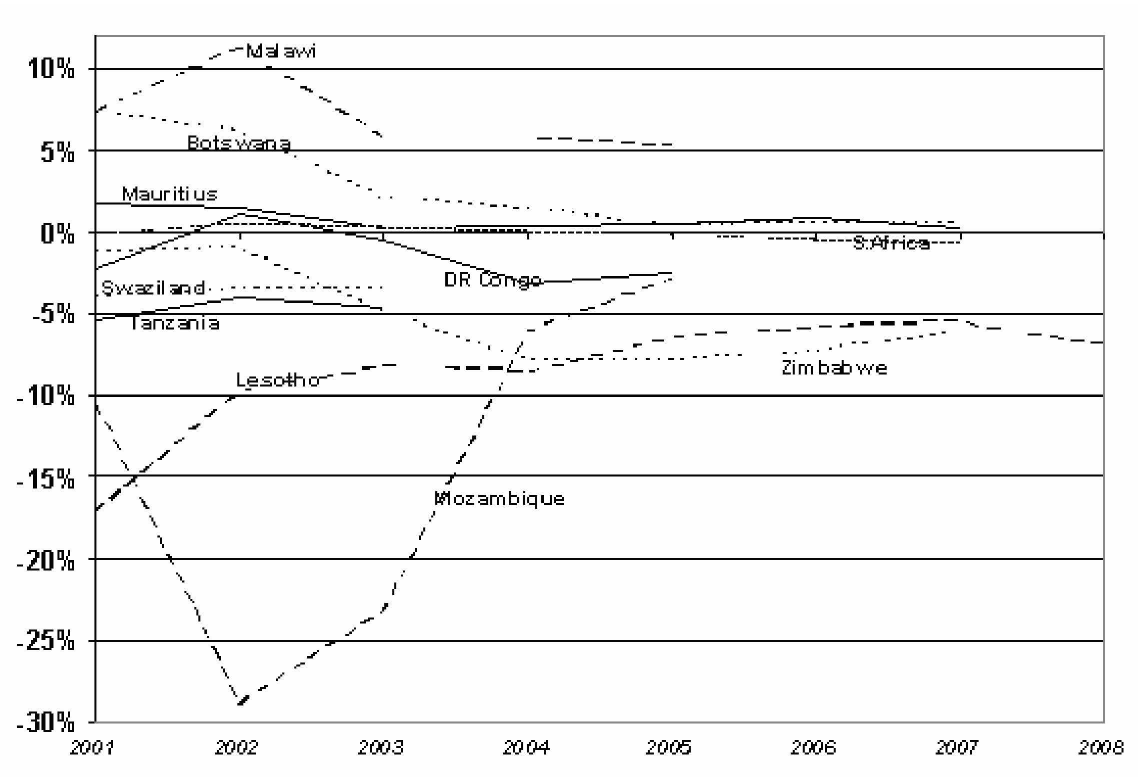


Figure 8
SADC: IMF's Projections of External Current Account (Including Grants)/GDP



4. Relationship between SADC Convergence Programs and the IMF

For Member States currently receiving financial assistance from the IMF, or having submitted requests for such assistance, two questions arise: how should they meet their obligation under the SADC MOU to formulate a SADC macroeconomic convergence program? How should the program be monitored? For the foreseeable future, SADC will not have financial resources to assist Member States in fulfilling their convergence programs. Accordingly, a current or prospective IMF program will be the operative set of policies, benchmarks, and other targets for countries having such programs.

Repackaging an IMF program to fit the MSPU's format for a SADC convergence program should not require substantial additional effort—in any case, the MSPU should not make it a complicated affair. This also applies to periodic statements that the MSPU will request from Member States on program implementation.

Ultimately the MSPU should be equipped to send periodic surveillance missions to monitor Member States' convergence programs. In the near future it is unlikely to use resources to do this.

Some interviewees expressed concern that a plethora of surveillance missions from the Bretton Woods institutions, the African Development Bank, various United Nations agencies, and bilateral donors interfere with the ability of understaffed government agencies to carry out their assigned tasks, including implementation of loan conditions and adequate preparation for forthcoming missions. These interviewees expressed hope that compliance with eventual MSPU missions to monitor SADC convergence programs would constitute a minimal net addition to the present work burden.

Minimizing the workload raises the issue of coordination between IMF's and MSPU's monitoring functions. According to IMF officials interviewed for this assignment, the fund strongly favors regional integration initiatives such as SADC. The greater the influence exercised at the regional level in favor of stability-oriented national policies, the lesser the financial and managerial burden on the fund. The fund has provided and is continuing to provide technical assistance to SADC toward the development of the MSPU.

One way in which the fund assists regional integration is to send missions to regional secretariats or commissions and prepare reports that, according to one such document, "provide a regional dimension to the Executive Board's discussions of Article IV consultations with member countries."[4] In March 2003 the IMF issued a report on such a mission to the West African Economic and Monetary Union, which formed a basis for an Executive Board meeting on WAEMU regional issues. The report described an IMF staff proposal "to elevate the regional discussions to a formal regional surveillance of WAEMU-wide issues as part of the Article IV consultation process with member countries, provided that it does not require additional obligations for them, and that the WAEMU Council of Ministers agrees." It was anticipated that the council would readily agree.

We inquired whether the IMF might send a similar mission to the SADC Secretariat in the foreseeable future and were informed that this was unlikely until SADC opted for economic and monetary union, as WAEMU has done. Conversely, in 2002 the fund sent a less formal mission on macroeconomic surveillance to the secretariats for SADC and the Common Market for Eastern and Southern Africa (COMESA) in preparation for a meeting of the Regional Integration Forum (RIFF), which discussed macroeconomic developments and policies in the respective regions.

Once Member States have submitted their convergence programs, consultations with the IMF will assist the MSPU in evaluating the programs and preparing reports for the CMFI. As the MSPU gains experience, the consultations will also inform the IMF side.

The possibility also arises of synchronizing MSPU missions to member states with IMF Article IV consultations or PRGF reviews. If invited by authorities of the country, the MSPU could provide technical assistance in helping to gather information for IMF missions and participating in negotiations with them over the terms of PRGF programs. The WAEMU Commission provides this service to its member states (see Chapter 10), and we understand that the fund has found the commission's intervention to be useful.

Such a role would simultaneously provide the MSPU with data required for its own review. It would also economize on national authorities' time and effort in providing data and answering queries.

[4] IMF Country Report No. 03/70, March 2003, *West African Economic and Monetary Union: Recent Economic Developments and Regional Policy Issues; and Public Information Notice on the Executive Board Discussion,* p. 6.

5. Institutional Options for the MSPU

The macroeconomic convergence MOU assigns responsibility for its implementation to SADC's Committee of Senior Treasury Officials, which is authorized to "make use of, or recommend to the Committee of Ministers for Finance and Investment the establishment of, any structure that may be necessary to facilitate the implementation of this MOU."[5] In this chapter we examine options for this structure in both the short and long terms.

Short Term

We were fortunate to be able to build on the previously cited report by Professor Schaling, prepared under contract for the same project as this report. Professor Schaling proposes targets for four indicators of macroeconomic stability by which finance ministers of the 14 SADC states agreed, at a meeting in Pretoria in July 2001, to measure macroeconomic convergence in SADC.

Professor Schaling's report "recommend[s] a convergence monitoring process and surveillance procedures."[6] Exhibit 1 quotes Professor Schaling's proposed organization of what he called the Stability Surveillance Unit (SSU).[7]

As shown in Professor Schaling's Figure 9, the management of his SSU consists of a president, deputy president, and heads of four functional divisions. It also has an administrative section responsible for operations, legal issues, finance, and information technology. The existence of heads of divisions implies that some or all of the divisions would have additional staff reporting to the head.

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[5] *Op. cit.,* Article 6.
[6] Eric Schaling (2003), 'Technical Report Summary,' p. 2.
[7] The scope of work for this report refers to the body as a Monitoring, Surveillance, and Performance Unit (MSPU), the term used throughout this document.

Exhibit 1
Organization of SADC Stability Surveillance Unit, as Proposed by Professor Eric Schaling

First, four functional divisions consisting of teams of experts and led by a division head will monitor, assess, validate, and advise on institutions, processes, and policies. Each division will have specialist subunits and the capacity for advising national governments on institution-building and policy development. The four divisions are

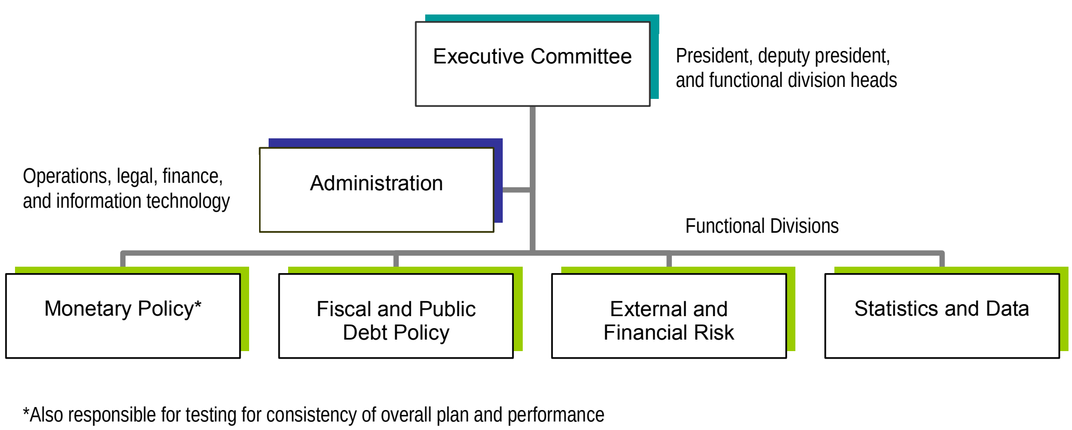
- Monetary policy
- Fiscal policy and public debt policy
- External and financial risk
- Statistics and data.

Second, the SSU will have a president and deputy president.

Third, an executive committee, will be the decision-making body of the technical unit and will consist of the president, deputy president, and the heads of the four functional divisions, and

Fourth, an administrative unit will deal with staff, financial, legal, administrative, and information technology issues.

Figure 9
Proposed Internal Organization of the Proposed SSU



Source: Schaling (2003), p. 8-32.

This structure constitutes a substantial bureaucracy when compared with the number of staff in the SADC Secretariat who have coordinated the design of macroeconomic surveillance work. As far as we are aware, only one individual qualifies—the senior macroeconomic policy adviser attached to the Trade, Industry, Finance and Investment (TIFI) Directorate of the SADC Secretariat and reports to its director.

We find it helpful to envisage a continuum of bureaucratic possibilities for the MSPU, ranging from the recruitment of a single economist to collate and report on macroeconomic convergence issues, to the structure envisaged by Professor Schaling. Showing his Figure 8-3 to interviewees in the SADC region enabled them to visualize the high-end bureaucratic option and their interaction with its putative staff.

Without exception, interviewees described this option as far more complex than warranted by the current level of effective interest in macroeconomic convergence in the region and the availability of resources to move the process forward. Nearly all interviewees said the SADC Secretariat should begin by hiring one or two economists to collect information on the performance of member economies and organize it in a form that the secretariat could present for review by SADC finance ministers at their annual meetings.

The accompanying report to ministers should outline options for them to consider on future staff analysis of macroeconomic convergence in the region and future reports to the ministerial meetings. At some point, a serious approach to convergence will require ministers to authorize the Secretariat to do two things, through the MSPU:

1. Propose quantitative convergence criteria or targets for the indicators by which ministers have already chosen to measure convergence, and
2. Evaluate critically the policies causing Member States to diverge from the criteria or targets.

The Secretariat should then await guidance from ministers on what steps should be taken before the next ministerial meeting, and specifically how far the MSPU should go in implementing points 1 and 2.

Long Term

With respect to institutional options for the long term, some interviewees said that, in order to enjoy credibility with member governments, the MSPU (or a renamed version) should be independent of the SADC Secretariat. According to this view, the MPSU should acquire senior staff, or the ability to hire prominent individuals part-time whose policy judgments finance ministers and other government leaders would take more seriously than they would observations and recommendations by a secretariat staff unit.

The example of the Commission of the West African Economic and Monetary Union (WAEMU) is of interest in this regard. WAEMU is, of course, substantially ahead of SADC in macroeconomic convergence of its eight Member States. Quantitative targets were approved in 1999 for four first-order and four second-order convergence criteria. The fact that the eight countries have a common central bank and a currency, tied to the euro, whose expansion is partly under external control (the government of France), brings their economies much closer to one another than is the case in much of the SADC region.

The WAEMU Commission, the SADC Secretariat's counterpart, issues a semiannual macroeconomic convergence report that evaluates the performance of each member country and publishes recommendations for policy changes to bring the country within range of any convergence criteria that it does not currently fulfill. This report is presented to the WAEMU finance ministers at their semiannual meetings. Ministers are said to take the reports seriously and debate their respective performances in meeting the criteria. We are not aware of any movement in WAEMU to transfer the function of preparing and distributing these reports outside the commission to an independent body with more senior staff.

Believing that the operational methods of the WAEMU Commission and content of its convergence reports present a model of great relevance for the MSPU, we excerpted and translated sections of (1) the commission's annual report to the WAEMU Heads of State, and (2) its sample reports on national economies, and included them here as Appendixes B and C. Chapter 10 summarizes what we consider to be the most useful lessons from those documents.

In separate communications we have proposed to the SADC Secretariat that the WAEMU Commission official who directs the staff work on macroeconomic convergence should be invited to the proposed June 2003 MSPU workshop. This official will be in a position to provide detailed information on views of WAEMU Member States in this matter.

Other interviewees in the SADC Secretariat and member states did not see the need for the MSPU to become independent of the secretariat, at least in the foreseeable future. They argued that the secretariat was the proper repository of functions servicing the heads of state and government, the Integrated Committee of Ministers (ICM), and the CMFI, and that the work of the MSPU should be regarded as one such function, albeit, in the long run, a very important one. It was further argued that, in order to ensure appropriate oversight of the MSPU in the interests of SADC's governing bodies, the unit should report to, and be subject to the control of, SADC's secretary-general, whether directly or through a directorate (see second following paragraph). Interviewees defending this position feared that a proliferation of independent staff units outside the secretariat would lead to administrative chaos.

It was noted that the Secretariat of the SADC Committee of Central Bank Governors (CCBG) is an exception to this rule; it is located in the Research Department of the South African Reserve Bank in Pretoria and reports directly to the CCBG rather than to the SADC Secretariat in Gaborone. However, interviewees considered this is to be justified by the traditional independence of central banks compared with their governments, the economic rationale for which is well known.

If the MSPU is situated within the secretariat, at least for the foreseeable future, a similar question arises about its position in the secretariat's organizational structure. Should the MSPU report directly to SADC's Secretary General, or should it be placed within the Trade, Industry, Finance and Investment (TIFI) Directorate, reporting to the secretary-general through the TIFI director? Some interviewees felt that independence from TIFI would enhance the unit's credibility with the secretary-general and CMFI. Others felt that monitoring macroeconomic convergence was a natural fit in TIFI's functions and that channeling the staff work through the TIFI director would conform to proper administrative procedure.

Some discussions on this question addressed how monitoring of the implementation of SADC's Trade Protocol will be handled in the future. The secretariat currently has no staff dedicated to this function. Although our scope of work does not ask the secretariat to analyze or make recommendations on this issue, it could be argued that establishing a unit for this purpose enjoys no less priority than creating the MSPU. If such a unit is established in the future, would both units be placed in TIFI, or both outside, or one inside and one outside?

The last option does not appear to make much sense. As for the choice between the first two, we believe that this involves descending to a level of bureaucratic detail within the secretariat that the TIFI director's 2½ -day visit there, during which he lacked the opportunity to discuss the matter with the executive secretary, does not qualify him to address.

The WAEMU Commission model is of interest in considering where to position the MSPU. The person who manages the convergence monitoring function is one among a handful of officials with the title of commissioner—in other words occupies a high position in the organization. As suggested earlier, inviting the secretariat to the June 2003 workshop would give participants access to the mechanics of convergence monitoring in WAEMU.

6. Modalities for Presenting Information on SADC-Member Economies to the CMFI

Interviews in Southern Africa stressed the importance of ensuring that information gathered and analysis conducted by the MSPU be submitted to the CMFI in a manner ensuring maximum credibility and impact. This issue was alluded to in Chapter 5, discussing where the MSPU should fit into structure of the SADC Secretariat.

Some interviewees cited the African Peer Review Mechanism (APRM) of the New Partnership for Africa (NEPAD) as a possible model for channeling information generated initially by the MSPU to the ministerial committee. According to NEPAD’s website (www.nepad.org), the mandate of the APRM

> is to ensure that the policies and practices of participating states conform to the agreed political, economic and corporate governance values, codes and standards contained in the [African Union’s] Declaration on Democracy, Political, Economic and Corporate Governance. The APRM is the mutually agreed instrument for self-monitoring by the participating member governments.

The same document proposes that the APRM’s operations "be directed and managed by a panel of between 5 and 7 Eminent Persons." These individuals, to be nominated by participating countries, shortlisted by a ministerial committee and appointed by Heads of State and Government of the countries, will be Africans with distinguished careers in relevant fields. The panel will have a secretariat that may engage "African experts and institutions to act as its agents in the peer review process, …entail(ing) periodic reviews of the policies and practices of participating states."

Review of a given country will occupy five stages, the first four lasting no longer than six months:

1. Initial background study

2. A country visit by the review team

3. Drafting of a report to be discussed with the government (its response appended to the report)
4. Submission of the report to the Heads of State and Government for their consideration and adoption.
5. Formal tabling of the report (6 months after Stage 4) in regional and subregional structures of the African Union, including the Pan-African Parliament.

Unspecified sanctions are envisaged as a last resort in case the government lacks "political will" to address "identified shortcomings." If further dialogue proves unavailing, "the participating Heads of States and Government may wish to put the Government on notice of their collective intention to proceed with appropriate measures by a given date."

The question arises how this model, designed for top-level discussions and negotiations in NEPAD, could be adapted to promote macroeconomic convergence in SADC. One approach pursued in several of the interviews was the following:

1. A panel of distinguished African economists (including perhaps also business executives) could be created, analogous to the 5- to 7-member panel of Eminent Persons, whom the MSPU would serve as secretariat.
2. MSPU could prepare a report on an economy, covering the given country's convergence program and other topics. The government would be invited to comment, following which the MSPU would prepare its final report, with the comments appended.
3. The panel of economists would designate one or more prominent experts, possibly but not necessarily panel members, to study the report and prepare a covering memorandum to the CMFI, commenting on the document and recommending measures to be taken to correct deficiencies in economic performance. If the experts considered it useful, they could visit the country in question to gather information on which to base their comments and recommendations.
4. At each semiannual meeting, the CMFI would consider reports on a subset of member economies, and take decisions on the experts' recommendations. In some cases CMFI decisions might be referred further to the conference of SADC Heads of State.

Regardless of their opinion of the expert panel approach (see next paragraph), interviewees were unanimous in their opinion that SADC was not yet ready politically to institute sanctions against member states that fail to implement convergence programs by previously agreed deadlines. Interviewees were aware that the European Union is considering whether to impose fines of hundreds of millions of euros on members (such as France) whose budget deficits are expected to exceed the agreed ceiling of 3 percent of GDP, and they said such a course would not be feasible in SADC in the foreseeable future.

The consensus on political sensitivities at this point in SADC's evolution is illustrated by interviewees' reaction to the proposal in Professor Schaling's March 2003 report that member states be classified in "convergence clubs" called Club 4, Club 3, Club 2, Club 1, and Club 0 according to the number of convergence criteria (among the four specified in the MOU) they had met. According to Professor Schaling,[8]

> membership in a club signals to the global community that the country has achieved a high measure of stability. Convergence club members that slip in performance publicly lose their position in the club. Members that have not yet achieved the long-term goals nonetheless receive public commendation for progress. In both cases public rebuke is an available disciplining mechanism.

Interviewees expressed the view that CMFI members would be unwilling at this time to assign each other to such clubs or to deliver "public rebuke" for slippage in economic performance.

Interviewees were divided in their opinion of the desirability of a peer review mechanism for macroeconomic convergence at SADC. Some believed that the mechanism would improve the credibility of MSPU analysis and reporting among CMFI members sufficiently to be worth instituting. Others believed that mobilizing the panel of experts would increase the volume of transactions and cost of SADC convergence monitoring more than it would improve credibility.

A "least common denominator" of interviewees' opinion on this issue indicates that the first priority is to establish the MSPU at staff level and launch it in analyzing progress toward macroeconomic convergence in SADC. When the unit has produced its first reports on individual member states and the region as a whole, SADC managers can sample ministerial opinion on the material's suitability for consideration in the CMFI. At that point, a judgment can be made about whether the MSPU's reports need to be filtered through prominent outside experts in order to be taken seriously by the committee.

[8] Schaling, p. 6.

7. Starting Up the MSPU

Sufficient background has been provided earlier on which to base proposals for starting up the MSPU. We recommend that the secretariat initially recruit a team of two economists: one at a senior level, preferably holding a doctorate or having sufficient years of experience to compensate for lack of a doctorate, and one at a junior level with a master's degree in economics and at least two years of experience.

Economists with experience in international organizations or finance ministries or central banks of SADC member countries are particularly well qualified to staff the MSPU. Preferably team members would be familiar with retrieving and processing macroeconomic data from the Web.

As early as possible the MSPU should create and maintain a Web page on which its counterparts in member state agencies can timely follow macroeconomic convergence in SADC. To design the page the team should be able to draw on technological capabilities in the secretariat rather than handle the mechanics itself.

We asked many of the interviewees whether candidates with the specified qualifications could readily be found in the SADC region. The majority believed that candidates could be found, although some expressed concern that recruiting such individuals for the secretariat ran the risk of drawing people from understaffed member state agencies.

A possible role for expatriate technical assistance was discussed in some interviews. Simplistically, "the more the merrier"—a competent expatriate, full-time or on periodic visits, could undoubtedly help get the MSPU up and running faster than it would without him or her.

Whether such help would be forthcoming depends on the interest of donor agencies in promoting this aspect of SADC's work and the secretariat's view of technical assistance priorities as between the MSPU and other units. In our view, the techniques involved in implementing the MSPU's tasks are not such as to make expatriate technical assistance indispensable.

Initially, a two-person MSPU team will probably have little time left over to assist Member States in formulating and monitoring their convergence programs. But once the unit has established channels ensuring a smooth flow of data, and is producing timely reports on regional convergence, it should be able to augment its functions with a technical assistance role.

Such assistance could be provided in a variety of contexts. MSPU staff could periodically visit member countries to advise national counterparts on design and monitoring of SADC convergence programs. Or they could assist counterparts in preparing data for and negotiating with IMF missions. (This is a regular function of the WAEMU Commission; see Chapter 10.)

8. Counterpart Units in SADC Member States

Preparation of member state convergence programs and discussion of their implementation with the MSPU will require local staff time and effort. In Chapter 4 we discussed the desirability of facilitating the repackaging of IMF programs in relevant Member States into SADC convergence programs. As noted in that chapter, five SADC countries currently have IMF programs; one recently concluded a program and is probably negotiating a new one; and two others have negotiated with the IMF in recent years but have not met their conditions for assistance. Two of the six countries we visited in March–April 2003—Malawi and Mozambique—have IMF programs.

In some countries without IMF programs, economic agencies will as a matter of course formulate rolling short-term plans that can readily be converted into SADC programs. In other cases the agencies can draw on Article IV consultation reports and, when applicable, their own responses to those reports.

The scope of work for this study called for the consultant to analyze the requirements for staff and skills that SADC Member States must meet in complying with the Memorandum of Understanding's call for preparation of convergence programs. Interviewees in the six countries we visited were unanimous in saying that "SADC convergence" should not be conceived of as a portfolio with its own dedicated staff. Interviewees expressed the view that interaction with the MSPU, in compliance with reporting requirements approved by the CMFI, would be carried out by the same staff members in central banks, finance ministries and, in some countries, other agencies who participate in discussions and negotiations with the IMF, whether in the context of programs or Article IV consultations.

Generically, an interagency structure concerned with macroeconomic programming should have at its disposal a group of individuals with postgraduate training or comparable experience in macroeconomics, budgeting, financial and monetary economics, and international trade, or a combination of both. To be sure, more than one discipline can be represented in a single individual.

The team should have direct access to the best statistics available on their economy, whether from the national statistics office or from international sources such as the IMF and the World Bank. It is often helpful, but not indispensable, to have a statistician working directly with the team.

In all six SADC countries visited, we met staff with training and experience in at least some of the relevant fields. In several interviews we raised the question whether new staff should be recruited to handle the additional burden of preparing and monitoring SADC convergence programs. The response was that, although most agencies concerned with macroeconomic issues would be delighted to command sufficient budget resources to hire more professional staff, the mere addition of the SADC convergence function alone did not justify this.

The central banks of all SADC countries appear to be providing data to the CCBG Secretariat on a sufficiently timely basis to enable that agency to complete most of its country tables for the April annual report. As noted earlier, only two banks, those of Democratic Republic of Congo and Seychelles, did not submit text on recent economic developments in time to be included in the 2003 report.

IMF staff reports include a section on the quality and timeliness of country data. The reports always contain recommendations for improvement; for several SADC Member States they call attention to serious deficiencies. For example, the July 2002 staff report on Malawi asserts that "long-standing deficiencies and deteriorat(ion) in recent years [in economic and financial statistics]…are undermining the effective formulation and implementation of policies."[9]

The scope of work for this report also called for review of procedures currently followed by Member States in their macroeconomic programming. This process involves a complex interaction among the political leadership; the legislature; the central bank; and the finance, planning and sectoral ministries, usually with greater or lesser input from private pressure groups. At the insistence of the Bretton Woods institutions, the process of preparing Poverty Reduction Strategy papers as a basis for IMF loans, quick-disbursing International Development Association (IDA) credits, and debt relief has involved considerably more consultation with civil society than was the case with Letters of Intent underlying earlier Enhanced Structural Adjustment Facility (ESAF) credits and their IDA counterparts.

During our visit to Mozambique, the authorities shared with us a flow chart illustrating the interrelationships among the various stages in that country's medium-term and annual economic programming. Figure 9 is a translation of that chart. It is the writer's impression that the other five countries visited follow or seek to follow most of the processes presented in the figure, adapting them to local culture and circumstances.

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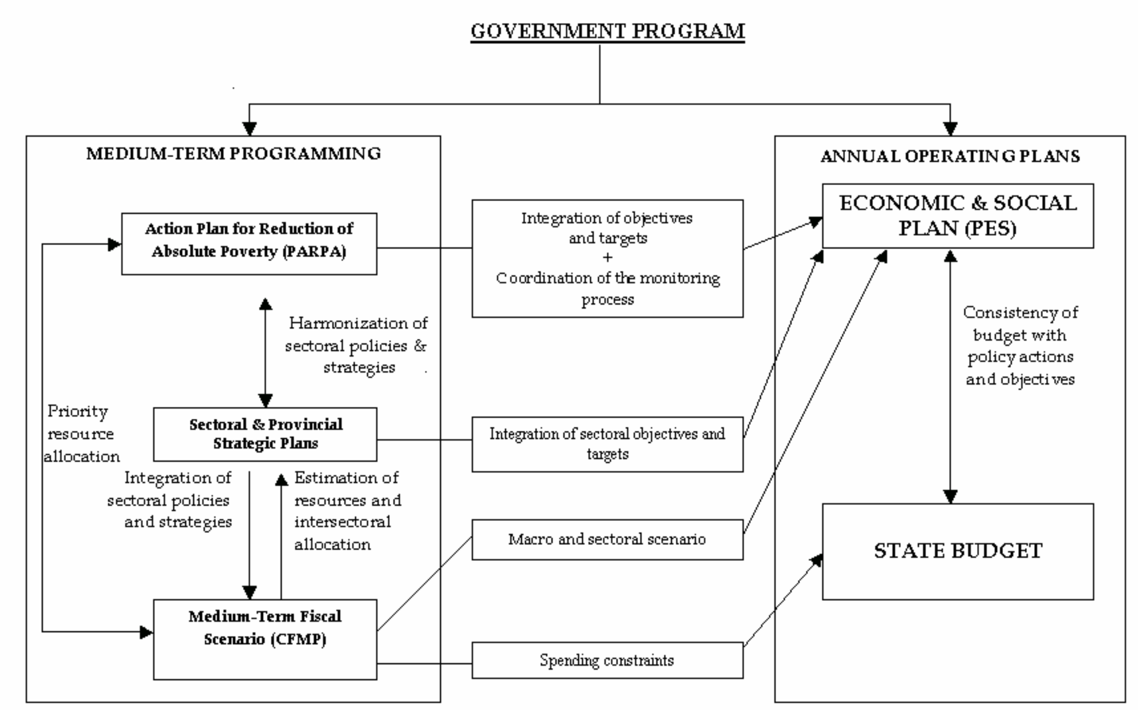
[9] International Monetary Fund. *Malawi: Staff Report for the 2002 Article IV Consultation…,* July 19, 2002, p. 32.

Figure 10
Government of Mozambique, National Planning System, Articulation of Instruments



9. Capacity Building

It follows, from the principle that SADC convergence should not constitute a distinct staff portfolio in member state agencies, that the professional education of officials whose agenda includes this topic requires no different a curriculum from that pursued by staff concerned with other aspects of macroeconomic policy. As with MSPU recruitment, it is desirable to staff any of these functions with individuals with solid economics training, including some with a doctorate or sufficient years of experience to compensate for the lack of one, and others with master’s degrees and a modicum of experience. Economists with experience in international organizations are particularly well qualified to work on SADC convergence.

Various in-service training programs at regional and international levels are available to, and regularly used by, economists in national counterpart agencies. To the extent that staff whose portfolios include SADC convergence, or will do so in future, have not participated in such courses, it would be useful for them. A sample of relevant programs is described in Appendix D.

In addition to programs run by non-SADC agencies, mostly based outside trainees’ countries, the MSPU staff should organize periodic workshops on SADC macroeconomic convergence issues, both multicountry and for officials of individual countries. Given the interest of the Bretton Woods institutions and other international agencies, MSPU will be able to draw on international experts as resources for such events.

10. Lessons from WAEMU's Approach to Macroeconomic Convergence

Appendixes B and C provide extracts (unofficial translations from French by the consultant) from two recent reports of the WAEMU Commission, namely its (1) *Activity Report, 2002*, submitted to a January 2003 conference of Heads of State and Government, and (2) *Six-Monthly Implementation Report on Multilateral Surveillance*, dated December 2002.

WAEMU's Regional Pact of Convergence, Stability, Growth, and Solidarity, adopted by the Conference of Heads of State and Government in December 1999, specified four primary and four secondary convergence criteria, to be met by each member state by end-2002. The criteria are as follows:

- Primary criteria
  - — Ratio of the basic fiscal balance to nominal GDP, to be in balance or surplus;
  - — Ratio of outstanding domestic and external debt to nominal GDP, not to exceed 70 percent;
  - — Average annual inflation not to exceed 3 percent; and
  - — No increase in the stock of internal and external payment arrears.
- Secondary criteria
  - — Ratio of the government wage bill to tax revenue, not to exceed 35 percent;
  - — Ratio of domestically financed public investment to tax revenue, to exceed 20 percent;
  - — Ratio of the external current account deficit, excluding grants, to nominal GDP, not to exceed 5 percent; and
  - — Tax to GDP ratio to exceed 17 percent.

The *Activity Report* indicates that Member States are charged with preparing annual (rolling) three-year convergence programs. Mention is made of both 2002–2004 and 2003–2005 programs. Several countries are reported not to have met deadlines for preparing the programs.

The commission evaluates each country's convergence program in a multilateral surveillance report, prepared on the basis of a mission to the country. The convergence programs are then submitted for approval by the council of ministers (mainly ministers of finance). The 2002–2004 programs of four countries were approved before the start of the triennium; two programs were approved 4 to 5 months into the period; and the programs for Guinea-Bissau and Togo were not formally approved—instead, the authorities were "invited…to concentrate their efforts on preparing the 2003-2005 program."

During 2002, the commission concluded that the eight WAEMU economies would not meet their original convergence target of end-2002, and, in a report to the conference of Heads of State and Government, recommended a new target date of end-2005. That report also "evaluates the compliance of the WAEMU economies with the convergence criteria as of the target date (2002) and with the multilateral surveillance mechanism, in accordance with the WAEMU Convergence Pact."

The *Activity Report* also describes the commission's assistance to member countries on the occasion of IMF and World Bank review of their financial programs, and outlines technical support that it provides to national economic policy committees (NEPC), described as "the national agencies involved in the integration process." These interministerial committees appear to have a major role in preparing the WAEMU countries' convergence programs.

The extracts from the *Six-Monthly Implementation Report on Multilateral Surveillance* begin with an outline of the topics covered on the international economic environment; the economy of each of WAEMU's eight member countries; and WAEMU as a whole. Extracts from the sections on Benin and Burkina Faso indicate the type of analysis conducted by the commission on the eight member economies, and the recommendations it outlines before WAEMU's Council of Ministers. The extracts conclude with the status of convergence for the region as a whole.

The following extracts regarding Benin illustrate the report's forthrightness in critiquing country convergence programs:

- [T]he 2003-05 program "lacks a policy matrix and implementation schedule as well as discussion of application of fiscal directives."
- "[T]here are discrepancies between the deficits projected in the monetary and IMF programs on the one hand and, on the other hand, the multiyear program."
- "The program's growth target seems optimistic, considering…the 5.4% rate of economic growth recorded during 2000-02, and…the lag observed in the

execution of structural reforms, in particular the parastatal privatization program."

- "[T]he projected external current account deficit does not reflect the recent trend of the Benin economy. The average deficit projected for the program period is 4.9%, as against 7.5% during 2000-02, i.e. a reduction of 2.6 points. This seems optimistic."
- "[T]he program path [of inflation] is based on the GDP deflator, while the Pact uses the harmonized index of consumer prices (HICP) to compute inflation."
- "[A]chievement of the [convergence] criterion: ratio of public investment financed with domestic resources to tax revenue = 22.3% in 2005, would require greater effort to control recurrent expenditure."
- "[T]he absence of details on allocation of HIPC resources makes it impossible to ascertain the impact of this expenditure on domestically financed investment, or to calculate the primary budget balance excluding HIPC."
- "Debt data are not sufficiently detailed to make it possible to ascertain the impact of the HIPC initiative on debt outstanding. Moreover the program omits data on domestic debt, making it impossible to determine total debt outstanding, compare member States and comprehend the sustainability of the debt."
- "[E]ntry of data in the Consolidated Public Finance Table is not consistent with WAEMU's format, since grants are recorded under financing rather than under the heading 'receipts and grants.'"

The report's openness in recommending policy measures is illustrated by the following extract from the conclusion and recommendations on Burkina Faso:

- [M]easures are planned to further strengthen tax recovery and control recurrent expenditure, notably the payroll and transfers and subsidies. These measures should be supported by:
- Improved implementation of expenditure financed by the HIPC Initiative and enhanced efforts to mobilize external resources;
- Water control to support all-season agriculture and contain inflation by easing supply constraints;
- Improvement of seed cotton and cotton fibre yields, currently falling, and promotion of textile industries to offset lagging shipments due to slow execution of cotton sale contracts;
- Preparation and transmission to the WAEMU Commission of the 2003-05 multiyear program within the time frame specified in community documents. In this connection, it is further recommended that the authorities draw up an implementation time line and establish a committee to monitor it.

In our view, the goal of SADC's MSPU should be to acquire sufficient technical capability and credibility to provide insights to the CMFI (through SADC's Executive Secretary, to be sure) analogous to the perceptive analysis of Member States' economies that the WAEMU Commission submits to its Council of Ministers and Conference of Heads of State and Government.

Appendix A. Persons Interviewed in Washington and SADC Region, March 18–April 8, 2003

International Monetary Fund, African Department
Michael Nowak, Senior Advisor, Eastern and Southern Africa
Amon Tahari, Senior Advisor, Western and Central Africa
Jon Shields, Assistant to the Director

World Bank, Africa Region, Regional Integration and Co-operation Unit
Fahrettin Yagci
Manuel de la Rocha

USAID/W
Arthur Westneat, Africa Bureau, Office of Sustainable Development
Mark Gellerson, Supervisory Economist, Bureau of Economic Growth, Agriculture and Trade, Economic Growth Office
Yoon Lee, Bureau of Economic Growth, Agriculture and Trade

Nathan Associates
Paola Lang, Vice President
Michael Anderson
Christa Lachenmayr

SADC Secretariat, Gaborone
Fudzai Pamacheche, head, Directorate of Trade, Industry, Finance & Investment (TIFI)
A.E. Mondlane, Principal Economist
M.P. Senaoana, Senior Macroeconomic Policy Advisor
Salvatore Coscione, Team Leader, PMU-TIFI

USAID/RCSA, Office of Regional Market Integration, Gaborone
Randall Peterson, Chief, ORMI (interviewed at USAID/W)
Stanley Mupanomunda, Trade, Finance and Investment Advisor

Botswana
Ministry of Finance and Development Planning
S.M. Sekwakwa, Director Economic Affairs (Macro), Division of Economic Affairs

South Africa

National Treasury
Christopher Loewald, Chief Director, International Economics
Muzi Khumalo, Director, Regional Integration Unit
Reserve Bank
Johan van den Heever, Senior Deputy Chief Economist, Research Department
USAID
Neal Cohen, Program Economist
Nathan Associates
Amy Cohen, Chief of Party/Director, SEGA/MESP Project

Mozambique
Ministry of Planning and Finance
Pedro Couto, Director, Gabinete de Estudos (GEST)
Maimuna Ibraimo, economist, GEST
Antonio Souza Cruz, economist, GEST
Jonas Tembe, economist, GEST (SADC & IFIs)
Momad Piaraly Juthá, economist, Vice Director, Public Debt
Bank of Mozambique, Research Department
Teodosio Wazella, economist

Namibia
Ministry of Finance
Cecelia Ndishishi, Director, Economic Policy
Aranias Abuer, chief economist
Festus Nghifenwa, chief economist
I.M. Hango, economist
Bank of Namibia, Policy Research Division
Esau Kaakunga, Senior Economist

Swaziland
Ministry of Economic Planning and Development
Nomusa Tfobhi Tibane, Principal Economist, Cross Sectoral, Chairperson, Poverty Reduction Task Force
Bank of Swaziland
Thembi Langa, Senior Economist
Enterprise Trust Fund
Zodwa Mabuza

Malawi
Reserve Bank
Charles Msosa, Economist, Research Department
Ministry of Finance & Economic Planning
Ben Botolo, Ass’t Chief Economist, Economic Policy & Planning Division

Appendix B. Extract from the Commission of the West African Economic and Monetary Union’s Activity Report, 2002

- Extract -

Commission of the West African Economic and Monetary Union

Activity Report, 2002

Presented to the 7th Conference of Heads of State and Government

Dakar, 29 January 2003

2.2 Activities in respect of the multilateral surveillance exercise and statistical program

2.2.1. The multilateral surveillance exercise

2.2.1.1. Evaluation of the multiyear programs

The Commission prepared multilateral surveillance implementation reports in respect of the first and second halves of 2002. These reports present the recent economic situation and prospects for 2003. They place in doubt effective convergence of the WAEMU economies by end-2002, the target date for convergence. In this regard, policy measures for 2002 were recommended with a view to accelerating convergence. Policy guidelines for 2003 were likewise formulated. The Council of Ministers reviewed the first report in June 2002 and the second on December 19, 2002 at its Lomé meeting.

The Commission evaluated the multiyear 2002-04 programs of all Member States and submitted them for approval by the different sessions of the Council of Ministers. The programs of Benin, Burkina Faso, Mali and Niger were approved in December 2001 and those of Ivory Coast and Senegal in May 2002. Several modifications were made to the programs of Guinea-Bissau and Togo. Finally, at its meeting in September 2002, the Council of Ministers invited the authorities of those two countries to concentrate their efforts on preparing the 2003-05 program.

In respect of the 2003-05 multiyear programs, at its meeting of 19 December 2002, the Council of Ministers approved the programs of Benin, Mali, Niger and Togo. The other countries, Burkina Faso, Ivory Coast, Guinea-Bissau and Senegal, did not submit their program, thus making it difficult to evaluate their convergence efforts over the period 2003-05. The Council invited these countries to submit their programs to the Commission not later than 20 January 2003.

In preparation for the Conference of Heads of State and Government, the Commission prepared a report on the status of convergence, reviewing the economic performance of each member State over the period 1999-02. This report evaluates the compliance of the WAEMU economies with the convergence criteria as of the target date (2002) and with the multilateral surveillance mechanism, in accordance with the WAEMU Convergence Pact. It proposes a new target date for convergence, along with modification of the Supplemental Act No. 04/99 on the WAEMU Convergence, Stability, Growth and Solidarity Pact, to be submitted to the Conference of Heads of State and Government of the Union. The proposed new target date would give the States an extension of three years from 31st December 2002 to converge.

In preparing the multilateral surveillance reports for 2002, the Commission sent follow-up missions to all the member States. Statistical data and information on structural reforms collected in the course of these missions made it possible to refine the analyses of the status of convergence of the economies. In addition, within the context of following the Union's economies, a mission participated in the April and September 2002 IMF and World Bank meetings in Washington. Under the Fund's Article IV, an IMF delegation was received at the Commission's headquarters during 27-30 November 2002 in connection with annual regional consultations with the Fund. In the framework of the franc zone, the Commission prepared two reports on convergence which were examined by the franc zone Council of Ministers at its Yaoundé (April) and Paris (September) meetings.

2.2.1.2. Assistance to Member States in negotiations with the IMF and World Bank

The Commission assisted several States, including Benin, Burkino Faso, Ivory Coast, Guinea-Bissau and Togo, on the occasion of review of their economic and financial programs in accordance with Directive No. 02/2001/CM/UEMOA of 26 May 2001 regarding the WAEMU Commission's participation in consultations and negotiations between member States and the Bretton Woods institutions.

2.2.1.3. Support and encouragement of National Economic Policy Committees (NEPCs)

The Commission has maintained regular contact with the different NEPCs, despite the operational difficulties which they encounter. These contacts took place during the follow-up missions or on the occasion of meetings with the NEPCs at the Commission's headquarters. The first meeting in April 2002 adopted guidelines for preparation of the multilateral surveillance reports, facilitated an exchange of views regarding inclusion of HIPC resources in WAEMU fiscal tables, and reached a consensus on the content of certain surveillance variables.

The second coordination meeting with the NEPCs, held during November 14-15, 2002, reached unanimous agreement with the NEPCs on the proposed new convergence target date and on amendments of the Supplemental Act No. 04/99 on the WAEMU Convergence, Stability, Growth and Solidarity Pact, to be submitted to the Conference of Heads of State and Government of the Union. In addition, financial support was provided for operating costs of the national agencies involved in the integration process, notably the NEPCs, and to help them replace obsolete equipment.

2.2.2. Statistics

2.2.2.1. Regular preparation and publication of the Regional Consumer Price Index...

Translation:: C. Gray

Appendix C. Extracts from the Commission of the West African Economic and Monetary Union's Six-Month Implementation Report on Multilateral Surveillance, December 2002

- Extracts -

Commission of the West African Economic and Monetary Union

Six-Monthly Implementation Report

on Multilateral Surveillance

December 2002

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2.1.2.1. Convergence Situation 2002

2.1.2.2. Economic Perspectives 2003-2005

2.1.3. Conclusions and Recommendations

[editor's note: the sections on the seven remaining WAEMU member countries give similar breakdowns]

2.9. Economic and Financial Situation of the Union

2.9.1. Recent Economic Developments

2.9.2. Status of Convergence

3. Conclusion and Recommendations [the report accessible on the WAEMU website omits this section.]

Introduction

The present six-monthly report on implementation of multilateral surveillance analyzes the evolution of the recent economic and financial situation of the member States and that of the Union. Moreover, it addresses the convergence efforts of the national economies by analyzing compliance with the convergence criteria in 2002 as well as the medium-term paths outlined for 2003-05. Prepared on the basis of information available to the Commission as of 30 November 2002, this report focuses on the following main points:

- Recent economic developments;

- The status of convergence;
- Conclusions and recommendations

BENIN....

Technical evaluation of the program

The updated multi-year program covering the period 2003-05 for Benin was prepared in a context marked by:

- implementation of the Interim Poverty Reduction Strategy Paper
- conduct of consultations with the Bretton Woods institutions in accordance with Year 2 of the 2000-03 3-year program supported by the Poverty Reduction and Growth Facility (PRGF).
- preparation of the 2003 Budget.

Presentation of the program

Benin's 2003-05 multiyear program conforms to the standard format for presentation of the multiyear programs. However, it lacks a policy matrix and implementation schedule as well as discussion of application of fiscal directives.

Consistency among programs

Overall, the 2003-05 multiyear program is consistent with the 2003 monetary program and the ongoing economic and financial program concluded with the Bretton Woods institutions. However, there are discrepancies between the deficits projected in the monetary and IMF programs on the one hand and, on the other hand, the multiyear program.

Growing compliance with the convergence criteria

Consistent with Supplemental Act No. 04/99 on the WAEMU Convergence, Stability, Growth and Solidarity Pact, the course of the first-order convergence indicators reveals continued improvement. The same holds for the second-order indicators, excepting the criteria (i) ratio of public investment financed with domestic resources to tax revenue, and (ii) revenue/GDP ratio.

Consistency with the Pact's convergence goals

The 2003-05 program goals are consistent with Pact standards, with the exception of the tax revenue/GDP ratio.

Relevance of the hypotheses

The multiyear program's growth target seems optimistic, considering, on the one hand, the 5.4% rate of economic growth recorded during 2000-02, and, on the other hand, the lag observed in the execution of structural reforms, in particular the parastatal privatization program. Moreover, achievement of sustained growth around 7% would require a total investment rate of 25%, as against the 23% envisaged during the period.

In addition, the projected external current account deficit does not reflect the recent trend of the Benin economy. The average deficit projected for the program period is 4.9%, as against 7.5% during 2000-02, i.e. a reduction of 2.6 points. This seems optimistic.

As regards inflation, the program path is based on the GDP deflator, while the Pact uses the harmonized index of consumer prices (HICP) to compute inflation.

In regard to public finances, the goal of a rising primary budget surplus is feasible during the program period, thanks primarily to proposed tax and expenditure reduction measures. As regards expenditure, achievement of the criterion: ratio of public investment financed with domestic resources to tax revenue = 22.3% in 2005 would required greater effort to control recurrent expenditure.

Additionally, the absence of details on allocation of HIPC resources makes it impossible to ascertain the impact of this expenditure on domestically financed investment, or to calculate the primary budget balance excluding HIPC. In this regard, the reform creating specific budget lines for HIPC resources is to be encouraged, since it would enable the effective use of HIPC resources to be taken into account in the Consolidated Public Finance Table (CPFT).

Debt data are not sufficiently detailed to make it possible to ascertain the impact of the HIPC initiative on debt outstanding. Moreover the program omits data on domestic debt, making it impossible to determine total debt outstanding, compare member States and comprehend the sustainability of the debt.

Finally, examination of the Benin multiyear program's statistical data reveals that entry of data in the CPFT is not consistent with WAEMU's CPFT format, since grants are recorded under financing rather than under the heading "receipts and grants."

Conclusion and recommendations

Evaluation of the 2003-05 multiyear program indicates that the path described therein makes it possible to consolidate the achievements of convergence. The evolution of the convergence criteria conforms to the standards established for 2005, with the exception of the revenue/GDP ratio. The Commission urges the Authorities to take steps toward effective application of the comparable GDP methodology rule in Benin's statistical series.

Overall, the Commission finds Benin's 2003-05 multiyear program to be in compliance, and recommends its adoption by the Council of Ministers. However, it would be desirable to produce domestic debt data in order to establish total public debt.

Moreover, steps should be taken to supply information on the following points:

- Details of HIPC source allocation;
- The manner of determing the impact of the HIPC initiative on debt outstanding;
- Submission of a matrix of policy measures announced in the program, along with an implementation time-line;
- Conformity to the WAEMU CPFT in respect of recording of grants;
- Projection of the current external account deficit excluding grants consistent with past trends.

BURKINA FASO....

First-order convergence criteria

- **Ratio of primary budget balance to nominal GDP** (key criterion) passes from -2.7% in 2001 to -3.1% in 2002, compared with a target of +0.2%. This counter-performance arises from increased recurrent expenditure. Taking into account expenditure financed by HIPC resources, the ratio deteriorates even further, dropping to -4.5% as against -3% in 2001. In 2003, intensification of efforts to control recurrent expenditure and enhance tax collection is programd to help improve this ratio to -1.9%.
- **Average annual rate of inflation** is programd at 2.4%, compared with a criterion of 3% maximum.
- **Ratio of domestic and external debt outstanding to nominal GDP** is programd to drop by 4.8 points to 66.6%, compared with a criterion of 70%.
- **Payment arrears:**
  - **Nonaccumulation of domestic payment arrears during the current year** is programd to be respected. No accumulation of new domestic arrears is foreseen in 2003.
  - **Nonaccumulation of external payment arrears during the current year** is programd to be fulfilled in 2002. In 2003, the efforts undertaken should be pursued in order to avoid new accumulation of external arrears.

Second-order convergence criteria

- **Ratio of the government payroll to tax receipts** is programd to drop to 41.1% in 2002, i.e. 6.1 points above the target. This below-target performance arises from application of the new civil service wage table and recruitment of new contract staff. In 2003 a significant improvement in the ratio to 38.3% is expected.

- **Ratio of public investment financed from domestic resources to tax revenue** is supposed to improve by 13.8 points to 43.6% as against 29.8% in 2001, compared with a goal of 23.9%. This development is due to a 73.5% increase in public investment financed from domestic resources. These investments, including those financed with HIPC resources, are to be implemented in favor of low-income social groups in the framework of the fight against poverty. Notwithstanding the ratio's deterioration in 2003, it still represents more than double the WAEMU standard of at least 20%.
- **Ratio of current external account deficit excluding grants to nominal GDP** is to be reduced by 0.8 point to 13.7%, compared with a goal of 15.7%. This performance is linked to improvement of the trade balance and the net income balance. However, this level is well above the community criterion of 5.0%. Improvement of this ratio in 2003 will be due largely to increased cotton exports.
- **The tax/GDP ratio** should increase by 1.1 points to 13.8% in accordance with a 19.1% increase in tax revenue arising from stronger implementation of tax recovery measures announced in the program and the 2002 Budget. In 2003 efforts to improve this indicator are to be continued.

Conclusion and recommendations

The economic and financial outcomes indicate that the convergence criteria will not be fulfilled in 2002. The reference values for inflation, indebtedness, payment arrears and domestically financed investment/tax receipts will be fulfilled in 2002. To improve these results, measures are planned to further strengthen tax recovery and control recurrent expenditure, notably the payroll and transfers and subsidies. These measures should be supported by:

- Improved implementation of expenditure financed by the HIPC Initiative and enhanced efforts to mobilize external resources;
- Water control to support all-season agriculture and contain inflation by easing supply constraints;
- Improvement of seed cotton and cotton fibre yields, currently falling, and promotion of textile industries to offset lagging shipments due to slow execution of cotton sale contracts;
- Preparation and transmission to the WAEMU Commission of the 2003-05 multiyear program within the time frame specified in community documents. In this connection, it is further recommended that the authorities draw up an implementation time line and establish a committee to monitor it.

WAEMU....

Status of convergence

The status of convergence is as follows:

First-order criteria

- **Ratio: primary budget balance/nominal GDP, greater than or equal to 0:** Benin, Ivory Coast, and Senegal fulfill this criterion. They are realizing surpluses of 0.8%, 0.3% and 2.0%, respectively.
- **Average annual inflation maintained at 3% p.a. maximum:** Five member States fulfill this criterion, namely Benin, Burkina Faso, Ivory Coast, Niger and Senegal. Mali will record the highest rate, at 5.1%.
- **Ratio: domestic and external debt outstanding/nominal GDP, less than or equal to 70%:** Three member States, Benin, Burkina Faso and Senegal, will fulfill this criterion in 2002. Ivory Coast, Guinea-Bissau, Mal and Togo will have debt ratios above 100%. However, under the HIPC Initiative, the benefits of debt reduction expected by some States could improve indebtedness in the Union.
- **Nonaccumulation of internal and external payment arrears in the current period:** At least three member States, Ivory Coast, Guinea-Bissau and Togo, will not fulfill this criterion.

Second-order criteria

- **Ratio: payroll/tax revenue, less than or equal to 35%:** Three member States will fulfill this criterion, Benin, Mali and Senegal. Forecasts indicate that ratios for Burkina Faso, Ivory Coast, Guinea-Bissau and Togo will exceed 40%. In particular, Guinea-Bissau's will be 94.6%.
- **Ratio: domestic financing of public investment/tax revenue, greater than or equal to 20%:** Four member States will fulfill this criterion, Benin, Burkina, Mali and Senegal. Figures for the other member States will be in the range 5.3 to 14.0%.
- **Ratio: external current account deficit excluding grants/nominal GDP, less than or equal to 5%:** Ivory Coast is the only member States that might fulfill this criterion. The other member States will register a deficit between 6.2 and 21.1%.
- **Tax revenue/GDP ratio greater than or equal to 17%:** Only Senegal will fulfill this criterion. The other member States will register a rate between 7.5% for Guinea-Bissau and 15.9% for Ivory Coast.

Translation:: C. Gray

Appendix D. Summary of Training Programs at Four Institutions of Potential Relevance to MSPU And National Counterpart Staff

The following information was summarized from websites of the respective institutions.

IMF Institute, Washington

Nine different courses of potential interest, to be offered once or more often in 2003 in English and/or French:

- Financial Program and Policies (8 weeks, offered twice in English and once in French)
- Financial Programs and Policies through Distance Learning (12 weeks, offered twice in English)
- Macroeconomic Management and Financial Sector Issues (two weeks, offered once each in English and French)
- Macroeconomic Management and Fiscal Issues (two weeks, in French)
- Balance of Payments Statistics (six weeks, in English)
- Policies for Monetary and Financial Stability (four weeks, in English)
- Public Finance (five weeks, in English)
- Monetary and Financial Statistics (five weeks, in English)
- Seminar on Financial Markets and New Financial Instruments (two weeks)

Joint Africa Institute, Abidjan

In 2003 this institute, sponsored by the IMF, World Bank and African Development Bank, is scheduled to offer the following courses of potential relevance:

- Financial Programming and Policies (2 weeks, English)
- Fiscal Management (2 weeks, English)
- Workshop on Monetary Unification in West Africa (1 week, English and French)
- Monetary and Financial Statistics (3 weeks, English)
- Quantitative Macroeconomic Analysis for Economic Growth and Poverty Reduction Strategies (2 weeks, French)
- Macroeconomic Management for Financial Stability and Poverty Reduction (2 weeks, English)
- Seminar on Poverty Reduction Strategies and Achieving the Millennium Development Goals (MDGs) (1 week, English and French)
- Financial Programming and Policies (2 weeks, French)
- Seminar on NEPAD and Regional Integration (1 week, English and French)
- Course on Macroeconomic Forecasting (2 weeks, French)

Macroeconomic & Financial Management Institute of Eastern & Southern Africa (MEFMI), Harare

This institution runs a macroeconomic management program offering regional short-term and medium-length courses, regional policy seminars and workshops, and, on demand, in-country workshops. Topics listed are:

- Macroeconomic analysis and management
- Fiscal management and reform
- Public expenditure analysis and management
- Budget management
- Monetary policy formulation
- Financial programming and policy
- Economic stabilization and structural reforms
- Planning process in an evolving environment
- Implementation of policies for economic growth
- Economic policy coordination
- Research methodology and report writing skills

- Capital flows and economic growth
- Statistics for macroeconomic management

Brandeis University Executive Program on Macroeconomic Policy and Management, Waltham, Massachusetts, USA

This three-week program, offered in previous years at Harvard University, takes place in 2003 from July 14 to August 1. Topics listed are:

- Foundations of open economy macroeconomics
- Exchange rate and balance of payments management
- Fiscal policy, monetary management and inflation
- Techniques for monitoring and assessing macroeconomic performance
- Financial programming and the role of financial markets
- Macroeconomics of development, growth and poverty alleviation
- Current issues such as financial bubbles and the threat of deflation.