

## **PEER REVIEW AND PUBLIC-PRIVATE PARTNERSHIP AMONG DEVELOPING COUNTRIES**

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## Summary and recommendations

Peer reviews are mechanisms of multilateral surveillance implemented by international organisations. Surveillance prescribes policies for the competitiveness of the national economy while deriving its growth prospects from a view of national or international business cycles. The underlying analysis includes structural issues, which impinge on economic performance as much as the external environment. Often the success of structural reforms hinges on taking account of the cyclical position and of the sentiment of consumers and investors, let alone of voters.

The variety of characteristics and experiences requires a great deal of adaptation to country specifics, but the combination of market economy and democratic polity is common to all developed countries. In spite of recent progress on both counts, developing countries only have poverty in common. Peer review and public-private partnership among developed economies involve mechanisms that may be relevant for economic co-operation among groups of developing countries, from regional ones to others based on cultural or linguistic affinities. The collaboration between OECD and NEPAD, launched at ministerial level in 2002, has generated greater expectations about the potential for South-South co-operation than many initiatives coming from global institutions. The achievements of this discrete partnership are being shared with universal membership organisations but other stakeholders in the Monterrey process, namely business associations, should not be forgotten.

Part of the soft co-ordination that takes place in international fora is information sharing (data produced on a comparable method, details of policies in various sectors and analysis of them). Mechanisms of multilateral surveillance of national economies build on this public good element and may rely on joint commitments (as practised by the EU) or on peer pressure by proxy (as practised by the IMF). OECD peer reviews are closer to the former and would imply joint commitments among developing countries.

The Marshall Plan set up a peer pressure system to liberalise trade and payments among European nations and this encouraged a learning process. In the same way, multilateral surveillance helped former EU peripheries earn credibility through the operation of a code of conduct built up over the years, which transformed the Exchange Rate Mechanism from an exchange rate arrangement into a convergence instrument. This code of conduct favoured a medium term orientation of macroeconomic policy, coupled with measures designed to improve the functioning of factor markets and of the public sector. While the Broad Economic Policy Guidelines and especially the Stability and Growth Pact have not been effective instruments of peer pressure, a “Eurocentric” perspective on earning credibility may nevertheless be of relevance to developing countries. This perspective involves flexible integration schemes, also encouraged in the draft European constitution.

The peer review process is a cultural phenomenon: regular participation in it leads to a new frame of mind. Nevertheless, local knowledge and local capacity may not be adequate to challenge the message from the peer review process when it is incorrect, and the collective wisdom is not wisdom at all. The only guarantee against this threat is the quality of the analysis, which is also crucial to the credibility of the international organisations responsible for surveillance.

The African peer review includes both economic management and political governance and the principle of self selection should help set initial standards that would not compromise the

credibility of the exercise. The link to the newly created African Union is another way of looking at the link between regional and global issues. This is the essence of the Monterrey consensus and perhaps of a new development paradigm, which attempts to combine national ownership of policies and mutual accountability among development partners through mechanisms of peer review.

Trust between social and economic partners, an environment favourable to business development, and better co-ordination between development finance institutions may all contribute to positive governance responses. In this context, public-private partnerships become an important instrument in creating an environment favourable to the normal functioning of business and the attraction of investment, an essential element in generating employment and creating wealth. To the extent that they broaden the knowledge base for policy dialogue between business and the public sector, public-private partnerships help to define the common good and the best ways to bring it about in each country.

Social dialogue has proven to be a successful investment in the progressive building of trust relationships between agents of the public and private sectors. For this to occur, the data and information that serves as a basis for such dialogue should be locally developed and not provided by external sources, so that the local public and private sectors can feel a sense of ownership of the information they use in their deliberations and decisions. Examples are innovative forms of financing that allow more firms to take advantage of positive prospects while smoothing the impact of bad times or indicators of economic activity that all economic agents may utilise to assess cyclical perspectives. In particular, a better monitoring of business cycles helps decision-making of entrepreneurs and regulators, in the real and financial sectors. Usual in developed countries, where they are supplemented by leading indicators and business surveys, cyclical indicators are hardly available in the African continent.

In sum, peer reviews take time to become effective because they are a knowledge intensive activity which requires good data, appropriate analysis and attention to culture and difficulties on all three fronts are likely to be more serious among developing countries. If peer reviews are embedded in public-private partnerships for development, trust will build up among the various stakeholders, making the African surveillance mechanism more effective. Nevertheless, early wins cannot be expected from OECD-NEPAD collaboration on peer reviews unless the areas chosen for this voluntary exercise are economically relevant without being too sensitive politically.

The use of cyclical indicators in peer reviews and in public-private partnerships stressing South-South co-operation could be promoted in various parts of the OECD (namely the Development Centre, the Economics Department, the Statistics Directorate and Paris21), with three mutually reinforcing recommendations being followed depending on available resources. Even if the project cannot be launched immediately, the production of a cyclical indicator for a couple other African countries (say Ghana and Tanzania) would create a database and a common framework for comparing macroeconomic developments across them. In particular, it would be important to start exploring each country's specific policy framework, with a focus on its coherence and sustainability. This type of analysis corresponds typically to country Economic Surveys. While such an objective seems beyond reach within the timeframe and resources of this project, the identification of some critical policy linkages between macroeconomic and structural reform areas would certainly be feasible.

The *Cyclical Indicators Comparison Project* would begin within the mandate of the author and provide clearly defined and visible outputs that can be presented to various stakeholders along the lines recommended below, culminating in the next Ministerial Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries (Macau):

2004: Extending the indicator database to West and Southern African countries, depending on resources. This work would be presented in Macau and in Cabo Verde, possibly also in Southern Africa.

2005: Comparison of cyclical indicators for Brazil and China with the existing African groups. This work would be presented in Macau and in Southern Africa.

2006: Completion of country coverage by surveying recent developments in the small Portuguese Speaking Countries. The overall results would be presented at the Macau Ministerial Forum. If the results are satisfactory, the project could be followed by a deeper involvement of the OECD in a peer review process.

**1. Produce cyclical indicators for a couple of African countries as soon as possible and obtain additional funds through the EU-Southern African Development Community Investment Promotion Programme.**

The growing interest of African private business organisations and governments towards composite cyclical indicators helps develop the tools for the implementation of the peer review mechanism. After the indicator hosted by the Mozambique Industrial Association was shown to allow a better measure than annual output growth rates of the spillovers of the South African business cycle, governments and business associations in Ghana, Tanzania, Angola, Kenya and Cabo Verde successively expressed interest in constructing similar indices. A couple of these countries could be covered within existing resources while funding is being sought for others.

**2. Present a case study for Cabo Verde at the third Business Forum of the Community of Portuguese Speaking Countries, to be held there in July 2004.**

Existing work could be extended into a public-private partnership and presented when the Business Council of the Community of Portuguese Speaking Countries created in 2002 begins operations. The presentation on Cabo Verde might investigate the conditions under which the exchange rate agreement with Portugal, based on peg to the euro, could be broadened so as to include further steps towards full currency convertibility, another dimension of economic governance where the “Eurocentric” perspective can be helpful. This could also be done without additional funding, especially if the collaboration with Macau public and private institutions is decided beforehand.

**3. Follow the preparation of the next Ministerial Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries in Macau in 2006.**

The Macau Forum opened an additional opportunity for policy-dialogue with four NEPAD countries (Sao Tome was not represented) and East Timor, against the background of the already established OECD programmes with Brazil and China, and their strategic interest in developing their relations with African countries, also revealed by the recent visit of President Lula to Southern Africa. Indeed, the dimension of South-South co-operation could play a decisive role in promoting the African peer reviews. In the process, mutual accountability would be naturally reinforced. This recommendation provides a horizon for the gradual and flexible implementation of the different intermediate steps.

## 1. INTRODUCTION

Peer reviews are mechanisms of multilateral surveillance implemented by the Organisation for Economic Co-operation and Development (OECD) or the European Union (EU) for their members. Like the regular country consultations carried out by the International Monetary Fund (IMF), an OECD or EU surveillance exercise leads to policy prescriptions supported by macroeconomic analysis of a country embedded in a view of the world economy. The analysis includes structural issues, which impinge on the competitiveness of the national economy and on its growth prospects as much as national or international business cycles. As structural reforms often threaten vested interests, their success hinges on taking account of the cyclical position and of the sentiment of consumers and investors, let alone of voters.

The variety of characteristics and experiences requires a great deal of adaptation to country specifics, but the combination of market economy and democratic polity is common to all OECD and EU members. In spite of recent progress on both counts, developing countries only have poverty in common. This is why the Millennium Development Goals agreed upon by the United Nations are being monitored on the basis of mutual accountability between development partners. The World Bank's Comprehensive Development Framework also rests on mutual accountability and requires broad public discussion of the *Poverty Reduction Strategy Papers*. Because of those internationally agreed goals, peer review and public-private partnership among emerging markets and aid-receiving countries involve costs and benefits that differ from those associated with OECD or EU members. Are these mechanisms relevant for economic co-operation among groups of developing countries, from regional ones to others based on some perceived cultural or linguistic trait (possibly shared with one or more OECD or EU member country)? This is the subject of this paper, organised as follows.

Section 2 describes the OECD as a reformers' club and illustrates the nature of its collaboration with the New Partnership for African Development (NEPAD) and other South-South co-operation initiatives. Section 3 presents a "Eurocentric" perspective on earning credibility. Focusing on the operation of the Exchange Rate Mechanism and on the Broad Economic Policy Guidelines, it calls for more flexible European integration and then compares the IMF Article IV consultations to the country reviews at the Economic Development Review Committee (EDRC) of the OECD.

Section 4 introduces the African peer review and development partnerships. OECD-NEPAD collaboration is described and the concept of public-private partnership for development is explained. It is shown to be relevant for the new paradigm for development, which attempts to combine national ownership of policies and mutual accountability among development partners through mechanisms of peer review. Examples mentioned in OECD (2003b) are provided, involving innovative sources of finance in members of the Southern African Development Community (SADC). To the extent that they broaden the knowledge base available to social partners, especially to business associations, and may therefore facilitate economic policy dialogue, indicators of economic activity are shown to be the most useful to launch peer reviews. Section 5 singles out among the countries covered in these projects the members of the Community of Portuguese Speaking Countries (CPLP), or lusophone countries.

The concluding section 6 argues that peer reviews take time to become effective because they are a knowledge intensive activity which requires good data, appropriate analysis and attention to culture and difficulties on all three fronts are likely to be more serious among developing countries. If peer reviews are embedded in public-private partnerships for development, trust will build up among the various stakeholders, making the African

surveillance mechanism more effective. Nevertheless, early wins cannot be expected from OECD-NEPAD collaboration on peer reviews unless the areas chosen for this voluntary exercise are economically relevant without being too sensitive politically. Indicators of economic activity are also favoured according to this criterion and this is reflected in three mutually reinforcing recommendations, to be followed depending on available resources. Other information would of course have to be obtained to launch a credible peer review mechanism, but to start with cyclical indicators has the advantage of empowering business associations in a way that macroeconomic data might not succeed in doing.

## **2. THE OECD AS A REFORMERS' CLUB**

The OECD, with roots in the post-World War II Marshall plan, is known since its creation in 1961 as the “rich man’s club”, perhaps because its Development Assistance Committee (DAC) gathers virtually all official donors. While the OECD is not regional, it stands for the “West”, or the “North”, and is therefore a polar opposite to the NEPAD, formed by a group of countries with incomes per capita among the lowest in the world, typical of the “South” (which now encompasses some of the former “East”). The original document (NEPAD 2001) contains a call for better governance: an African peer review mechanism should “help the designated State improve its policy-making; adopt best practices; and comply with established standards, principles, codes, and other agreed commitments” (UNECA 2002).

It has been said that the NEPAD is a road not travelled before and parallels with the Bretton Woods institutions (IMF and World Bank) or with the Marshall plan have been made by African leaders, suggesting that the answer to the first question above might be yes. A closer analogy is the conference in Monterrey, Mexico in 2002 where, for the first time, the UN system, the Bretton Woods institutions, and the WTO collaborated not just at the end but throughout the process. If this collaboration continues, and a global partnership for development emerges, one might say that “development is back” (OECD 2002e).

The importance of NEPAD as a continental initiative notwithstanding, sub-regional groupings such as the SADC, based in Gaborone (Botswana), which come under the rubric “South-South co-operation”, also seem polar opposites to the OECD. Traditional post-colonial organisations such as the Commonwealth or the Organisation Mondiale pour la Francophonie are also far from the OECD, whose DAC and Development Centre (DEV) were for many years the only parts of the secretariat looking beyond the membership. Multi-regional bodies (such as the Secretariat for Ibero-American Co-operation based in Madrid or the CPLP), where the weight of the “North” relative to the “South” is smaller than in their English- or French-speaking counterparts, would seem correspondingly further from the OECD Secretariat.

Nevertheless, peer reviews (like those of EDRC) have already been carried out for non-members. They could certainly be adapted to economic co-operation and development among groups of non-member countries, from regional ones to others based on some perceived cultural or linguistic trait. In December 2000, DEV signed a letter of intent with the Secretariat for Ibero-American Co-operation and in July 2003 OECD presented relevant activities at the CPLP Council of Ministers. This experience can become ever more relevant for world development if the OECD is seen as a “reformer’s club” – and this is the view its Secretary-General has been promoting. Quoting from his recent interview to @mosphere (Johnston 2003): “If the OECD continues to be tagged the ‘rich man’s club’, I think this is because Finance Ministers and Central Banks are not aware that the OECD works extensively with major non-member countries...”

The idea of a club as a set of like-minded people carries over to that of a group of like minded countries whose commitment to democracy, market economy and world development is reinforced by mutually agreed procedures for policy review and evaluation. The success of the Marshall plan reflects this fact: a reform process can only be sustained when culture is used as a vehicle for change rather than against it. At DEV, the initials DAC have been made to stand for the three pillars of successful economic cooperation and development, data, analysis and culture (OECD 2002d, p. 422). Over the last fifteen years, economic cultures have been converging and democracy has spread well beyond the OECD membership. Nevertheless, deep differences in political and social cultures remain and may even widen under the threat of international terrorism.

The OECD is a school of international co-operation: the exchanges which take place in the various committees are a unique way of making the several thousand national civil servants who each year attend those meetings aware of the international complexities and the opportunities for improvement that exist. These exchanges create a sense of community and thereby confidence in the review process. The true benefit of the OECD review process lies in its creation of a community of policy practitioners, which allows policy practitioners to bring their local knowledge to bear on the policy review process while also contributing to developing further the conceptual knowledge that they also need. This contribution to meshing conceptual knowledge with local knowledge is key part of the OECD's value-added. It has taken decades to mature and may be difficult to replicate. Indeed, as detailed in section 4.2 below, it is absent from IMF supervision.

The Secretariat plays an important and particular role in the OECD peer review exercises because of the quality and uncommon honesty of the background analyses, which are essential for undertaking the reviews. For this reason, it is important to safeguard the quality of those entities within the Secretariat, in particular those engaged in macroeconomic and structural analysis, which are responsible for the peer review process. Not all countries participate as examiners in each of the individual peer review exercises; this reinforces the importance of the Secretariat's contribution and of its integrity. Moreover, the pressure exercised by the published report is much less than the peer pressure exerted in the course of the review process from the visits that the Secretariat pays to each country and, in particular, during the actual examination itself. If this is the case, then the content of the final report and what the country accepts as recommendations are less important than the advice given to policy makers in the course of the review exercise.

On the other hand, the Economics Department of OECD (ECO) has fewer resources to produce country surveys at regular intervals (for example, IMF missions last at least two working weeks with at least 5 people, much more than the OECD). This is important, for the determinant of the standing of the institution is the quality of the staff's work. In order to continue to perform well the OECD must maintain its focus on a small number of key structural policy areas for which an analytical framework can be developed. It must avoid being pushed gradually to purely sectoral issues such as energy liberalisation; under the impression that other institutions are doing enough on broad structural reforms and on their link to macroeconomic issues.

The "reformers' club" has contributed to the convergence in economic policy cultures and even in most other areas of non-military policies. It is therefore no wonder that the collaboration between OECD and NEPAD, launched at ministerial level in 2002, has generated greater expectations about the potential for South-South co-operation than many initiatives coming from global institutions. Yet the achievements of this discrete partnership

would evaporate if they were not shared with the organisations with universal membership (UN, Bretton Woods institutions, WTO) and with other stakeholders in the Monterrey process, namely business associations. The evaluation of the Comprehensive Development Framework provides another example of OECD involvement in the promotion of the global partnership for development, but the absence of business associations limits the scope of the multi-stakeholder exercise described in World Bank (2003) and jointly conducted by the evaluations and research departments.

There have been analogies of NEPAD with the Marshall Plan stressing the aid dimension. Yet the analogy is more helpful if the emphasis is on the peer pressure system set up to co-ordinate the implementation of the Marshall plan. Peer pressure encouraged a learning process among European nations, which was inherited by the OECD and the EU. One example is the choice of the appropriate exchange rate regime in developing countries (OECD 2001b), where the “Eurocentric” perspective followed in the next section was introduced.

The comparison between EU, IMF and OECD surveillance mechanisms carried out in sections 3 follows a discussion at a joint seminar of DEV and ECO, reported in Thygesen (2002). The text was presented by the author at a conference organised by DEV and the Center for Global Studies, University of Victoria, Canada to coincide with the 40<sup>th</sup> anniversary of DEV in October 2002. Clearly, the appropriate surveillance method varies with circumstances of the particular countries and the topic under consideration: the absence of good data, for example, poses a considerable challenge to the exercise of surveillance and peer review, just like it would to any other initiative for better governance. Related to the need for adequate data and a well-defined analytical method, there is a cultural challenge for credible surveillance, which boils down to the effectiveness of peer pressure. Given the high perception of political risk in Africa relative to other developing areas, greater national capacity and institution building are necessary in order to make the African peer reviews useful for the purposes of better economic and political governance, as detailed in section 4.

### **3. MULTILATERAL SURVEILLANCE: A “EUROCENTRIC” PERSPECTIVE**

#### **3.1. The exchange rate regime, fiscal rules and policy guidelines**

The currency crashes of the 1990s underscore the evidence that the combination of pegged exchange rates and open capital accounts are prone to costly accidents. Soft pegs and narrow bands (2.25%) created a one-way bet for speculators, as convergence plays in connection with the EU southern enlargement were encouraged by pegs that assumedly minimised currency risk and thereby created investor moral hazard. The widening of the bands was thus a necessary step towards monetary unification. Mexico’s 1994-95 highlighted the same crisis mechanism as slow disinflation in the presence of heavy intramarginal intervention to defend the crawling peg for the peso had created cumulative competitiveness problems and a large current account deficit financed by short-term bonds.

The initial gains in credibility brought about by hard pegs are often ephemeral, and the same is true of lower capital cost. Both francophone Africa and Argentina became trapped by an inappropriate anchor currency - inappropriate as the anchor did neither reflect their trade directions nor their cyclical needs. Thus the Franc zone peg amplified good and bad times while in Argentina a monetary panacea turned into fiscal straightjacket with high liquidity requirements. Intermediate regimes can stabilise real effective exchange rates of developing country groups but peg to single currency is exceptional.

As there are few currencies available to borrow credibility from, to earn credibility demands a process of institutional development and economic flexibility rather than importing it through

a hard peg and forgetting about domestic reforms. Both pure floating and hard pegs make future regional cooperation more difficult. This is important in a world of regional trade blocs which look for ways to intensify cooperation. A float is an inherently unstable regime for countries competing on world markets for a similar range of products and hence sets incentives for beggar-thy-neighbour competitive devaluation. Floating induces non-cooperative strategies, especially when the competing neighbours face a common shock.

Hard pegs are hard because it is so difficult to reverse them and because they lack an exit strategy. They are thus only suited for countries which aim at joining a monetary union with the anchor currency in not too distant a future. Once again, the perspective of joining or creating a monetary union can make intermediate regimes more robust in the mean time. The complexity of basket pegs with bands hampers their verifiability, but is nevertheless needed for credibility. Once the effectiveness of the multilateral surveillance framework is verifiable, there should be greater tolerance for intermediate regimes. As a consequence, the argument that they are "too complicated for locals and for Wall Street" need not apply.

Thus multilateral surveillance has helped former EU peripheries earn credibility through the operation of a code of conduct built up over the years, which transformed the Exchange Rate Mechanism (ERM) from an exchange rate arrangement into a convergence instrument. This ERM code of conduct favoured a medium term orientation of macroeconomic policy, coupled with measures designed to improve the functioning of factor markets and of the public sector. Actually, "sustained regime change" was identified as a condition for benefits to accrue to peripheral nations or regions. This argument was especially strong under the limited labour mobility and flexibility, coupled with low fiscal redistribution among states, which prevails in the European economy. In these circumstances, exchange rate adjustments may become necessary to eliminate declines in competitiveness but they may not succeed in changing relative prices. The greater the underlying capital mobility and the more likely the repetition of exchange rate adjustments, the less effective a devaluation will be. This is consistent with survey data suggesting that firms did not expect devaluation to solve their problems but rather thought that credit constraints were a more severe hindrance to expansion at the peripheries than at the centre.

In the run-up to the euro, there was a fear that restrictions on fiscal policy called for by the excessive deficit procedure contained in the Union Treaty and by the Stability and Growth Pact (SGP) would hurt growth and prosperity. Yet the retroactive application of the SGP would not have exacerbated recessions over the 1961-97 period. Buti, Eiffinger and Franco (2003) show that, against established criteria for an ideal fiscal rule, the design and compliance mechanisms of the pact fare reasonably well. Its weaknesses tend to reflect trade-offs typical of supranational arrangements. The suspension of the SGP, decided on November 2003 by the EU Council of Ministers, followed numerous prior suggestions that it should be scrapped, or amended to make it more effective, especially for large countries, whose deficits most threaten the stability of the eurozone.

While the suspension to avoid possible penalties makes future fiscal rules less credible, there is consensus on the need for such rules to enforce the Treaty's "no bail-out" provision. In fact, evidence from the markets suggests that the SGP has not hurt Euro credibility. Persaud and Metcalfe (2002) analyse the impact of over 400 news stories about breaches of the SGP on several measures of market credibility (changes in real yields, changes in real yield spreads to the US, changes in the yield curve, changes in the euro trade weighted exchange rate, positive correlation between eurozone equity and bond prices) and find that there is no effect. A finer analysis, reflecting the contents of the stories, allows them to conclude that the SGP alleviated

concerns about "the free rider problem that potentially arises with the adoption of a common currency across a group of states with national budgets". They suggest that "an amendment that increased policy flexibility, but at the same time tightened fiscal discipline and its enforcement may be greeted positively". According to Buti, Eiffinger and Franco (2003), "redefining the medium term budgetary target, improving transparency, tackling the pro-cyclical fiscal bias in good times, moving towards non-partisan application of the rules and improving transparency in the data can achieve both stronger discipline and higher flexibility".

If, under the current degree of EU fiscal integration, correcting excessive deficits is difficult for member countries, buttressing the soundness of public finances is a formidable task in countries with histories of high inflation, where neither the social partners nor public employees automatically appreciate the benefits of the regime change that the policymakers are attempting to engineer. Errors in policy appraisal can unduly raise the costs of reform, when information about the change in regime is not readily available to international financial markets. Repeated market tests of the authorities' commitment to exchange rate stability may result from this imperfect information. If these tests of the authorities' resolve greatly increase the cost of defending the exchange rate, they can lead to policy reversals. Conversely, if the volatility of the exchange rate is a direct consequence of system turbulence, market tests will be short-lived and the threat of a reversal will become less and less credible, both abroad and at home.

Since its meeting in Brussels in late 1993, the European Council has been issuing Broad Economic Policy Guidelines (BEPG) against which policy and performance in the member states are to be gauged in what has become a regular test of the multilateral surveillance framework for all EU member states. The progress of policy reform stands on how effective this framework might be among union officials whose interaction with national officials should be accountable in their respective parliaments and in the European parliament. This has been a dynamic process moving EU member countries' national policies towards integration leading to binding recommendations and sanctions.

The EU uses different surveillance processes for different policy areas. Its most important surveillance instrument, the BEPG, set out the general directions that economic policies should follow. The BEPG are becoming a very detailed policy co-ordination instrument, and includes recommendations for structural policies, even though there is no way to ensure the coherence between the SGP, on the one hand, and other surveillance processes (Luxemburg, Lisbon, etc), so that the BEPG remains basically a macroeconomic surveillance mechanism.

With high capital mobility, exchange rate stability requires a speedy real and nominal convergence process. The indicators of budgetary discipline have become signals of regime change sustained by the structural reform of the public sector. Given that financial markets tend to exaggerate rather than to dampen such signals, apparent reversions during a relatively rapid convergence are also more liable to misinterpretation. The cohesion objective involves a degree of social awareness that may not be required with respect to the convergence of fiscal variables. In any event, whatever the credibility of national policies, it has been apparent that fast convergence is more difficult with slower growth and that the main macroeconomic costs arise before the main microeconomic benefits are felt.

If, in the final analysis, the exchange rate reflects the credibility of national policies over the medium term, it may do so with considerable noise if the entire parity grid is under attack. This is why little indication about the credibility of national policy could be gathered from the

realignments which occurred during the turbulent 1992-93 period. Speculative attacks on more vulnerable currency parities will have more negative effects on the system if parities are already locked than if they continue to be flexible. Flexibility within a sufficiently wide band allows speculation not to be a one-way bet. When very wide bands of 15% replaced the normal fluctuation margins, the external discipline provided by the grid no longer obtained and each central bank could decide whether or not to intervene within the old fluctuation bands. Most decided to do just that, so that the convergence process was not hurt by the decision to widen the band. The lesson from the currency crises is that the largely unwritten ERM code of conduct implied more effective co-ordination mechanisms among monetary and fiscal authorities than expected. Non-compliance with the code of conduct played a major role in the development of the currency turmoil, but the system regained stability after the widening of the fluctuation bands, which limited speculative pressure by eliminating one-way bets and reintroducing two-way risks.

The set of principles, rules and code of conduct which underlie the ERM have proven correct for the euro as well, so that the widening of the bands was a positive step towards the euro. When the decision to widen the bands was taken, however, many observers and prominent economists stated that the euro was dead, but the opposite was more likely. The best indicator of policy credibility is that multilateral surveillance is effective. It is the multilateral surveillance framework that determines the choice of an exchange rate regime.

The choice of the exchange rate regime has a regional dimension. As pointed out in OECD (2001b), regional integration reinforces peer alignment, contributing to the atmosphere in which peer review and surveillance take place. The EU and Euro area policy review processes are very intensive, with peer pressure based on elements that cannot be replicated in any looser form of international institution. There are elaborate, frequent procedures sometimes based on rules, but mostly on national commitments to which it is the task of the monitoring agencies such as the Commission and at the next level, committees, to keep countries to. The involvement of high-level officials is much greater than at the IMF or the OECD. In sum, the arrangements in place within the EU give by far the greatest scope for the exercise of peer pressure and supervision.

### **3.2. Peer pressure on the basis of commitments and flexible integration**

The EU is a more ambitious attempt to promote rules of good conduct among its members than the other international organisations. This is why the EU helps draw lessons for other countries and regions. But it must be stressed that other international organisations also played a role in spreading the results of alternative policy paths among their member states. The wide acceptance observed suggests that national policymakers stabilised, liberalised and privatised the economy in part because they saw other policymakers do the same.

EU processes derive from a comprehensive "rule book" and call for a greater involvement of many high-level national decision makers than at the other institutions. In this connection, the European institutional architecture is interpreted in a way that favours schemas of flexible integration, which, like NEPAD, have a voluntary, self selection element. With specific regard to the OECD (of which two thirds of the Members are European), the non-compulsory aspect, which enhances countries' sense of ownership, also makes an important contribution to this atmosphere. This is why in the EU there is peer pressure on the basis of commitments (Thygesen 2002).

The way in which geographical peripheries can acquire global reputation is by setting up a multilateral surveillance framework, which is necessarily a group arrangement to overcome

the cost of physical distance through financial proximity. Of course initial and terminal conditions matter as much as the capacity to transform. Doctrinal controversies often reflect different assumptions about each one of these three factors.

In developing economies, though, the institutional framework for such an orientation is lacking, so that the rules for monetary stability are not credible. Moreover credible surveillance is needed for geographical peripheries to acquire global reputation. The time it takes for a nation to acquire a reputation for financial probity varies but it typically involves several general elections where alternative views of society may confront each other.

To construct a social consensus domestically, credible signals that the authorities are committed to reform may be needed. If stable democratic governments succeed in implementing reforms which help to achieve convergence between poorer and richer nations and regions, they can set off a self-reinforcing virtuous cycle of stability and growth. On the other hand, there will be a vicious cycle if short-lived governments, fearing the social conflicts associated with reforms, delay implementation and impair convergence.

The Euro delivered convergence and cohesion because the "new politics of credibility" overcame financial hierarchy among sovereign risks. Trade unions recognised the perverse interaction between price and wage increases (which hurts the poor and unemployed disproportionately) and public opinion accepted the medium term stance of policy. Yet it took longer to convince voters than markets, and some countries used the Euro to procrastinate on their unpopular reforms, threatening the benefits of the stability culture with the "Euro hold up" (Buiter and Sibert 1997; OECD 2001b). While this tendency to procrastinate casts doubt on the efficacy of the "Eurocentric" perspective, more flexible integration schemes may lead initially reluctant states to join in and increase the reform momentum.

The recurrent European debate about whether multiple-speed convergence towards union objectives is possible and desirable illustrates the complementarities between global and regional common good. One extreme position in the European debate draws on the view of a unified constitutional state, for which variable geometry is impossible. The other extreme position calls for a set of contractual arrangements, where common institutions are undesirable. From the beginning, the European Community attempted to transcend the rigid intergovernmental nature of the OECD or of the G-7 (which does not even have a permanent secretariat) in the direction of supranational institutions like the Commission. But the convergence stopped far short of establishing Community-wide democratic legitimacy. As a consequence, the institutional framework became more and more complex, especially after a Union with three pillars was created in 1992. In the process, flexibility was lost and this is why the draft European constitution approved in 2003 by the Convention for the future of Europe abolishes the three pillars and favours schemes of "reinforced co-operation", another word for flexible integration.

In CEPR (1996), the case was made by contrasting depth of integration with flexibility. For any given number of member states, there is a trade-off between the freedom to enter into contractual agreements which include some members and exclude others and the ultimate requirement of "one man, one vote" which would be associated with a new state emerging from the integration of all members. The two dimensions of the trade-off are economic efficiency and executive performance, or the forces of competition, on the one hand, and legal status and legislative activity, or the forces of co-operation, on the other. Zero integration and zero flexibility represents purely intergovernmental co-operation among the same member

states, and from there any combination between competition and co-operation can be represented.

Then Europe "a la carte" would be equivalent to a purely contractual institutional design where any combination of subgroups of member states is acceptable, so that the basic intergovernmental principle of equality of member states applies and unanimity in decision making is preserved. During the revisions of the Union treaty in 1996 and 2000, intergovernmental schemes of "reinforced co-operation" have been called for among some member states, as their creation still requires unanimity of all member states and their membership is open to all of the member states who qualify. The Nice treaty made "reinforced co-operation" possible in Community, Justice and Home Affairs and even some areas of Common Foreign and Security Policy (CEPR 2001). To the extent that flexible integration also stresses the portability of the European experience to countries in different stages of economic and financial development, it may not only facilitate enlargement but also a clearer European identity in development co-operation.

Proximity suggests governance responses at the appropriate level, through the combined action of elected officials and civil society (including business). The common good may thus be provided by regional institutions, as long as the various levels of government are appropriately combined. For these reasons schemas of flexible integration have been proposed, where the principle of proximity (or subsidiarity) is generalised from geography to issue areas. Along the same lines Kolliker (2001) shows that this generalisation depends on the characteristics of the public good being provided. When there are network externalities with exclusion benefits, as is the case with the Eurosystem (also Schengen), then such flexible integration has a "snowballing effect" which may lead initially reluctant states to join in. The failure of the fiscal rules included in the Stability and Growth Pact impacted on the characteristics of the public good provided by the Eurosystem, as vigorously argued by the European Commission and Central Bank. In addition, note that in the Treaty, the one area where subsidiarity does not apply is the compilation of data – it had been recognised that unless there was agreement on the facts under consideration it would not be possible to move discussion on to the next stage.

When there are no exclusion benefits but rather free ride problems, flexible integration does not lead initially reluctant states to join in. This has been observed with respect to common resources (tax or otherwise). Whether policies can have a snowballing effect or not depends, then, on the design of the access to common resources. If the taxation element is restricted in areas, such as in social security reform, it may be easier to spread best practices than if there is an attempt at harmonising systems. Similarly, the financing of public services may be designed to avoid taxation insofar as possible, so that for certain public goods, national legitimacy and democratic accountability at national level may be allowed.

### **3. 3. Private macroeconomic surveillance and yardstick competition**

International organisations are doing projections and macroeconomic analysis but the work being done by private sector analysts is of comparable quality and a lot of what they say is similar to what international organisations say. The issue here is one of leaders and followers. The work of the private sector would be rendered much more difficult were the IMF and the OECD to cease producing projections. The effectiveness of the particular mechanisms employed by the international organisations is very much dependent on the credibility of the review process. International organisations can add weight to local voices -- even if national think tanks have said something many times, it helps to have a credible external body say it too. Therefore, international organisations must ensure that the analysis and advice presented

to the countries is not, and is not perceived to be, either tainted by special interests or weakened by the use of flawed analytical methods.

Thus international organisations have a special role to play because of their comparative advantage and greater experience in some areas of evaluation, notably the international environment and interdependencies, and because they have easier access to data. In particular, aside from "bilateral" surveillance of individual member states, the IMF's *World Economic Outlook* and the *OECD Economic Outlook* put things into a global perspective, which clearly adds to the surveillance process. Given the ongoing process of globalisation, this makes their work especially credible for the actors involved in it.

The benefits of information sharing are evident when it comes to the prevention of financial crises. Were it possible to predict crises, those avoided should be counted as successes. Looking at the phenomenon the other way, prediction is not sufficient when there is political sovereignty -- no matter how much pressure is exerted, that substantial degree of freedom cannot be broken. Perhaps the best gauge of success is the extent to which countries are better equipped to withstand crises and whether this is due in part to the existing surveillance mechanisms. This comes out of the debate on the choice of the exchange rate regime in section 3.1. above, especially in the verifiability of intermediate regimes.

Banks and independent research institutes that evaluate policies and monitor economic performance and policies may fulfil most if not all surveillance functions. The private sector's compliance and risk management expertise is particularly strong in making the case for financial liberalisation. More generally, only local actors control the strategic resources – leadership and political capacity – that are essential for governing the policy process. These resources also include particular local knowledge of the nature (complicit or otherwise) of the relationship between the political and business communities, which can be acutely relevant to the policy process. The same can be said about national value systems and how these relate to various policy choices. This is again how data, analysis and culture affect the credibility of surveillance.

The importance of the knowledge bases that exist in the countries under review notwithstanding, those available in international institutions, in particular certain types of technical or conceptual knowledge remain decisive for credible surveillance. In fact there is a tendency for local analysts to compare the prevailing situation with that of 10 or 15 years earlier when the more relevant and more useful standard of comparison is often the experience of other countries. It is here that the comparative advantage of international institutions resides.

Part of the soft co-ordination that takes place in international fora is information sharing (data produced on a comparable method, details of policies in various sectors and analysis of them). Though it has financial costs, this public good element is not emphasised enough. This is the element that could most easily be transferred from the OECD style of review to others. Some very important objectives could be met by improving information sharing, especially if the bigger players' understanding of the benefits of such information sharing improved. The recent suspension of the Stability and Growth Pact illustrates the problem in the EU, but it is of course a danger for any international organisation, as some countries have a much larger weight than others.

The issue of whether peer pressure bring about improved performance has been addressed by Besley and Case (1995) in the context of "yardstick competition", a term coming from

industrial organisation which suggests comparing similar regulated firms with each other (Tirole, 1988). For any given firm, the regulator uses the costs of comparable firms to infer a firm's attainable cost level. Conversely, if the regulator equates the price to the marginal cost of the firm itself, then managers have no incentive to reduce cost. Using the costs of comparable firms (or their average excluding that of the firm itself, which serves like a fictitious "shadow firm") prevents the firm's choice to have an effect on the price it gets. As comparable firms may not exist or be observable, a scheme of yardstick competition may not fully overcome moral hazard problems, but it is certainly preferable to the traditional procedure of comparing current and future costs to past performance.

The peer pressure scheme is thus susceptible to manipulation by participating firms but the difficulty in co-operating to impose collusive behaviour makes this perverse outcome less likely. Note also that in the case where heterogeneity is observable and can therefore be corrected for, Schleifer (1985) shows that a regulatory scheme based on peer pressure should lead to a superior performance. This implies that the regulator can credibly threaten to make inefficient firms lose money and cost reduction can therefore be enforced. When national objectives are at stake, best practices can thus be achieved, rather than allowing a convergence towards the mean. Conversely, when peer pressure is used to stall reforms, rather than to promote them, the outcome is equivalent to the collusive equilibrium and an alternative yardstick must be devised.

While the result depends on the specifics, it can be safely assumed that if the payoff to good behaviour is less than the cost associated with it, there will not be benefits from competition and collusion will be more likely. Costs can come in various forms, from fines to exclusion. As global finance makes benchmarking unavoidable, there is consensus on the need for fiscal rules. The suspension of the Stability and Growth Pact to avoid penalties for France and Germany during the Intergovernmental Conference on the draft constitution makes agreement on a new set of rules more necessary but also more difficult.

The existence of yardstick competition among national policy makers is a consequence of the lack of hierarchy among issues, including military ones, which was the decisive element during the Cold War. Yardstick competition follows from the so-called complex interdependence among OECD countries (Keohane and Nye 1977), which implies that international issues are no longer subject to well defined hierarchies, as was assumed to be the case in the balance of power model of international relations, sometimes described as Westphalian. Moreover, the globalisation of business and the information revolution changed political processes in a way in which soft power became more important in relation to hard power. Credibility became a key power resource, giving more open, transparent organisations an advantage with respect to free information (Keohane and Nye 2000).

Under complex interdependence, peer pressure did not apply outside the club and this reinforced the view of North vs. South, with the expectation that some form of development assistance would flow from rich to poor countries. Even after the end of the Cold War, the assumption was that there would be no interference in the domestic affairs of poor countries, even when political and economic governance were such that assistance benefited powerful groups and rarely reached the poor. This model of international relations remained in force until the 11 of September attacks.

Since then, the emphasis on security has brought back hierarchy, even among like-minded countries, but also the "globalisation of solidarity". Legitimacy is certainly required but multilateral surveillance frameworks also require efficiency and this can only be achieved

through flexible schemas. National sovereignty has also remained at the heart of the UN system, and co-operation with IMF, World Bank or WTO has been limited to the Monterrey process. Expanding the role of peer pressure from OECD countries to emerging markets is a key dimension of the “Eurocentric” perspective advocated here.

When there is peer pressure among national policymakers to follow best practices, these are likely to become more and more accepted. Peer reviews have enhanced competition for better macroeconomic and trade policies among OECD members. Similar benchmarking has begun with respect to structural policies, especially those relating to the regulatory framework. The greater complexity of such policies makes them more susceptible to procrastination, and the same problem has been observed in the EU. This hinders institutional change and makes corporate and political governance more difficult.

When applied to corporate strategy, yardstick competition leads to benchmarking exercises which have become common in OECD countries. Business associations such as those gathered in the Business and Investment Advisory Committee (BIAC) of the OECD or initiatives such as the European Round Table of Industrialists have been active in promoting and disseminating comparisons of best practices in various aspects of corporate governance and investment climate. Yet these initiatives remain unusual in developing countries.

What is meant by pressure varies with the surveillance framework and the influence of advice might be a matter of managing the process through which the advice is formulated. Moreover, as countries are not just a homogenous block, it is also a question of how the advice is targeted to the different audiences within a country.

### **3.4. Costs and benefits of IMF and OECD surveillance**

As a lending institution, the IMF has particular clout in the case of program countries – and to some extent in emerging economies too. The OECD has to rely on the quality of ideas and the relevance of comparative policy analysis. There has been considerable discussion over recent years concerning how the supervisory role of the Fund might be strengthened. The idea of liberating the IMF from direct pressure, in particular from the larger countries, was been put forward by Eichengreen et al (1999). It may indeed be hard to complain if some countries, by virtue of their having the capacity and the will to undertake analyses of other countries, exert more influence than others. One way of strengthening the Fund’s supervisory role would be to separate the analytical function from lending operations. It is also possible to separate high quality analysis and surveillance and then have the information made available for peer pressure exerted at the regional level, as such pressure is more naturally organised among smaller groups than in the context of global institutions. As argued below, this complementarity also reflects the Monterrey consensus.

In addition to identifying external vulnerabilities and supporting international policy co-ordination, surveillance as practised by the IMF may serve as advice, information gathering and dissemination to the public and to policy makers; technical assistance. The core of the policy advice that has been developed over the years though is simply “delivering the message” (Boughton 2001).

In that sense, there is a complementarity between the national discussion which is enriched by the international analysis and the feedback from the particular circumstances of national discussion which enrich international analysis. In the course of preparing country reviews, for example, the interactions with national officials, and their assistance in tailoring the analysis and recommendations to reflect their particular circumstances, are extremely useful. The

output of the peer review process is not just the final report. It also includes the interactions in the course of its preparation between national officials, the Secretariat and the Committee. The meaningful standard of the effectiveness of advice, surveillance and peer pressure is then the extent to which it positively influences the domestic debate. Sometimes this can be done through putting forward ideas that have yet to be aired in domestic debate; on other occasions it can be by assisting in the penetration of ideas that have been developed by national research institutes or think tanks.

The scope of IMF surveillance has expanded greatly since that term was introduced with the revision the Fund's articles of agreement in the mid-1970s. At that time it was a matter of "firm" surveillance over the exchange rate policies of members in the post Bretton Woods system of floating rates. The focus was on domestic policies in so far as these influenced the economy's external position. Since then there has been a gradual shift towards advice on the best use of a wide range of policy instruments, whether or not they have a direct bearing on the country's external account or exchange rate. This evolution towards "the promotion and safeguarding of an international code of good conduct in national economic policy" (Guitian 1992) accompanied closer monitoring of national economies by market analysts and rating agencies.

The country coverage widened substantially in the 1990s. Some have called it, without intending any criticism, "mission creep" into additional topics, in particular structural policies. The following six themes now have a prominent part in the Fund's review process (except in the least developed countries): labour market policies; product market reform; privatisation; financial sector regulation and supervision; trade policy (notwithstanding the fact that the WTO undertakes reviews in this area); and, the environment. The extension of this agenda comes from:

1. political pressure in member countries (for example in the US Congress which has urged greater liberalisation);
2. the addition of new members (for example, the membership of the transition economies of the former Soviet Bloc has led to the inclusion of new topics on structural reform);
3. the experience of financial crises; the need for additional longer-term lending facilities (it has been argued that an examination of structural policies is necessary for preparing programmes);
4. the IMF "mission creep" in the structural policy area can also be explained by the shift in the analytical focus in economics over the last 15-20 years to medium-term supply-side issues.

Member countries have been going through quite a dramatic paradigm shift which has altered their attitude towards structural policies and the IMF has only accorded a full-scale investment of resources to those structural policy areas which it considers to be important for financial and macroeconomic stability. Examples of this work include financial sector stability assessments, technical assistance for central banking policy and work on tax policy (this latter particularly in developing countries in which the IMF is co-operating closely with the OECD in an attempt to establish which are the best practices); in many other areas, such as privatisation and labour market policies, the IMF's work has been less systematic than that of the OECD with the focus in particular countries largely dictated by the assessment made by country teams.

When the IMF concludes a consultation process, a Public Information Notice is issued by the Board. Until the end of the 1990s, the concluding statements were not published. Their publication may have led to a watering down of their content (though this is difficult to

ascertain), but staff do retain considerable influence, notably through the publication of a concluding statement at the end of their missions, the content of which tends to carry through to the Public Information Notice.

The role of Executive Board is circumscribed by the weight of the overall agenda and the number of Article IV reports to consider: in 2001 there were approximately 130 country reports, with 1½-2 hours devoted to each (the EDRC by contrast spends a full day even on small countries). Though they do have accumulated experience to bring to bear, the Executive Directors lack the resources to deal adequately with these reports. They depend heavily on comments from capitals which tend to be read out to the letter. As a consequence, there is little give and take in discussions. That said, the countries under examination tend not to exert much pressure to modify the report's conclusions – the only reason that is readily accepted for such a modification is where “market sensitive information” is involved which could be harmful to the country in question. Indeed, changes are more limited than those in the EDRC at the OECD where the changes made tend to involve the removal of politically sensitive advice rather than market sensitive information.

The group of independent experts on IMF surveillance (IMF 1999) noted a direct negative correlation between the size of the country considered and the impact of the advice. A justification for this could lie in the fact that the larger the country the more civil servants, independent research institutes, banks and so forth there are engaged in examining and analysing the country and so there is less scope for the IMF or indeed any other international institution to say anything new. Examples of direct positive impact are hard to find, even in small countries. The impact is easier to ascertain when a new regime has been introduced following IMF advice, for example, the Czech Republic's exchange rate policy in the early 1990s, and the introduction by Sweden of an inflation target in 1992-93. On the other side, it is clear that countries approaching crises have not been inclined to listen to advice. In the cases of: Brazil in January 1999, Czech Republic in 1996-97, Korea in 1997, Thailand in 1996-97, the Fund did offer advice (and attempted to apply pressure) to modify unsustainable policies but this went unheeded.

A further complication in evaluating the success of the IMF's surveillance is the absence in most cases of relevant policy makers from the examined country when the report is being discussed by the Executive Board. To some extent, this has been responded to by increased transparency which has increased greatly with the publication of the PINs and the Article IV reports. There exists in this connection a trade-off between confidentiality and transparency: governments, with good reason, object to public discussion of vulnerabilities. Based on the argument that the IMF employs analysts who have the confidence of member countries, Thygesen (2002) labels the whole process peer pressure by proxy.

That there are areas of overlap and complementarity in the work of the OECD and the IMF should not be taken as a criticism with the way the IMF has extended its mandate. The decisive principle governing whether or not this extension is justified is whether a particular element of structural policy is relevant to overall economic performance over the time horizon analysed in the report. As stated in IMF (1999), its senior officials show a very positive attitude towards collaboration with other organisations. In a recent statement, the Executive Board had requested that the staff make more use of the work of other institutions such as the World Bank and the OECD. More could be done to that effect given the insufficient awareness within the IMF of the work on structural themes being planned for discussion at the OECD. As good bilateral surveillance is an essential underpinning for good

macroeconomic surveillance, closer co-operation between the IMF and the OECD is both welcome and feasible.

Peer pressure on the basis of commitments (as practised by the EU) or peer pressure by proxy (as practised by the IMF) are mechanisms that illustrate two extremes of multilateral surveillance of national economies. The OECD peer review process has elements of both but it is closer to that of the EU. It is carried out through 68 different monitoring and surveillance activities by 12 directorates (as listed in annex A of OECD 2002c) and is therefore extremely diverse and specialised. Even though EDRC country reviews could not initially apply to the Euro zone as a whole, the process can certainly support the “Eurocentric” perspective advocated in the previous section. In particular, according to Thygesen (2002), OECD surveillance has six distinct advantages over that of IMF:

1. there is more interaction with relevant national policy officials on the basis of the Secretariat’s draft reports;
2. the EDRC’s greater involvement in discussing and modifying reports (as compared with that of the Fund’s Executive Board);
3. the useful element of having two examining countries (which is the closest thing to pure peer pressure that exists in the international system);
4. the subsequent process of revising and approving report, which gives some ownership by the country to the final report (though this redrafting does consume a lot of time);
5. the Organisation’s manageable size (IMF 133, OECD 30) and limited diversity of membership (which is particularly beneficial in that it is difficult to keep up to date in technical areas);
6. the continuity (which is typically around 3 years) and experience of the national officials that countries send as representatives (and examiners) to the EDRC.

There is a possibility, currently being debated in the trade community, of establishing within the framework of the WTO a new peer review mechanism which would look at trade and competition policy. Over time in that wider forum of 144 members the mechanism has, largely because it permits the identification of technical assistance and capacity building needs, taken on a heavy technical assistance and capacity building role. This was established after the OECD Joint Group on Trade and Competition set out some of the merits of peer review exercises, looked at various OECD country review mechanisms, compared them with the current WTO trade policy review mechanism and in a tentative way identified key strengths and weaknesses of each.

In considering the issue of countries approaching crisis and their receptiveness to advice, one should also consider whether international institutions have given the correct advice. Taking the case of Thailand, according to Blustein (2001), the IMF had clearly indicated that there were problems. Though it was perhaps less successful in spotting the problems in Korea (the OECD had flagged up its concerns), once the Korean crisis had started the Fund’s analysis evolved and it put forward policies which have helped the country to get out of its problems in a remarkably short period of time.

The EDRC has occasionally experienced the situation of undertaking an examination of a country at the same time as there has been an IMF programme in place. Thinking back to the review of Turkey at the end of 2000, it was clear that the Committee itself would not want the Survey to undermine an ongoing programme or programme negotiations, while recognising that the underlying analysis should point out areas of policy where reform is needed. Turning to non-programme countries, the particular contribution of the OECD resides in its comprehensive analytical coverage, ranging across both macroeconomic and structural

policies. The EDRC has requested that the Secretariat place increased emphasis on what it judges to be the key areas of structural reform that countries should focus on, rather than trying to give a comprehensive treatment of all issues.

The success of a review exercise is partly dependent on how the officials representing the examined country before the Committee choose to react to the report. In the OECD's experience, on those occasions that officials have been defensive and elected to hold the line on all the existing policies the atmosphere has become rather confrontational; it is probably the case that the most useful report does not emerge under such circumstances. It is when officials acknowledge that the draft report contains politically difficult (in the short term) but ultimately helpful economic advice that the most useful final reports emerge. It would appear indeed that the countries that get the most out of the review process are those that try to toughen up the reports' recommendations in order to use it as an element of persuasion for improving long-term economic performance, which is the point of the EDRC exercise.

### **3. 5. Beyond the surveillance of members**

While each surveillance framework serves a particular purpose, the ownership by the country is least in the IMF, whereas the EU is most predicated on the common goal of integration. The mutual surveillance by OECD has the greatest diversity, from overall economic policy to structural and sectoral issues in health, education, corporate governance etc. OECD aid policies, like most other non-defence policies of member countries, have been subject to peer reviews. The different mechanisms, in EDRC and DAC, for example, apply to the different objectives and the different mandates of the respective committees (OECD 2002e). This diversity of models relates to the different mandates and the different degrees of commitment from soft co-ordination to mutual help.

While OECD-NEPAD collaboration will be described in the next section, it is important to realise that it builds on considerable work carried out with major emerging markets by ECO and co-ordinated by the Centre for Co-operation with Non-Members (CCNM). Among major non-member countries which have embarked in reform processes, Russia, a G-8 member, was the first to be examined (OECD 1995), and this peer review has taken place several times since. The *Brazil Economic Survey* (OECD 2001a) has been quite influential in that country. It had found the recent review exercise undertaken by the OECD a very interesting and useful experience, in particular in that it had extended the capacity of local institutions to collect the relevant data.

The OECD has had a fluctuating relationship with China; one which presents lessons for the way in which international organisations approach countries with the view to offering them assistance. In its initial approach to China, the OECD had mentioned "surveillance" and got a rather cold reception. Following a number of years of developing contacts with officials and institutes, relations improved considerably, to the extent that China is now an outstanding example of a country that knows how to benefit from the work of the IMF, the OECD and other international bodies. It is keener on the concept of "peer example" than "peer pressure" and is constantly looking for analyses and information. The decisions taken by the authorities are well-informed by conclusions reached on other countries' success and failures (this is borne out, for example, in their caution with regard to capital account and banking sector liberalisation). This shows that the benefits of surveillance and peer review exercises go far beyond the impact of an individual report (such as OECD 2002c). This broader impact, not just for China but for other countries which are considering reforming or rethinking their policies, should not be underestimated. Another contribution, coming from the Statistics

Directorate (STD), has been the construction of a cyclical indicator for China, which has allowed a better monitoring of the economy's short term performance.

The peer review process is also a cultural phenomenon -- the regular participation in the peer review process leads to the development of a new frame of mind. This then raises the question of whether local knowledge and local capacity are adequate to challenge the message from the peer review process when it is incorrect, and the collective wisdom is not wisdom at all. There the only guarantee is the quality of the analysis, which is also crucial to the credibility of the international organisations responsible for surveillance, everything should be done to ensure the production of the best possible quality of work. It is also important to remain open to new academic ideas and not to bend with the prevailing view of governments.

Peer pressure may hurt good governance when indicators are not supported by data and analytical knowledge on the issues. The importance of comparable data is crucial to peer pressure, Otherwise wrong conclusions could be reached. This is why the IMF has provided information to feed peer pressure in a regional context such as that which has taken place among:

1. Latin American finance ministers (notably in the context of the Brazil crisis);
2. Association of South East Asian Nations (ASEAN) finance ministers;
3. ASEAN + 3 (China, Japan, Korea), or Chang-Mei initiative.

The same has happened in the context of the Euro Area's monitoring framework as well as that of the EU as a whole.

In effect, many of the available governance indicators are very arbitrary and their use could damage peer pressure instead of promoting it. As mentioned at the outset, the unavailability of data and inadequate analysis are not the only reasons for the danger of available governance indicators damaging instead of promoting peer pressure: there is a third danger, which pertains to culture. The culture of sharing is in Africa's cultural inheritance, and it should be taken into account. The example that is very clear here is the role of the family. Institutions such as the family are very different in different parts of the world. We have to find a way of incorporating them in the new development paradigm coming from Monterrey.

## **4. AFRICAN PEER REVIEW AND PARTNERSHIPS FOR DEVELOPMENT**

### **4.1. OECD-NEPAD collaboration**

The Monterrey consensus incorporates the eight development goals and proposes policies to facilitate the integration of the developing economies in the world economic system, with the objective of eradicating poverty. It is increasingly recognised that most African countries will not achieve these goals and that this prospect may prevent African peoples from reaping the benefits of globalisation (OECD 2003a, p 34-42). One way of making this integration attainable and sustainable is to promote regional arrangements where the national common good meshes with the regional and all players involved, both national and external, are co-operating.

The regional framework is promising as peer pressure is more naturally organised among smaller groups than in the context of global institutions. In the NEPAD context, the principle of self selection should help set initial standards that would not compromise the credibility of the exercise. Nevertheless, the results of the interaction between national and regional common good are not automatically positive and need therefore to be evaluated case by case (OECD 2003b, p. 36). Such evaluation hinges on the degree of yardstick competition among national economies, with well defined and credible rewards and penalties. When the interaction between globalisation and national and regional governance is positive, peer

pressure at the global and regional level can build on economic growth to ensure sustainable development.

This desirable complementarity between regional and global surveillance is a good example of the Monterrey consensus, which has motivated the *African Economic Outlook*, a joint report prepared by DEV and the African Development Bank (OECD 2002a and 2003a). Modelled on the *OECD Economic Outlook*, the report presents consistent country chapters covering macroeconomic and structural developments in a selection of 22 countries which are not in conflict. It is a first attempt at doing this with respect to economic and political governance (covering the macroeconomic and structural issues).

As such, it has been seen as a helpful instrument for the African peer review process as part of the exchange of views and experience on peer review mechanisms and the requirements necessary for African countries to effectively apply them mentioned in the OECD-NEPAD Ministerial communiqué of May 2002. The launch of this report successively brought to the OECD headquarters two ruling African heads of state, the presidents of Senegal and Mozambique (OECD 2003b, p. 49-50). The reports were presented in a variety of places, including the Economic Commission for Africa (during a seminar convened by the Central for Global Studies, University of Victoria) and the Business Council Europe Africa Mediterranean meeting in February/ March 2003. The idea of launching an exchange network on peer reviews mechanisms is being considered, through which the OECD would share its experience with NEPAD countries in a pragmatic and cost efficient manner. The *African Economic Outlook* suggests that multilateral surveillance can be complemented by voluntary examination under NEPAD's peer review mechanism, sustaining the momentum of OECD-NEPAD collaboration.

The African peer review includes both economic management and political governance. As mentioned in section 3, one area where subsidiarity does not apply is the compilation of data for the application of fiscal rules, so that it is quite a challenge to apply OECD methods when the data are poor. Similarly, more information and more transparency are needed to counter the excessive perception of political risk in Africa. In addition to intergovernmental organisations, rating agencies also have a role to play and there is certainly a lot of room for credit rating in Africa. One other important point about perception of the risk is the role of the diaspora in making risk perceptions closer to reality on the ground. There are nowadays a number of African professionals that live abroad and very often they feel alienated. There is really something that can be done there to increase their visibility at home and the international visibility of their nations or regions. Both rating agencies and the diaspora can be seen as providing credibility to Africa. Often the lack of credibility comes from ignorance. Greater visibility for African realities would avoid that something that happens in the north of Africa may have completely unjustified ripple effects in the southern part. Of course, this was not uncommon in other continents but it has largely disappeared except in the case of Africa, where confusion is still a source of contagion.

Comparability, visibility, some presence in the media, the spread of African risk-sharing institutions, together with rating agencies and the diaspora would contribute to earn credibility abroad, helping to overcome this excessive perception of risk. But greater attention to data, analysis and culture will not be effective if it does not take place at the national, regional and continental levels as envisaged in NEPAD. In fact, the experience with *Poverty Reduction Strategy Papers* could be helpful in making peer pressure more effective. When they are successful, these programs are done at the national level, taking into account local culture but, of course, have a link with global issues. The link of the NEPAD to the newly created African

Union is yet another way of looking at the link between regional and global issues which is the essence of the Monterrey consensus and perhaps of a new development paradigm.

The global applicability of the European experience to the search for the "common good" may not be enough justification for the "Eurocentric" perspective presented in section 3 above, but the case becomes stronger when the role of public-private partnerships for development in promoting peer reviews is recognised. In fact, sharing experiences in peer review among the many committees of the OECD, especially the DAC, is but one way in which CCNM ensures overall the co-ordination of OECD collaboration with Africa in the framework of NEPAD. Other ways involve discussing development effectiveness and improved aid management and promoting African participation in OECD activities with non-members. The experience with public-private partnerships for development has been part of the collaboration with the secretariat of the NEPAD, located in the capital of South Africa. In the OECD secretariat, this experience has involved mostly the DEV but the CCNM has also looked at public-private partnerships in water supply among the former Soviet bloc countries.

#### **4. 2. Globalisation, governance and public private partnerships**

The national capacity- and institution-building is decisive because the private sector and civil society are not organised in developing countries. Even in so-called "failed states" the state remains an organisation and there is no organisation. in the case of business, of civil society. This is the difficulty about the point of entry when it comes to the private sector and civil society in developing countries. The private sector is not only important from a national, regional and continental perspective but also from a local perspective, due to the proximity of business and of civil society to people's specific problems. This is of course the reason why the principle of proximity was mentioned in section 3.2 above as a fundamental in European integration doctrine (even if more flexible integration would make it more important in practice). The local dimension is essential in the credibility of what the private sector may be able to do at national, regional and continental levels.

At the same time, with globalisation, the stability, growth, and proper functioning of the developing economies increasingly impacts on the economies of the more developed countries. Developed countries thus stand to gain from contributing, bilaterally and multilaterally, to policies that turn developing countries into more open economies, better integrated in the world economy. But globalisation can only bring lasting benefits if the governance response is appropriate. In particular, there must be trust between local and foreign partners. This trust is even more crucial in developing countries, where most of the population is in a situation of absolute poverty and the state depends on external assistance because it is virtually devoid of a working tax administration. Even in the absence of armed conflict in the country or surrounding region, trust between all the partners and entities that finance development must rest on policies that assure poverty eradication and sustained economic growth.

In other words, pro-poor growth illustrates a positive interaction between globalisation and governance, whereas negative interaction hurts growth and development. Reaching the eight Millennium Development Goals in 2015 presupposes sustained economic growth in addition to better governance and more aid, as recommended at the Monterrey Conference. The eighth goal (to develop a global partnership for development) reflects disappointment with the performance of developing countries which seemed to follow the policy recommendations of the so-called "Washington consensus" during the 1990s. As governance improvements were not commensurate with the challenges of globalisation, especially in what concerns financial

markets, some of these countries had to face financial crises which interrupted the long term convergence process (OECD 2003b, pp. 11-14).

The process of economic reform that has been going on in developing countries can transform fast growth into sustainable development. The prerequisite of institutional change revealed by such a reform process confirms the importance of good governance. In the search for keys to a positive interaction between globalisation and governance, cultural factors have been often mentioned above (following OECD 2002e; see also Bonaglia et al 2001). Culture may influence economic outcomes by affecting such personal traits honesty, thrift, willingness to work hard and openness to strangers (NBER 2003). With respect to religion, surely an important dimension of culture, Barro and McCleary (2003) find a complex pattern of interaction, where the effect depends on the extent of believing relative to belonging: for given church attendance (belonging), increases in some religious beliefs – notably heaven, hell and an afterlife – tend to increase economic growth. For given beliefs, on the other hand, increases in church attendance tend to reduce economic growth. Similar trade-offs have been found by Tavares and Wacziarg (2001) in the interaction between democracy and growth: democracy brings additional pressure for current consumption, even to the extent of mortgaging future savings but it also leads to higher human capital, thereby promoting growth.

Public-private partnerships help bring about policies at the national, regional and global levels capable of promoting good governance and sustaining the reform process. The use of public-private partnerships in reconciling seemingly divergent interests between the public sector and private business can be extended to development areas because all parties gain from a concerted approach – but the existing institutions often discourage co-operation. To openly discuss what the interests of various stakeholders are and to seek a solution that best satisfies most interested parties is certainly preferable to imposing policies in exchange for official assistance.

As private initiative is able to produce in greater quantity and at higher quality than a public authority, a private component should be introduced into the provision of public goods whenever the resulting governance solution can be enforced. When private firms are responsible for the production and distribution of public goods, the role of government is to guarantee through regulation that the public good will be accessible to all. How well this can be enforced depends on both the characteristics of the specific goods under consideration and the social environment. Already in the 16<sup>th</sup> century, French public authorities envisioned the use of private entities to perform a public service, but the international trend of privatisation and deregulation that began in the 1980s led to a redefinition of the role of public and private actors and consequently to a renewal of the discussions on partnerships between them. Indeed, the theme chosen for the Fifth Euro-African Convention of Bordeaux held on 20-21 October 2003, where an earlier version of this report was summarised, was “Urban services in Africa: between public and private”.

The Bordeaux convention also illustrated that the public sector is not synonymous with the government: a firm has the capacity to outperform local and regional authorities both within and between states. A sizeable proportion of the public goods and services display distinctly local-level characteristics, and in practice, are supplied by local and regional authorities. The move towards decentralisation has served to increase this proportion. The major public service supply groups tend to be much larger than their client local authorities. Furthermore, these major groups pursue export-related activities, which contribute to their expansion while reducing their average costs.

Prud'homme (2000) lists four criteria according to which private involvement in a public service should rise and assigns scores to various sectors based on these criteria. First, those goods and services relying most heavily on infrastructure and therefore most capital intensive prove to be the most suitable candidates for a partnership. Second, more technically oriented goods and services readily accommodate greater levels of private sector involvement. Third, as it becomes easier to set rates for a public good or service and to collect the corresponding fees, greater private sector involvement in the provision process is also easier to introduce. Fourth, the size of local zone is an indicator of the economies of scale potentially realized by the private sector.

In terms of sectors, telecommunications, electric power, water supply, sanitation, street lighting, ground transportation, urban transit and sports and recreation received the largest scores on the infrastructure magnitude. These, together with air transport, are also technologically complex sectors, so that there is scope for considerable private involvement in the supply side. In terms of the ease of fee collection, the ranking is similar for utilities, with the greatest score attached to telecommunications, electric power, water supply and transportation – whereas in urban transit it is quite low. On the size of local zone, however, urban transit scores highest, together with water supply, sanitation, street lighting and recreation, whereas the score varies for telecommunications and electric power. The overall picture is mixed but the cases remain strong in telecommunications, electric power and water supply, followed by transportation, urban transit, sanitation and recreation.

The public-private partnerships that are most relevant for OECD-NEPAD collaboration do not belong to specific sectors, however. Technological complexity is inseparable from research and, while fundamental research is global, applied research is often carried out by small and medium enterprises. Unlike national defence, fundamental research can be laid out within an international framework; for example the research and development framework programmes of the EU. On the contrary, street lighting, sanitation, water supply or urban transit remain local in scope. A service lends itself more readily to private intervention as its scope of activity becomes more locally dominated. A service's spatial dimension entails a technical and jurisdictional focus. The private sector's advantage tends to be stronger over smaller local - or regional - level authorities than over large-scale or State-level authorities. Local partnership for applied research is behind the pilot projects in Southern Africa described below.

A balance is needed between economic policy regimes that give a dominant role to the public or the private sector in the processes of allocation of resources, production, regulation, and distribution of public and social goods. The private sector may be more efficient, but in some crucial activities there exist "market failures" that require public intervention. In industrial economies, sectors where partnerships thrive represent approximately 20% of the GDP and include the main sectors mentioned above, aside from education and social security.

Partnerships between the public sector and civil society also strengthen social dialogue. In this context, civil society is composed by the private sector and by associations, trade unions, non governmental organisations, and pressure groups of various kinds. As such, partnerships help define the common good and their domain impacts on governance institutions. Although partnerships seem to fit better in low income and post conflict countries, developed economies also use this tool for negotiations regarding matters of public interest.

There is of course a complex interaction between these efficiency and the social dimensions of public-private partnerships. For example, identifying market failures and determining the degree of public intervention requires both levels of partnerships to promote an optimal environment for the proper functioning of markets. According to countries' level of economic development and social conflict, the application of partnerships varies. In industrial economies, partnerships are mostly applied in a sectoral manner and prevail in the delivery of collective utilities.

Social dialogue also reflects the regulatory needs in specific markets. In low income countries, social dialogue is fundamental for sustainability of policies through social acceptance and ownership. Their use in promoting dialogue and mutual understanding between public and private partners has also led to positive outcomes in post-conflict countries. However, the current divestiture of the public sector in the developing world has called for the need to set up sectoral partnerships. Whether the criteria and sectors mentioned above carry over is discussed by Ferreira (2003).

#### **4. 3. Partnerships for development, knowledge and ownership**

Trust between social and economic partners, an environment favourable to business development, and better co-ordination between development finance institutions may all contribute to positive governance responses. As such, they also help translate the Millennium Development Goals into national and global policy proposals as required by the eighth goal, which features targets for aid, trade and debt relief. In this context, public-private partnerships become an important instrument in creating an environment favourable to the normal functioning of business and the attraction of investment, an essential element in generating employment and creating wealth. To the extent that they broaden the knowledge base for policy dialogue between business and the public sector (points 24 and 25 of the Monterrey Declaration), public-private partnerships help to define the common good and the best ways to bring it about in each country (OECD 2003b, p 42).

The longer-term objective of public-private partnerships is to improve the environment for the domestic private sector and to build confidence and trust between partners, including the providers of finance for development. The concept is applicable to a wide range of countries wishing to respond to the challenges of good governance and to develop the private sector. Experience has shown that the transition tends to be rather slow from the usual adversarial relation between the public and private sectors to the desired partnership relationship in search of the common good and the best forms of attaining it.

Social dialogue has proven to be a successful investment in the progressive building of trust relationships between agents of the public and private sectors. For this to occur, the data and information that serves as a basis for such dialogue should be locally developed and not provided by external sources, so that the local public and private sectors can feel a sense of ownership of the information they use in their deliberations and decisions. The advantages of ownership do not override the need for the policies to have technical and economic merit. Only in this way will developing economies be able to attract the external public and private, bilateral and multilateral, resources that are indispensable for the national effort to be successful.

It is expected that public-private partnerships will lead to a closer and more effective communication between the public and private sectors. Experience shows that by participating jointly in working groups, seminars and conferences organised to discuss matters of common interest, both sectors gain a better appreciation of the concerns and interests of the

other party. Over time, the initial defensive and adversarial positions give way to a partnership between different agents concerned with achieving a common objective. Examples are innovative forms of financing that allow more firms to take advantage of positive prospects while smoothing the impact of bad times or indicators of economic activity that all economic agents may utilise to assess cyclical perspectives. The aim is to facilitate dialogue between national agents and to provide locally produced economic information to foreign investors and other partners.

This broadening of the knowledge base will in turn promote the adaptive capacity of society as a whole, a key to fast growth. The success of any public-private partnership will naturally depend on the preparation and motivation of each party. The better organised and prepared is the private sector, the more easily it can take coherent positions and contribute positively to discussions and to decision taking. Similarly, a local private sector that is well-organised and technically competent can more easily be an effective partner to foreign investors, avoiding foreign capture of all good investment opportunities. The provision of technical assistance in the context of a public-private partnership can thus help private sector associations to mature or, at very least, to point out the major shortcomings and indicate where assistance could most profitably be applied

The public private partnerships described in the next sections have been used in promoting dialogue through the construction of cyclical indicators and the design of innovative sources of financing. In section 3.4, it was mentioned that the interactions of the OECD Committees with BIAC foster social dialogue and co-operation between the public authorities and the private sector. Similarly, it has been found that broadening the knowledge base available to business associations in developing countries helps build local capacity to adapt to the changing global and regional environment. This was evident during two seminars on “Better government for a better business environment”, one held in Luanda in June 2003 the other in Maputo on 16 October, organised by Lisbon’s monthly magazine *Africa Hoje*, with the support of the Institute of Tropical Research (IICT), and summarised below. Shortly after the Maputo seminar, these activities were presented at an economic panel on “Angola XXI century: stabilisation and development”, held in Lisbon on November 6.

#### **4. 4. Pilot projects in Southern Africa**

The issues chosen for public-private partnership must be of interest to specific actors in the country. Both the Monterrey consensus (including the Zedillo report) and the NEPAD have stressed the importance of finance for development at both macro and micro levels (OECD 2003b, p. 11-12). As a consequence, there is strong institutional support for designing instruments capable of improving conditions under which local entrepreneurs have access to credit and capital. These encompass propositions seeking to provide stable financing at low cost for small and medium sized enterprises and large-scale projects, relying on institutions with access to regional and international capital markets. Improved access to more diversified sources of financing makes it possible for private equity and debt instruments to emerge in developing countries.

The unavailability of funds and the lack of medium term exit into public securities market limits the application to low income countries of schemes seeking to stimulate equity financing and encourage private investment in target sectors ranging from agriculture to highly innovative areas. This is why multilateral financial institutions (like the African Development Bank) should catalyse private capitals inflows through financing schemes that include risk guarantees, co-financing, exports credits, venture capital and other lending instruments. Guarantee funds for small and medium sized enterprises have also been

developed in developing countries, but issues relating to privatisation and institutional failures make such financing schemes particularly adapted for financing large-scale infrastructure projects. This is where the concept of public private partnership originated, but there are tight limits to successful adaptations, as shown in section 4.3 above.

As for micro-credit schemes attempting to reach the poorest sectors of the population, they are often divorced from the financial sector and their operation faces stronger obstacles in limiting financial exclusion without excessive transactions costs. A number of countries, most recently Brazil, have tried to promote such schemes domestically but few schemes in Africa have delivered results that could be comparable to those, say, in Pakistan. In this regard, raising awareness about the potential benefits of guarantee funds and micro-credit schemes is a necessary task in developing countries as well as among donors. One way of doing that is to design these innovative forms of finance as public-private partnerships.

With respect to indicators of economic activity, their aim is to facilitate dialogue between national agents and to provide locally produced economic information to foreign investors and other partners. They help predict business cycles and improve transparency between local stakeholders. A better monitoring of business cycles helps decision-making of entrepreneurs and regulators, in the real and financial sectors. Usual in developed countries, such indicators are supplemented by leading indicators and business surveys, but in the African continent it was available only in South Africa when work on Mozambique began in August 2001. The Mozambique Composite Indicator of Economic Activity (ICAE from the Portuguese acronym) is described in detail in section 4.5. Once they became familiar with ICAE, other African governments have expressed interest in constructing similar indices and suitable private sector organisations are being found in these countries, together with funding

The principal objectives of the seminars convened by local business associations and the government in Maputo and Kinshasa were to improve the business environment and to assist private sector development. These meetings gathered high level official authorities, representatives from the local private sector and from international organizations. They have fostered co-operation between public authorities and the private sector in partnership enforcement, sustainable development, financing for development and the complementarities between official aid flows and private investment.

Trust is essential to putting in place efficient mechanisms of participatory governance in developing countries. Although formalised public/private policy dialogue has existed for almost a decade in Mozambique, relations between business and government remained adversarial. Inadequate data was part of the problem: until recently, an up-to-date statistical base covering elements such as quarterly GDP, or quarterly or monthly industrial output, and acknowledged by both the public and private sectors as an adequate account of the state and evolution of the Mozambican economy did not exist.

The Mozambique public-private partnership pilot project was designed in order to alliviate the knowledge gap and culminated with a seminar in Maputo in October 2002 designed to secure: (i) a good flow of information between the private and public sectors, (ii) a mechanism for policy coherence and transparency and (iii) a regular assessment of the public-private sector dialogue. The Maputo seminar included the public presentation of OECD (2002a), in particular the Mozambique chapter and of the first estimates of the ICAE, described in section 7 below, following Tibana (2003).

The Maputo seminar also featured a description of innovative financing methods based on the experience of loan schemes used in reactivating and stimulating the rural economy and micro, small and medium enterprises. The emergency fund implemented by USAID for the victims of the 2000 floods and surveys of the cotton and cashew nuts sectors were also presented as background, as detailed in Mantero and Santos (2002). The main conclusion of the seminar was that social dialogue based on a deeper and broader knowledge of the economy would help to improve the competitiveness of the private sector and the living conditions of the population. A second multi-stakeholder seminar in Maputo followed President Chissano's visit to the OECD in April 2003. This led the permanent representative of Portugal, who had just been elected President of the Governing Board of DEV, to plan on attending the seminar as a signal of the interest in a continuing relationship with the OECD.

Building on the Mozambique project, the public-private partnership on Congo was presented at a seminar in Kinshasa in April 2003. The Kinshasa seminar focused on innovative sources of financing in post-conflict situations. The initial presentation of OECD (2003a) was followed by del Castillo (2003), thus covering economic policy in a post conflict situation. Frix and Kinzonzi (2002) revived the proposal they had made at the session on strategies and instruments required to reinforce the co-operation and the partnership between public and private sectors at the DAC Partnership Forum. Noting that the Bretton Woods institutions reduced the external debt of the Democratic Republic of Congo by 10 US\$ billion under the enhanced HIPC (Highly Indebted Poor Countries) Initiative in July 2003, their proposal to create an "International Investment Fund for Congo's Reconstruction (FIRC from the French acronym)" remains topical. The post HIPC external debt would be converted into FIRC assets and the transfer of potentially profitable state-owned companies to the FIRC ownership.

As with other innovative forms of financing, the FIRC should be capable of avoiding two frequent dangers of privatisation in Africa, described in OECD (2003a, pp. 28-34). First, a hasty process that does not take into consideration the interests of the State and that replaces public monopolies by private ones. Second, a process that is far too slow. This excessive gradualism has been due to strong resistance to change from some of the current stakeholders, which do not wish to lose any privileges, even if the State's portfolio risks becoming increasingly dilapidated.

Santos (2003) reviewed the development of the microfinance sector in post-conflict situation. In line with observations in post-conflict Mozambique or in El Salvador, he found technical assistance to be fundamental in order to secure better management practices among micro and small entrepreneurs in Congo. In order to reduce the additional direct and indirect costs in providing training services to clients of microfinance institutions he suggests partnerships with public institutions and with donors for the establishment of training centres, leveraging on existing management schools. This would isolate financial services from capacity building and the best and the worst performing microfinance institutions in the market would become simpler to identify.

Public-private partnerships help maximising the potential of credit since such partnership constitute a valuable contact of authorities with the semi-formal and informal private sector, which accounts for such a large part of employment and where good policy would favourably impact on the most vulnerable segments of the population. Public authorities and associations of microfinance institutions may also try to improve transparency of operations and, using international microfinance rating agencies, promote quality.

With the progress in the inter-congolese peace process, an upsurge of donor projects is to be expected and it is important that a permanent dialogue be promoted, avoiding a geographical approach of donor efforts, each with completely different type of projects. Donors should also try to give clear signals on heavily subsidised credit, grants and other temporary projects in order to avoid confusion with sustainable microfinance institutions. Gathering information from local associations and the central bank's special microfinance unit, donors should also agree on a common set of principles that orient their action, including eligibility criteria and interest rate policies that promote fair competition and sustainable, permanent microfinance operations. Benoît and Calderon (2003), if they manage to raise adequate funding, plan to follow this work.

The Kinshasa seminar concluded that greater visibility for public-private partnerships could emerge from a joint post-conflict strategy by the government and business associations. This should include a feasibility study of the FIRC and the creation of a microfinance observatory by the microfinance institutions, the central bank and donors, so as to improve project coordination. The other element of post-conflict strategy is to make public investment more coherent through the World Bank programme, taking into account that public-private partnerships are a necessary condition for economic reconstruction, especially when the programme will expand to all the regions of the territory.

After the seminar, a local follow-up committee was established, which is helping design the post-conflict strategy in the dialogue framework set up between the government and the private sector. This committee also promotes co-operation with international donors to finance a feasibility study for the FIRC, following the debate among local stakeholders. Some elements of this proposition are being developed by Ferreira (2003).

Additional work is envisaged for Namibia, whose former Prime Minister Heine Geingob is now running the Global Coalition for Africa, based in Washington DC. Following the second Maputo seminar, the Mozambique government has shown interest in deepening relations with DEV. If the project being planned for presentation to the EU-Southern African Development Community Investment Promotion Programme is accepted, it will be possible to include additional countries with the same regional focus.

#### **4.5. The Cyclical Indicators Comparison Project**

In developing countries statistical services lack the capabilities or versatility to generate and disseminate timely and relevant information for business and policy making decisions. Aggregate measures of activity or output such as GDP are annual and appear some two years later. Individual sectoral and branch indicators of activity that appear monthly or quarterly are not satisfactory either as pointers of the short-to-medium term cyclical behaviour of the whole economy. The under-development of the statistical services is matched by the virtual inexistence of economic analysis and forecasting services capable of offering alternative outlooks to both the public and the private sector.

According to Tibana (2003), in Mozambique the dialogue between the government and the business community started in the mid-1980s as the country embarked on a free market economy after a decade of socialist experimentation. The partners eventually recognized the value of transparency in policy dialogue, but tools of knowledge were (and still are) scarce, as both private and public institutions of economic analysis and forecasting are either very weak or non-existent. The willingness to make the policy dialogue more fruitful to public-private partnership in development and the support of a leading international organisation with reputation for independence and technical expertise has paved the way to the development of

one particularly useful tool of knowledge. The work has been published by DEV and it has benefited from help from ECO and STD, aside from that of the Banco de Portugal.

The findings of a preliminary assessment exercise gave a firm indication that a substantial amount of raw statistical data was being collected by the various components of the National Statistical System and that this warranted an effort to use this data to construct a monthly indicator of economic activity. On the other hand, the review gave rise to serious concerns (later confirmed) about the weaknesses of the statistical process with respect to continuity and reliability of the collection procedures, formats, cleaning, maintenance and retrieval systems of time series databases. This affects almost all institutions of the national statistical system and presents particularly serious difficulties for the exercise of building a time-series based indicator of economic performance.

In addition to poor quality and availability derived from the weaknesses of the statistical system, there are a number of fundamental aspects in which economic time series have limited statistical suitability for this type of study. These include the frequent breaks in trends reflecting substantial and frequent regime changes, sharp short-term variability in activity indicators. Trend breaks also reflect unstable surrounding institutional and policy environments, and/or disturbances in one operator in activity sectors characterized by high concentration (e.g. one-two-three companies forming an entire industrial branch).

However, while these characteristics of data make it difficult, they do not completely preclude the construction of the composite indicators of the type developed in this study. Indeed, in certain cases it has been shown that the development of activity indicators has been instrumental in filling the information gaps left by the traditional statistical service. In particular, the experience of the construction of such indices for countries in Asia, South America, the Middle-East (e.g. Lebanon) suggests that with less data than required by national accounts it is possible to construct substantially reliable composite indicators of economic activity in developing countries. This is no surprise since, the more concentrated the industrial structure of the economy, the more likely it is that a limited number of variables measuring the activity of the few key sectors (one-two-three dominating sectors; one-two-three enterprises in each sector or branch; one-two-three commodity exports making up the bulk of the country's output and/or exports) will represent the overall performance of the economy. This means that far from being an overwhelming handicap, the simplicity and concentration of the economic structure of the typical African economy can be a blessing (or facilitating) factor in the development of composite activity indicators that capture well the performance of the overall economy.

The ICAE is based on the aggregation of a few judiciously selected indicators of economic activity in key real sectors of the Mozambique economy. The deliberate focus on the real sector by no means implies any neglect of the importance of the monetary/financial sector for the performance of the overall economy. The priority given to capturing real sector variables into the ICAE is grounded on three reasons. First, the real sector is the least consistently captured by the available statistics, and the one on which much disagreement has existed about its actual performance. Second, aggregate real sector data is the most untimely to come by in official statistics, making it the most relevant area of priority in the development of the short- to medium-term indicators. Thirdly, the most readily available and reasonably systematic and widely cross-checked financial data should be used to develop potential short-term leading indicators and forecasting real activity.

The poor quality of the statistical data reflects the high instability of the data generating process itself. It is mostly on the basis of the failure to account for the fluctuations in the seasonal component, and the presence of a strong irregular component, that the statistics reject the seasonal adjustment imposed. Moreover, the fact that the ICAE shows a pattern of economic performance that does not totally coincide with that which is shown by officially recorded GDP partly results from the fact that the investment effort into big projects has been externally driven and executed by foreign suppliers of services with little domestic demand and activity being generated as a result, at least on a nationwide scale. The location of these projects in the southern corner of the country allowed incomes and activity to boom slightly around the Maputo corridor during the construction period, a fact that may have helped to create the idea of the period 1997-1999 as of extremely high growth.

This was also made easy by the fact that the economy had previously been experiencing a post-war reconstruction boom and enthusiasm. Yet the period 1997-1999 was crucial mainly because it was during this time that the big-projects were prepared and launched and whose construction and output allowed, later on, the reversal of the slowdown (both long term and cyclical) that the economy was going through as it exhausted the capacity slack in the immediate post-war. Outside the Maputo corridor, the period appears to have been essentially one of trend and cyclical slowdown and stagnation of real economic activity. Overall growth was almost 15% between 1994 and 1995, compared to 10% in the sub-period 1991-93. Cyclically, between 1994 and 1995 activity tended to grow at around 4% above the long-term trend. However, by the mid 1990's the economy started showing signs of exhaustion of its growth potential, with average annual trend-cycle growth falling below 2%. Trend-cycle growth has thus been highest as new capacities enter operation. Nevertheless, cyclically the economy entered the new century on the downside.

This combination of strong long-term growth with a cyclical downturn and weak and uncertain recovery dominated the performance of the economy of Mozambique at the end of the last decade and the first couple of years of this century seems to be the main factor that casts doubts in the minds of the people about the sustainability of the recently recorded high growth rates of the economy of Mozambique, once the construction and start-up phases of the big-projects has been concluded. The issue is particularly important given the recognizably low linkages of these projects with the rest of the domestic economy, which means that the benefits expected by the vast part of the poor population are hard (and may be even in the medium to long term impossible) to trickle down. Big MOZAL-type (heavy sands etc.) projects bring huge growth rates in output and exports that in the aggregate statistics swamp and obscure the reality of failure to restructure, and almost complete closure of entire branches of traditionally dominant and even modern local industries such as textiles, garments, and furniture manufacturing no to mention agri-industries such as cotton, cashew, sisal and others. Yet big projects of that type do not provide much of the needed domestic employment, and thus do not seem to operate the necessary interventions on poverty alleviation.

As mentioned, the ICAE is essentially focussed on the real sector. Even though this might only be capturing only a part of the activity, the economic variables included in its computation literally "circled" the real economy. A large portion of activity does take part in non-marketed sectors (such as subsistence agriculture), and there cannot be a strong claim that this has too been fully captured. However, to the extent that what happens even within the informal sector is closely related to the overall performance of the economy and the flow of key inputs and outputs, a part of this activity can be assumed to be been substantially accounted for.

The data used in the computation of the ICAE is similar (even though limited in the number of economic time series and their length), to the data used in similar work in a number of countries for which short- to medium-term composite/coincident indicators of economic activity have been developed. A principal difference lies in the fact that in those other places the set of components to composite/coincident and leading indicators includes also valuable qualitative information from regular business surveys on economic activity. In Mozambique there is no such type of information.

The results indicate that the economy of Mozambique has since the 1990's been experiencing relatively strong long-term growth of real activity at around 8.0% per year. Measured by the cyclical indicator of real economic activity, the economy of Mozambique has between January 1991 and December 2002 experienced two deep troughs and three peaks. Overall, over the period of study cyclical real economic activity has been mostly above the trend and dominated by upward movements in the business cycle. However, in the most recent years the cycles have turned substantially short, and the recessions have tended to dominate the recovery, casting a dark shadow on the medium-term growth prospects of the economy.

Continuing to follow Tibana (2003), the increasing short-to-medium term uncertainty seems to be closely related to slippages in macroeconomic management that have resulted in raising variability and conflicting signals from monetary policy and outcomes. In particular, a combination of real exchange rate appreciation with high nominal and real interest rates coupled with extremely variable availability of credit for working capital financing does not seem to be the right prescription for a much-desired sustained recovery. The coming years will be testing for the economy and authorities in Mozambique. The authorities are faced with a political cycle (with the coming local elections in 2003, and the parliamentary and presidential elections in 2004) that will require more careful fiscal and monetary policy. On the other hand, the economy is in desperate need for stimuli.

It remains to be seen whether, and if so to what extent, policy making will allow the political cycle to override sound economics. The outcome may be crucial in maintaining or not the achievements of recent years in terms of long-term growth. In effect, the growth process may become politically and socially unsustainable if long term growth continues to be strong but dominated by big-projects with little impact on employment and poverty alleviation in an economy made of small and medium sized enterprises.

While these issues were not researched, the ICAE has allowed a better measure of the spillovers of the South African business cycle than a comparison of annual output growth rates, when they become available a couple of years later, but nevertheless subject to sometimes drastic revisions. While output growth rates display no correlation, the ICAE moves together with the South African coincident indicator lagged twelve months. The potential evidence on the linkages between the economies of Mozambique and South Africa would suggest that the South African indicator could be a useful statistical leading indicator to Mozambique's. Both the implications for the analysis of linkages and the usefulness of the South African indicator as a leading indicator to Mozambique's are being explored for their importance for policy making and assessment of economic performance in Mozambique.

The growing interest of Sub-Sahara African private business organizations and governments towards composite cyclical indicators helps develop the tools for, the implementation of the peer review process. Alongside the maintenance and improvement of the ICAE and an analysis of its relationship with South African business cycles indicators, developing and

maintaining this type of indicators to other countries in the SADC region is now within reach. This involves tracking and forecasting medium term developments of African economies by using composite cyclical indicators. The comparative evolution of economic activity in Angola, Kenya, Mozambique and Tanzania, as well as their relationship with the South African business cycles indicators can thus be presented. A similar exercise can be carried out for Ghana or Cabo Verde, except for the comparison with a large sub-regional economy. The help from ECO and STD should continue and be broadened to other countries in the region, while securing an interest from Paris21.

The use of cyclical indicators in peer reviews and in public-private partnerships stressing South-South co-operation could be promoted in various parts of the OECD or its affiliated bodies (namely DEV, CCNM, ECO, STD and Paris21), with three mutually reinforcing recommendations being followed depending on available resources. Even if a Cyclical Indicators Comparison Project cannot be launched immediately, the production of a cyclical indicator for a couple other African countries (say Ghana and Tanzania) would create a database and a common framework for comparing macroeconomic developments across them. In particular, it would be important to start exploring each country's specific policy framework, with a focus on its coherence and sustainability. This type of analysis corresponds typically to country Economic Surveys. While such an objective seems beyond reach within the timeframe and resources of this project, the identification of some critical policy linkages between macroeconomic and structural reform areas would certainly be feasible.

This Cyclical Indicators Comparison Project would begin within the mandate of the author and provide clearly defined and visible outputs that can be presented to various stakeholders along the lines recommended below, culminating in the next Ministerial Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries (Macau):

2004: Extending the indicator database to West and Southern African countries, depending on resources. This work would be presented in Macau and in Cabo Verde, possibly also in Southern Africa.

2005: Comparison of cyclical indicators for Brazil and China with the existing African groups. This work would be presented in Macau and in Southern Africa.

2006: Completion of country coverage by surveying recent developments in the small Portuguese Speaking Countries. The overall results would be presented at the Macau Ministerial Forum. If the results are satisfactory, the project could be followed by a deeper involvement of the OECD in a peer review process.

## **5. COMMON GOOD, LUSOPHONE AND BEYOND**

Quoting from OECD (2003b, p. 52), "In response to a proposal from Brazil, externally funded work on the Portuguese-speaking countries was agreed on by the Advisory Board in the context of the Centre's activities concerning the poorest countries". Since the lusophone programme at DEV was launched in 2000, activities have taken place in several members of the CPLP while a public-private partnership project was initiated in the Democratic Republic of Congo, reinforcing coverage of SADC.

That the national and regional common good can be complementary has implications for the complementarity between regional and global surveillance noted in the Monterrey consensus. Another example is provided by the multi-regional CPLP as promotor of the *lusophone common good* (África Hoje 2003, pp 149-151, OECD 2003b, p.52). Portugal and Brazil, its two more developed members stand to gain from contributing to the integration of the other six (Angola, Cabo Verde, Guiné-Bissau, Mozambique, São Tomé e Príncipe, and Timor

Leste) in the world economic system. The gains may be even greater if joint actions can be devised with systemically significant emerging markets such as China, India or South Africa. These actions would enhance the South-South co-operation dimension without diluting the common allegiance which cements the lusophone common good.

In accordance with a decision taken at the Maputo Summit in July 2000, the first CPLP Business Forum was held in Lisbon in June 2002 and decided to set up a Business Council, with a permanent secretariat at ELO - Portuguese Association for Economic Development and Co-operation. The objectives for the Business Council were listed at the Brasilia Summit in July 2002. They were: (i) to enhance capacity building of business associations in member countries as well as to promote cooperation between them; (ii) to create a business network in the regions where lusophone enterprises operate; (iii) to encourage strategic partnerships; (iv) to promote innovative financing methods, and (v) to support local private sectors in the public-private dialogue. All of these objectives are consistent of the conclusions of this report but the support of public private dialogue was the main purpose of the Mozambique pilot project and of its extension to other African countries.

Progress towards meeting these objectives was reviewed at the second Business Forum, held in Fortaleza, Brazil in June 2003 after the Brazil-Africa Forum. At the Coimbra Ministerial meeting, it was also decided that the Business Council should begin operation in 2004 and that the next Business Forum will be held in Cabo Verde. The final communiqué also stated that CPLP Ministers welcomed the collaboration with OECD in the framework of NEPAD and encouraged further initiatives along the same lines. Similar encouragement was voiced with respect to UNESCO and the UN World Food Programme, also represented at the ministerial.

Quoting again from OECD (2003b, p. 52): “Since the majority of very poor countries is to be found in Africa, and considering the theme of the 2001-2002 work programme, an initial study of the interaction between governance and development was undertaken in the Cape Verde Republic (Lourenço and Foy, 2003)”. The study, made possible by a grant from Banco de Portugal, recognises the remarkable performances achieved in political, economic and social perspectives. Despite its paucity in resources, the country’s levels of education and health services, and general security, are among the highest in Africa and the use that is made of external assistance and of private remittances has impressed donors. However, the private sector consists of micro and small enterprises with low job-creating capacity, providing a narrow tax base. Establishing partnerships between national and local government, the private sector and civil society, namely associations of emigrants, should promote the creation of new enterprises and employment. This would in turn help the reform of public administration and the fight against corruption. Such public-private partnership could try to exploit a strategic geographic position between the African, European and American continents in attracting other investment, of interest to the Cabo Verde *diaspora* world-wide.

As indicated in section 5.3. above, the common format of the two seminars on “Better government for a better business environment” was an opportunity for presenting a summary in Portuguese of OECD (2003a), which is reproduced in *África Hoje* (2003, pp. 139-148). The topics listed in section 6.1 as candidates for public-private partnerships for African development, cyclical indicators and microcredit schemes were discussed by Tibana (2003) and Coelho (2003) respectively. The Luanda seminar took place one year into the peace agreement, in a specific transition context towards peace, democracy and market oriented economic policies. The proceedings, which also cover foreign trade and investment matters, were distributed to the central bank governors of the African lusophone countries and Timor

Leste during the 13<sup>th</sup> Lisbon meeting held at the Bank of Portugal on September 15 and 16 and were launched at Radio (RDP) Africa in Lisbon on September 19.

The Angola government specifically requested further legal and economic work on social dialogue, to be presented at a seminar in June 2004. The required work will be prepared by Tiny and Ribeiro (2003) and was presented in outline form at an economic panel on “Angola XXI century: stabilisation and development”, held in Lisbon on November 6, together with the summary of this report. During a seminar on 10 September 2003 at UNESCO in Paris to mark the anniversary of the SADC and the transition of the presidency from Angola to Tanzania, these activities were briefly presented.

The message is that the various experiences with public-private partnerships have improved governance and mutual understanding between public and private partners, and that OECD NEPAD collaboration should allow for them explicitly. In this regard the attendance at the Ministerial Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries in Macao provided a good precedent for greater visibility of work carried out under OECD auspices, including ECO through Oliveira Martins, the main author of the Brazil Study (OECD 2001a) and DEV through Ferreira (2003). The presentation of OECD work convinced the national authorities present, especially the host country, that peer review mechanisms help improve the governance response to globalisation and signal the rising financial reputation of emerging markets, thereby accelerating reforms and promoting the agenda of South-South co-operation (Goldmann Sachs 2003).

Similarly, the presentation of this report at the seminar on “Globalisation and development: policies and instruments”, organised by ELO in Lisbon on 28 November showed how the creation of the Business Council, with a permanent secretariat at ELO in 2002 and its imminent start of operations changed the attitude of CPLP towards economic governance and peer review allowing this interesting subgroup of NEPAD countries to take advantage of the experience of Portugal with peer reviews, extended to Brazil where a second Economic Survey has been decided.

When this report was presented at the concluding meeting in Bellagio on December 8-11, questions arose about the effect of cultural and linguistic proximity on the effectiveness of peer pressure. If the Commonwealth had not been able to improve economic and political governance among its members, why would this happen in the lusophone group, whose Business Council was not even in operation yet? It was argued, however, that this comparison was not appropriate because the recent interest of the lusophone group on economic governance was a direct consequence of the NEPAD, an African initiative, and of the interest of Brazil in Africa, also revealed by the recent visit of President Lula to Southern Africa. The fact that CPLP is much closer to South-South co-operation than the Commonwealth goes in the same direction, especially if, through OECD involvement, CPLP and the Macao Forum manage to become complementary. This is the basis for the recommendations presented in the conclusion.

## **6. CONCLUSIONS**

As this report has emphasised, the various experiences with public-private partnerships have improved governance and mutual understanding between public and private partners, and OECD NEPAD collaboration should allow for them explicitly. In the various fora where it was presented in draft form, those present were convinced that peer review mechanisms help improve the governance response to globalisation and signal the rising financial reputation of emerging markets, thereby accelerating reforms and promoting the agenda of South-South co-

operation. On the other hand, peer reviews take time to become effective because they are a knowledge intensive activity requiring good data, appropriate analysis and attention to culture whereas difficulties on all three fronts are likely to be more serious among developing countries.

If peer reviews are embedded in public-private partnerships for development, trust will build up among the various stakeholders, making the African surveillance mechanism more effective. Nevertheless, early wins cannot be expected from OECD-NEPAD collaboration on peer reviews unless the areas chosen for this voluntary exercise are economically relevant without being too sensitive politically. Innovative forms of finance fit in both categories, and indeed were explicitly mentioned in the conclusions of the Brasilia CPLP summit in 2002. Nevertheless, innovative forms of finance would not be able to fill the severe gap observed in the knowledge of the economy and the related ability to monitor its short-term performance, unlike the cyclical indicators just described.

A concrete experiment dictates the choice of cyclical indicators in a public-private partnership for development from which a simple yet relevant peer review on economic governance could emerge. As announced by DEV at the first Business Forum of the Community of Portuguese Speaking Countries in July 2002, the public-private partnership pilot project contributed to broaden the knowledge base available to social partners. The indicator, now hosted by the Mozambique Industrial Association, has allowed a better measure than annual output growth rates of the spillovers of the South African business cycle. The growing interest of African private business organisations and governments towards composite cyclical indicators helps develop the tools for the implementation of the peer review mechanism. Specifically, governments and business associations in Ghana, Tanzania, Angola, Kenya and Cabo Verde have successively expressed interest in constructing similar indices. A couple of these countries could be covered within existing resources while funding is being sought for others.

The first recommendation is therefore to produce cyclical indicators for a couple of African countries as soon as possible and obtain additional funds through the EU-Southern African Development Community Investment Promotion Programme. The second recommendation is to present a case study for Cabo Verde at the third Business Forum of the Community of Portuguese Speaking Countries, to be held there in July 2004. Existing work could be extended into a public-private partnership and presented when the Business Council of the Community of Portuguese Speaking Countries created in 2002 begins operations. The presentation on Cabo Verde might investigate the conditions under which the exchange rate agreement with Portugal, based on peg to the euro, could be broadened so as to include further steps towards full currency convertibility, another dimension of economic governance where the “Eurocentric” perspective can be helpful.

This could also be done without additional funding, especially if the collaboration with Macau public and private institutions is decided beforehand. As soon as additional funding is obtained, public-private partnerships with the business associations of the countries concerned could be launched, the objective of contributing to future African peer reviews being as explicit as possible. Not only are indicators of economic activity politically smart and simple to use, they are also economically relevant and their use in peer reviews and in public-private partnerships stressing South-South co-operation could be the basis for a *Cyclical Indicators Comparison Project*. The third recommendation then would be to follow the preparation of the next Ministerial Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries in Macau.

The Macau Forum opened an additional opportunity for policy-dialogue with four NEPAD countries (Sao Tome was not represented) and East Timor, against the background of the already established OECD programmes with Brazil and China, and their strategic interest in developing their relations with African countries, also revealed by the recent visit of President Lula to Southern Africa. Indeed, the dimension of South-South co-operation could play a decisive role in promoting the African peer reviews. In the process, mutual accountability would be naturally reinforced. The third recommendation provides a horizon for the gradual and flexible implementation of the different intermediate steps.

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