International Monetary and Financial Committee

Ninth Meeting
April 24, 2004

Statement by Mr. Tito Mboweni
Governor of the South African Reserve Bank
Representing Africa Group I Constituency comprising the following countries:
Angola, Botswana, Burundi, Ethiopia, Eritrea, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Statement by Mr. Tito Mboweni
Governor of the South African Reserve Bank
Representing Africa Group I Constituency comprising the following countries:
Angola, Botswana, Burundi, Ethiopia, Eritrea, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

International Monetary and Financial Committee
Saturday, April 24, 2004
Washington, D.C.

1. *The Global Economy and Financial Market—Outlook, Risks, and Policy Response*

1.1. We are optimistic regarding the global recovery, but need to remain vigilant about the vulnerabilities. Fiscal and monetary stimuli have engineered the recovery in the United States and the UK, while there have been some improvements in certain euro-area countries as well as in Japan. Growth performance in China and India has continued to be strong, while other emerging market countries, including those in Latin America and Asia, have benefited from the current interest rate environment. In Africa, improvements in macroeconomic management and security have generally contributed to better performance, although we continue to be concerned about the very low FDI flows.

1.2. Sustaining the global recovery will require determination by policy-makers to address the outstanding issues and imbalances. It is, therefore, important that policy-makers in both mature and emerging market countries remain vigilant and resolute in addressing existing weaknesses and vulnerabilities that continue to negatively affect the global economy and the stability of the financial markets. Among the most pressing issues that policy-makers in all countries need to be alert to, are: (i) a potential rise in global interest rates, which could have a major impact for the stability of financial markets, particularly for developing countries with a large stock of foreign debt; (ii) the significant dependence of the recovery on the US economic revival, where the resurgence of economic activity has been accompanied by growing imbalances, particularly in the fiscal and external sectors; (iii) the need for more vigorous fiscal consolidation and social security and pension reform in the advanced economies, particularly in Europe; (iv) the lingering imbalances in the financial and corporate sectors, which could boost the growth potential of mature economies if addressed appropriately.

1.3. Notwithstanding major improvements in economic conditions in most emerging market countries, some countries still need to implement critical reforms, especially those with high levels of external public debt. For these countries, it is necessary to avoid complacency and to put in place appropriate policies to improve macroeconomic fundamentals and financial market operations.

1.4. The increased geopolitical and global security concerns should not be underestimated or ignored, since they could derail the still-fragile recovery. We, therefore, call for a more coordinated multilateral approach in dealing with these security-related issues. It is our view that poverty is a major contributor to the current global instability. In this regard, we would like to stress the importance of the Fund's efforts to eradicate poverty, which undoubtedly are helping to lay the foundations for a more equitable and stable world.

2. Africa Outlook, Risks, and Policy Responses

2.1. Growth in Africa continues its upward trend, reflecting progress in addressing issues related to security and political instability, and improvement in the quality of policies and institutions. These efforts need to be strengthened, as the region is lagging behind in its efforts to reduce poverty and achieve the Millennium Development Goals (MDGs). While some countries have been recording impressive growth rates over a number of years, in most countries growth rates remain low. Overall, the continent is expected to grow by only 4.8 percent in 2004, which is slightly higher than the trend observed since 1995, but way below the required rate of seven percent needed to halve extreme poverty by 2015.

2.2. The African Union is taking various steps to improve the security, social, political and investment climate on the continent. In this context, a group of African countries met in March this year, and agreed on the modalities for accelerating the African Peer Review Mechanism (APRM) under NEPAD. The African Union is also strengthening its capacity for monitoring electoral processes and peacekeeping missions on the continent.

2.3. Unfortunately, as the Fund has pointed out in the latest World Economic Outlook, growth rates for Africa have systemically been over-estimated, due to the lack of quality data and unanticipated shocks experienced by the continent. African countries are particularly vulnerable to unexpected changes in climatic conditions because of their reliance on the agricultural sector, not only in terms of export revenue but also for subsistence purposes. Other sources of vulnerability include commodity price shocks, such as the current volatility in the oil price. In addition, Africa continues to be confronted with daunting challenges, including in particular, the negative impact of the HIV/AIDS pandemic and malaria on the economy, and the persistent brain drain.

2.4. African countries are committed to staying the course of adjustment and reform. However, for this effort to be successful, developed countries need to increase their efforts to fulfill the commitments made in various fora, including the Monterrey Conference on Financing for Development, the Doha Ministerial Conference and the

World Summit on Sustainable Development in Johannesburg, to increase concessional aid and debt relief and to foster trade and technology transfers. While a number of commendable initiatives have been announced by some donors to raise additional financial support, including the UK's International Finance Facility proposal and the recent Paris Conference on Financing for Development, progress in this regard has remained painfully slow. Global ODA rose from $52 billion in 2001 to $65 billion in 2003 but this increase mainly reflected exchange rate adjustments and bilateral debt relief, with no real increase in net resource flows. We are, therefore, of the view that developed countries need to urgently increase the level of their ODA assistance to at least 0.7 percent of GNP, the target set by the United Nations more than two decades ago. We hope that further progress is made in the near future on these and other initiatives.

2.5. It is widely accepted that the expansion of trade is critical for Africa as it will assist in the much-needed diversification of production and export bases. Estimates show that stronger growth resulting from a pro-development outcome of the Doha Round could increase real income in developing countries by $350 billion by 2015 (roughly equivalent to the entire GDP of sub-Saharan Africa), and lift an additional 140 million people out of poverty by that year, representing a decline of eight percent in poverty levels.

2.6. However, trade barriers in developed countries remain highly discriminatory against developing countries and are a major impediment to development. For instance, average OECD tariffs on manufactured goods from developing countries are more than four times those on manufactured goods from other OECD countries. In the European Union, producer support for beef is as high as 84 percent of the value of domestic production, while US subsidies to cotton growers totaled $3.6 billion in 2001-02 – twice as much as US foreign aid to Africa. Similarly, although cotton farmers in West Africa have lower production costs than their developed country counterparts, they still find it difficult to compete with them. We, therefore, strongly believe that the Doha Agenda needs to move forward to ensure a successful, pro-development, and timely outcome.

2.7. We are also concerned about the lack of coherence of many policies in developed countries in terms of their development impact. All too often, there are contradictions in policies, with support to development provided in one area defeated by actions in others. For instance, while the OECD provides around $58 billion in ODA each year, it spends five times as much on subsidies to domestic agricultural producers. Another obvious example is the US's Africa Growth and Opportunity Act (AGOA), the benefits of which were undercut by the 2002 Farm Bill, and may be undercut further by uncertainty with regard to continuity going forward. We, therefore, call on the developed countries to undertake regular assessment of their contributions to the establishment of a global partnership for development.

The Fund's Role in Low-Income Countries

2.8. We commend the Fund for increasing support to low-income countries in their efforts to achieve the MDGs. We encourage the Fund to apply greater flexibility and pragmatism in program design, to incorporate key concepts of development economics in its approach, and to take into account the long-term nature of the poverty reduction process.

2.9. We welcome the strengthening of collaboration between the Fund and Bank in low-income countries. In this regard, efforts to avoid overlapping conditionalities should be strengthened. We are in favor of a clear division of labor between the Bank and the Fund, and support the lead agency framework, as this reflects their respective areas of expertise.

2.10. Some progress has been made under the HIPC Initiative in reducing heavily indebted poor countries' debt burden and creating fiscal space for much-needed increases in poverty-related spending. We are pleased that thirteen countries have now reached the completion point, including most recently Ethiopia and Niger, which both received substantial topping up, as well as Senegal, while eight other countries are on track to reach this status soon. We also welcome the recent amendment to the PRGF-HIPC Trust instrument to provide for full topping-up where the member country's debt parameters have been affected by exogenous factors.

2.11. However, significant challenges remain. Six HIPCs are currently off-track with their macroeconomic programs, and need urgent assistance to get back on track, while eleven HIPCs have not yet reached the decision point. The opportunity costs of these delays are enormous for the recipient countries in terms of growth, investment, employment, and poverty reduction foregone, and this situation needs to be urgently addressed by the international community. To this extent, the Fund and other multilateral organizations should provide adequate technical assistance to help countries build capacity for policy implementation and minimize program interruptions, with a view to accelerating the process under the Enhanced HIPC Initiative. In addition, in light of the extensive delays faced in the implementation of this Initiative, it will only be reasonable to postpone its expiration date to at least 2006.

2.12. We welcome the work underway at the IMF and World Bank on a debt sustainability framework which is intended to provide guidance on assessing debt sustainability and on the creation of a credible debt management strategy, because there will continue to be a net outflow of resources to the IFIs from low-income countries even once the HIPC initiative has been completed.

2.13. It goes without saying that low-income countries will need substantial resources for the foreseeable future, to reach the MDGs. However, the current PRGF resources will not be sufficient to meet the financing needs of low-income countries for the period 2006-10. The sunset clause included in the PRGF instrument could jeopardize the efforts of low-income countries to achieve or maintain macroeconomic stability. We, therefore, strongly support the Fund's calls for additional resource mobilization under the self-sustained PRGF. In our view, provisions should also be made in Fund-supported programs for greater flexibility around infrastructure spending, while paying due regard to macroeconomic stability and debt sustainability.

2.14. It is important to balance the interests of frequent users of PRGF resources with those of low-income countries that do not often use the facility. However, flexibility will need to be exercised by looking at each case on its own merit, given the continuing challenges facing many countries that have already benefited from PRGF-supported programs.

2.15. In addition, we believe that changes on the Emergency Post Conflict Assistance are urgently needed to make the instrument more accessible. We, therefore, urge that the access be increased to a higher percentage of quota and sufficient preparation be made, so as to allow these countries to restore and strengthen policy design and implementation capacity before moving to a PRGF program.

2.16. Moreover, we request the Fund to continue to develop and refine financing mechanisms to assist countries in managing exogenous shocks. Additionally, since the vast majority of the world's poor live in middle income countries, we urge the Fund to create a concessional facility to assist these countries in their efforts to address poverty-related challenges, including the severe incidence of HIV/AIDS.

3. Voice and Participation

3.1. Taking our direction from the Consultative Meeting of African Governors, held in Johannesburg in March 2004, and from the Monterrey Consensus, we believe that sub-Saharan African representation in the Boards of the BWIs urgently needs to be enhanced. We strongly believe that there is a no more appropriate time than now to reform the governance structures in both institutions to better reflect the global reality of the 21st century. We, therefore, call for the setting up of a clear timetable to speed up the completion of work toward enhancing the voting power, voice, and participation of developing countries in the BWIs.

3.2. In this connection, it is our view that basic votes should be increased to at least their original level, and that additional representation of sub-Saharan Africa on the Boards of Executive Directors should be considered. Furthermore, we reiterate the call made by the April 2001 joint report of the working groups of the Executive Boards of the IMF and World Bank, for an open and transparent selection process to attract the best candidates regardless of nationality. This report was endorsed in 2001 by both Executive Boards as guidance for the future selection of the heads of the two institutions and noted by the International Monetary and Financial Committee.

Surveillance and Crisis Prevention/Resolution

3.3. Surveillance remains one of the most important functions of the Fund in assisting member countries to formulate and implement sound policies for sustainable economic growth, as well as to prevent crises. We are looking forward to the forthcoming review of surveillance, which will include issues such as global and regional spillovers, the role of institutions in economic development, and the balance sheet approach.

3.4. Our constituency values candor during surveillance exercises; however, we reiterate that confidentiality needs to be preserved. The Fund should move away from the "one-size-fits-all" approach, so evident in their advice to many low-income countries, and instead policy advice must be provided on a case-by-case basis. While surveillance has been increased to cover the area of anti-money laundering and combating financing for terrorism, many of our countries do not have the financial, technical and human resources to implement the required changes. We urge for technical assistance in this regard. As regards the mature economies, careful assessment of the vulnerabilities that could hamper global economic performance is required, and must be reported.

3.5. Turning to progress on crisis resolution, we welcome the ongoing initiatives to strengthen the current framework. The recommendation for the inclusion of collective action clauses (CACs) in bond contracts is now being considered by a number of emerging market countries, including in our own constituency. Furthermore, bonds with CACs can now also be issued under New York law. This voluntary approach between debtors and creditors, to establish a framework for crisis prevention, is very much welcomed. We also appreciate the efforts by private institutions, such as the Institute of International Finance to promote the design of a voluntary code of conduct. While the Fund should monitor progress in this regard, we are, however, firmly of the view that debtors and creditors should determine both the pace and design of a code of conduct.

3.6. We call for the establishment of a facility to replace the recently terminated CCL, without the constraints which prevented its use. We express our disappointment with the costly accumulation of reserves by many emerging market countries, which is necessitated in part by the absence of a Fund facility that could be used by emerging market countries experiencing a sudden drop in capital flows due to exogenous factors.

4. Note of thanks to the former Managing Director

4.1. Finally, we express our deepest appreciation to former Managing Director Horst Köehler for his sustained efforts to address African issues. We recall in particular his insistence that conditionality in Fund-supported programs be streamlined, his preparedness to listen to African leaders, and his emphasis that developed countries should open their markets to developing countries.