International Monetary and Financial Committee

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Statement by Shamsuddeen Usman
Minister of Finance, Nigeria
On behalf of Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia

Statement by Hon. Dr. Shamsuddeen Usman
Minister of Finance, Nigeria

Representing Africa Group 1 Constituency comprising of the following countries: Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe

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Saturday, October 20, 2007
Washington, D.C

A. GLOBAL ECONOMIC DEVELOPMENTS

Global Growth

1. We welcome the September 2007 WEO's projection of strong growth of the global economy at around 5.0 percent in 2007 and 2008, albeit at levels slightly lower than the achievement in 2006. The large emerging market economies (EMEs), especially China, India and Russia are expected to lead in contributing to global growth, with all regional groupings, including low income countries (LICs) having robust growth. Regrettably, among the advanced countries, growth in the Euro area and Japan slowed in the second quarter of 2007, while in the United States it was somewhat dampened in the first half of 2007 mainly by the housing downturn.

2. We are however, concerned that the robust growth performance notwithstanding, several downside risks to favorable growth outlook remain, including the financial market turbulence, volatile oil prices, inflationary pressures, global imbalances, impact of foreign exchange flows to EMEs, and global warming. Worse still, some of the risks, especially the financial market problems in major industrial countries and the poor credit and housing market conditions in the United States, continue to unfold, while their knock-on effects and nature of adjustment remain uncertain, thus, calling for cautious optimism about global growth prospects.

3. We urge that these risks be addressed by individual countries and collectively through adoption of suitable measures to sustain global growth that is supportive of efforts by developing countries to achieve the Millennium Development Goals (MDGs). In our view, the risk of delayed action or inaction would be borne disproportionately by developing countries, which tend to heed Fund advice and persevere with necessary macroeconomic and structural reforms.

Growth Performance in Sub-Saharan Africa (SSA)

4. We are pleased to note continued strong growth and a relatively favorable economic outlook for Sub-Saharan Africa (SSA), underpinned by improved macroeconomic policies, implementation of structural reforms and favorable commodity prices, as well as a supportive external environment. Oil exporting countries and producers of other commodities in SSA have earned high incomes, which have facilitated increased investments and growth. Real output in SSA is projected at 6¼ percent in 2007 and 6¾ percent in 2008, both slightly lower than projection in the April Regional Economic Outlook, but up from 5 ¼ percent in 2006. Headline growth in 2008 reflects a weaker global outturn and a projected cooling of non-oil commodity prices – a major source of revenue for increased investments that have sustained growth. A sustained average annual growth rate of 7 percent or higher is generally considered necessary to help lift SSA out of poverty and achieve MDGs. The major constraints to meeting such desirable growth target include low savings and investment, erosion of trade preferences, inflationary pressures, unpredictable aid flows, high volatile oil-priced induced shocks for net oil-importing countries, droughts, conflicts in some countries and HIV/AIDS. As African policy makers remain committed to ongoing reform efforts, we call on the development partners to support these efforts.

5. We are particularly concerned, that the growth prospect for the sub-region could become worse if protectionist tendencies in trade between the US and some emerging economies, especially China, intensify as these countries currently constitute a major market for commodities from the sub-region. This situation underscores the need for a speedy conclusion of the Doha Round to facilitate reduction of subsidies and the opening of markets in advanced economies for products from LICs to sustain growth and reduce poverty. It further calls for timely delivery of HIPC and MDRI relief, including from those non-Paris Club bilateral and commercial creditors whose contribution still remains low.

Risks to the Outlook

6. We note, with concern that the current edition of the World Economic Outlook indicates that the balance of risks to the growth outlook is on the downside. It is disappointing to observe that while the underlying fundamentals supporting growth seem to remain in place and the strong momentum in increasingly important emerging market economies intact, downside risks from the financial markets have increased. We consider that even though the recent repricing of risk and increased discipline in credit markets could strengthen the foundations for future expansion, near-term risks to growth are still high. We, therefore, urge market participants and regulators to take remedial measures promptly since the extent of the impact on growth could depend on how quickly more normal market liquidity returns and how well credit spreads deterioration is

avoided. In our view, an extended period of tighter credit conditions could have a significant dampening impact on growth worldwide, and could particularly affect some countries with large current account deficits and substantial external financing inflows. We are concerned that a sharp slow down of the US economy would have substantial impact on global growth, with grave consequences for the Low-income countries (LICs). We stress the need for increased vigilance and adoption of sound policies to minimize these risks, especially by ensuring that prudential regulations are in place and enforced.

B. IMPLEMENTATION OF THE IMF'S MEDIUM-TERM STRATEGY: CHALLENGES

Quota and Voice Reform

7. We welcome the progress made so far, but note that fundamental challenges still remain. While we agree with the Fund's Board that the quota and voice reform would need to enhance the representation of dynamic economies, many of which are emerging market countries that have become underrepresented, we would like to underscore that such increase should not come at the expense of other emerging market and developing countries. It is also important to stress that one outcome of the second round reforms should be a further increase in the voting share of emerging market, developing and low-income countries as a whole. The new quota formula being developed must be simple and transparent, consistent with the multiple roles of quotas; produce results that are broadly acceptable to the membership; feasible to implement statistically; stand on its own merits; and consistent with the Fund's mandate. We support the evolving consensus on the inclusion of GDP as the most important variable in the formula in a blended form, with equal weights to GDP at market exchange rate (MER) and GDP PPP terms. A more appropriate measurement of variability and openness is also needed. We consider also the inclusion of the compression factor in the quota formula as necessary. We continue to call for at least a tripling of basic votes which we consider to be an integral part of voice and quota reform, and which we believe to be the bare minimum of an acceptable package of the reforms.

Development of a New Income Model

8. We note that following the recommendations of the Committee of the Eminent Persons on the development of a new income model, is far advanced with consensus on broad principles, including ensuring continuity with respect to the Fund's existing mandate, core functions, and effective operation; avoiding excessive complexity in design and operation and promoting transparency; and establishing a framework that is sufficiently flexible to enable the Fund to respond appropriately to future developments. We welcome the establishment of an endowment from proceeds realized through post second-amendment Gold

sales as well as for the investment of a small portion of quota resources of all members as important elements of the New Income Model. We, however, do not support the proposal to charge for technical assistance to low-income countries as part of income generating activities. We encourage the remaining work to be undertaken expeditiously, including amendment of Articles of Agreement and further consultations with capitals on gold sales for ratification by the national parliaments. We consider that what is needed now is for Governors to be given opportunity to reflect on concrete proposals on potential income-generating options and approve them for implementation. Protracted discussions on a new income model without action on options for which consensus exists would not convey the sense of urgency the matter deserves.

Modernizing Surveillance Framework

9. We welcome the Managing Director's proposed strategies to improve surveillance framework and strengthen bilateral and multilateral surveillance, and call on the executive Board to expedite implementation. We stress the need for careful and through analysis of the basis for making conclusion on the exchange rate regimes of member countries, especially in the context of the new Decision on Bilateral Surveillance approved by the Board on June 15, 2007. We reiterate that the revision of the 1977 Decision was unnecessary because our countries implement Fund surveillance decision; and that the problem relates to asymmetric application of surveillance and its not being made effective in systemic countries. We support the strengthening of surveillance through increased integration of financial sector issues into surveillance in all countries and having decisions of multilateral consultations implemented.

C. PROGRESS ON OTHER ELEMENTS OF THE FUND'S MEDIUM-TERM STRATEGY

Emerging Market Economies (EMEs) and Crisis Prevention

10. We are encouraged that EMEs, as a group, have shown unprecedented resilience during recent financial market turbulence as they have benefited from favorable external environment of the last few years, and accumulated high international reserves which serve as some self insurance. While increased capital inflows have enhanced investment prospects, they, however, have also posed challenges for policy making in these countries, especially in terms of such flows being short-term and speculative in nature.

11. We therefore, agree with many policy makers in EMEs that the newly proposed instrument for their countries, designed to help reduce the likelihood of a crisis by supporting strong policies and making access to Fund resources available, could be useful. We believe, however, that would be the case if

some members' concerns regarding key features of the instrument could be addressed, rather than for "further consideration by the Executive Board to take place when the new instrument is clearly demanded". The proposed new instrument, the Reserve Augmentation Line (RAL), may not be demanded if all its features are not fully known. Apart from the access limit of up to 500 percent of quota, we are of the view that the issues of rate of charge, duration and automaticity need to be decided up front by the Fund. We urge that the Fund's policy advice to EMEs should also aim at continuously empowering them to better identify and manage financial and market risks as well as reduce poverty.

The Role of the Fund in Low-Income Countries (LICs)

Redefining Role of the Fund in LICs

12. We note that the Managing Director, in his report to the IMFC, emphasizes the Fund's role on macroeconomic policy advice in the face of volatile and potentially scaled-up aid flows to LICs. The document also stresses that members' poverty reduction strategies (PRS) provide the framework on which aid is being scaled up, making it clear about the Fund's role in the PRS process and its interaction with donors.

13. We are of the view that redefining the Fund's role in LICs should not imply a retreat from the traditional areas of Fund's support. We believe that in addition to the traditional modalities of engagement with the Fund (Article IV, PRGF, HIPC, PSI, etc.), issues of improved program design, aid for trade, enhanced fiscal space, non-Paris club debt relief, debt sustainability, financial sector development, macroeconomic stability and growth need to be given adequate attention. In addition, we suggest that as the PSI is becoming a useful Fund Instrument, it might be time to correct some inadequacies identified so far in the course of its implementation, including the wide disparity in the number of criteria and benchmarks for implementing countries, as well as fixed review schedules, and lack of a yardstick for measuring success.

Debt Relief and Debt Sustainability

14. We are encouraged to note that 22 countries have reached their HIPC Initiative completion point, and that 24 countries have received debt relief from the Fund under the Multilateral Debt Relief Initiative (MDRI), including Cambodia and Tajikistan, which are non-HIPCs. While we commend the Fund's role in this regard, the Institution needs to sustain efforts at encouraging non-Paris Club official bi-lateral and commercial creditors to increase their delivery of debt relief. Equally encouraging is the IMF Board's recent approval of financing modalities to facilitate bi-lateral contributions to finance the cost of Fund debt relief for Liberia. This gesture is immensely appreciated. We note the Fund

focus on having LICs intensify the use of the Bank-Fund Debt Sustainability Framework (DSF) as a guideline for information sharing between creditors and debtors to avoid contracting new non concessional debt. We are of the view that as concessional lending may not always be available to all LICs having need for it, understanding needs to be shown by the Fund in having LICs access non-concessional loans for viable projects based on circumstances in an individual country, while keeping debt sustainability in view.

Doha Round and Aid for Trade

15. We note, with disappointment, that since resumption of the Doha Round negotiations in late 2006, progress has been uneven. We emphasize the significance of early and substantial conclusion of the Round involving deep cuts in agricultural subsidies and tariffs by advanced economies, and reduced non-agricultural tariffs by all countries, as well as advances in areas of global interests, including rules, services and aid for trade facilitation. Multilateral trade reforms, and facilitation of a better functioning of the international trading system, would be helpful in securing market access for developing countries' exports. We consider that failure of the Doha Round would encourage greater protectionism which would be inimical to trade and growth prospects of LICs in particular and the rest of the world in general. We in SSA countries expect the Fund to play an effective catalytic role in bringing about prompt and successful conclusion of the Doha Round. In a similar vein, we suggest that assistance in implementation of trade-related reforms and strengthening competitiveness by LICs be stepped up under the Enhanced Integrated Framework (EIF), while donors should redeem pledges of increased aid for trade in line with the Paris principle on aid effectiveness. We urge that the Fund's TA be made available as appropriate in support of trade facilitation.

Diversity

16. We consider that a strong political mandate from Governors is necessary to assist the Fund work promptly towards achievement of the outcomes envisaged in the Resolution. We welcome the Fund Board's discussion to consider an amendment to the Articles that would enable Executive Directors elected by a large number of members to appoint more than one Alternate Executive Director. We, look forward to action being taken expeditiously on this matter. We, however, wish to reiterate our disappointment of the Board approval of one Advisor of each of the two African Executive Directors' offices, which, for us is inconsistent with the spirit in Singapore. We also observe that the number of African staff in the Fund falls far short of the diversity target. We urge that some measures aimed at increasing the representation of Africans at all staffing levels, including appointing a Deputy Managing Director from Africa, be undertaken expeditiously. We regard the current situation, where Africans

account for only 5.6 percent of Fund's staff relative to a recommended diversity threshold of 8 percent, as unacceptable.

Building Institutions and Capacity

17. We encourage the Fund to continue to provide TA in its core areas of expertise to enhance the development of effective institutions and capacity critical for articulating sound policies for improved economic management, growth and poverty reduction. We encourage the Fund to ensure that its capacity building activities need to be continuously aligned with the needs of member countries, while its TA should stress country ownership and appropriate coordination with other providers. We stress that the review of costing and financing of TA should not lead to LICs being charged for TA and training which should continue to be provided free of charge as public goods. We welcome planned initiatives by the Bank and the Fund to build capacity for public debt and fiscal risk management in LICs and put in place a technical cooperation arrangement in middle-income countries to improve debt management systems in the context of asset-liability management framework. We consider this as work-in-progress which needs to be concluded in a timely manner.

Managing an Effective Institution.

18. We note that in order to run the Fund as efficiently as possible to assist the members, management proposes to make advances in three areas, namely, intensification of efforts to realize cuts in real spending on the operational budget; making progress on the new income model for the Fund; and formulation of an action plan to strengthen Bank-Fund collaboration. We support efforts to improve the Fund's income position through implementation of elements of the report of the Committee of Eminent Persons, considered by the Board as most likely to yield substantial revenue, while exercising prudence over expenditures. Similarly, we emphasize that the recommendations of the External Review Committee, acceptable to the Board, on Bank-Fund Collaboration, need to reach Governors without further delay for consideration, approval and expeditious implementation. We urge that the improved collaboration being sought between the Bank and the Fund, especially in the context of each Institution focusing more on its core areas of expertise, should not imply a retreat from beneficial and traditional areas of Fund engagement with LICs. We note that with respect to risk management and communication, steps for further improvement of the Fund's risk management framework and communication strategy, which would enhance effective two-way engagement between the Fund and the membership, have been identified and discussed by the Board. We consider that satisfactory and early completion of work in these areas would strengthen the Fund's capacity

to provide better services to the membership and greater understanding of policy intentions and outcomes.

In conclusion, we welcome Mr. Strauss-Kahn, the new Managing Director, and thank Mr. Rodrigo de Rato for his service to the Fund in the last few years.