Statement by Mrs. Nenadi E. Usman
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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
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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.

International Monetary and Financial Committee
Saturday, September 17, 2006
Singapore

A. Global Economic Developments

1. We are encouraged to note that global growth has remained robust in the first half of 2006, with economic expansion in most regions meeting or exceeding expectations and likely to be over 5 percent for the entire year. Nevertheless, concerns about inflationary pressures, tighter conditions in financial markets, and further rise in oil prices to new highs have heightened downside risks to the global economic outlook. Other sources of uncertainty include continued large global imbalances, increased potential for protectionist pressures following the deadlock in the Doha round, and questions about the resilience of emerging market economies in a more testing global environment. We urge that these risks be addressed to sustain global growth and to support developing countries’ efforts to achieve the Millennium Development Goals (MDGs) and avoid a disproportionate bearing of costs associated with delayed responses by countries, including developing ones, which have undertaken essential macroeconomic and structural adjustments.

Regional Developments

2. We also note that at the regional level, growth has been particularly strong in the United States in the first quarter of the year, but slowed down in the second quarter amid a cooling housing market and rising fuel cost. Growth in the Euro area has gathered some momentum, while economic expansion in Japan has maintained a fairly strong pace. Economic growth in China accelerated further, while emerging Asia and Europe continued to grow rapidly. Output growth picked up strongly in Latin America, while the Middle Eastern oil exporters maintained impressive growth rates. We encourage all regions to continue pursuing policies that would sustain growth momentum that is beginning to slow down.

Developments in Sub-Saharan Africa

3. We welcome Sub-Saharan Africa’s (SSA’s) continued strong growth and favorable economic outlook which have been supported by implementation of sound policies and
structural reforms, as well as a conducive external environment. Oil exporting countries and producers of other commodities in the sub-region have earned high incomes which have contributed to increased investments and growth. This significant growth performance, averaging over 5 percent, is however, insufficient to contribute substantially to poverty reduction and achievement of the MDGs. An average growth rate of 7 percent is considered ideal for that purpose. Besides, output growth has been uneven and punctuated by droughts, recurring food scarcity and humanitarian crises in many of our countries. In addition to the volatile international oil prices, which have further exacerbated the challenges for growth in most net-oil importing countries in the region, we are also grappling with inflationary pressure, erosion of trade preferences, and HIV/AIDS pandemic which have been inimical to the sustenance of high growth rates in SSA. These risks are further amplified by a number of other problems, including low levels of saving and investments, unpredictability of aid flows to the region, and political instability in some countries.

4. We believe that in order to achieve higher and sustainable growth rates to drastically reduce poverty and improve the prospects for attainment of the MDGs, SSA countries need to intensify efforts and commitment to implementation of suitable and sound macroeconomic policies and structural reforms designed to eliminate the constraints to growth and development. Our countries also count on the continued support of development partners, including International Financial Institutions (IFIs) to enable them achieve these objectives. We are convinced that the provision of additional debt relief, where necessary, increased aid flows and improved access to develop counties’ markets for products from LICs would contribute to meeting such growth targets. In this regard, it is our view that early resumption of the Doha round of trade negotiations should be a priority for all concerned.

Risks to the Outlook

5. It is disappointing to note that the robustness in global growth has been accompanied by many downside risks. Among these are intensified inflationary pressure, higher oil prices, global imbalances and the cooling of housing markets in a number of industrial countries. Besides, a greater potential for adoption of increased protectionist measures and more trade distortions exist in the wake of the breakdown of the Doha round of trade negotiations. So far, the impact of higher global oil prices has been disruptive, but well absorbed by the market partly reflecting the growing global demand for oil, as well as relatively well-anchored high oil-price and inflationary expectations. It is however a matter of concern for us that this situation is proving more intractable to manage and could be unsustainable in the medium to long-term. Furthermore, we are concerned that oil-importing countries, especially in SSA are experiencing increasing difficulty in managing balance of payments problems as well as fiscal pressures associated with high oil prices.

6. Another element of risk, which we consider the international community needs to be vigilant, is the significant tightening of financial market conditions. Of particular concern is the fact that they appear to occur partly as a result of a rise in inflationary
expectations, and not merely from a more gradual adjustment in savings and investment behavior. The tightening of financial market conditions could adversely affect emerging market economies if it would lead to prolonged widening of interest rates. Such a situation could lead to an increase in the cost of borrowing in low-income countries and a dampening effect on investment, growth, poverty reduction and on efforts aimed at meeting the MDGs. Notwithstanding these risks, we share the optimism that the short-term outlook remains generally positive, with the global economy having proved remarkably resilient to the shocks of the last several years. Member countries’ monetary authorities, other policy makers, oil producers and consumers and trade negotiators, need to actively play their respective roles to minimize the risks and help sustain the favorable outlook for the benefit of all our economies.

B The Fund’s Medium-Term Strategy (MTS)

7. As disclosed during the Spring Meetings in April, the key elements of the MTS include, among others, new direction in surveillance, the changing role of the Fund in emerging market countries, more effective engagement in low-income countries, governance and capacity building. We note, however that discussions, at these Meetings are slated to focus mainly on two of these elements: IMF Quotas and Voice; and Status of Implementation - Adaptation of the IMF Surveillance Framework.

(i) IMF Quotas and Voice

8. We wish to stress that a major issue of concern to SSA countries in particular and developing countries in general is that of existing inequities regarding quotas, voice, and representation in the IMF. We note, however, that the MTS acknowledges that fair weight and voice are crucial to the Fund’s credibility and effectiveness. To this end, the Fund has proposed a package of reforms which seeks to (a) better align quota shares with economic weight in the global economy; and (b) ensure adequate participation of low-income countries (LICs) in the governance of the Fund. The Fund aims at an agreement during these annual meetings on a time-bound program of actions to achieve these objectives, including an initial limited round of ad hoc quota increases for four countries (China, Korea, Mexico and Turkey) that are clearly underrepresented in terms of their share of the global economy, and more fundamental reforms to be effected within 2 years from Singapore. The latter, we understand would include: (a) a new quota formula; (b) a commitment that quotas will be adjusted on a more timely basis in future in line with changing economic weight in the world economy; and (c) an increase in basic votes to protect the voice of small economies, and measures to alleviate disproportionate workload of large chairs, including African chairs.

9. While the recommendations for achieving these objectives, as contained in the draft resolution ahead of Singapore, seem broadly in the right direction and a necessary first step for which we commend the Fund Management, we urge Governors not only to approve the resolution, but also to sustain their political guidance and leadership to facilitate its prompt implementation to the letter in the interest of all Fund’s membership.
A revised and generally acceptable quota formula should be such that does not convey more veto power to some groups of countries while further eroding the quota share of low income ones. We are of the view that these reforms can benefit us in Sub-Saharan African Countries if at the end of the process the quantum of the increase in basic votes is sufficiently large not only to retain our current voting power, but also to increase it. In this regard, we call for a tripling of basic votes which might not be even enough to restore the share of basic votes in voting power to its original level of 11.3 percent. Regarding diversity in the Fund and representation of Africans at all levels of staff and management, we also call for appointment of African staff at all levels, including management level. We support efforts to articulate fair, equitable, and transparent procedures for the appointment of the Fund’s Managing Director going forward.

(ii) Status of Implementation- Focus on Adaptation of IMF Surveillance Framework

10. We consider that surveillance is an important mechanism through which the Fund identifies constraints to effective economic management and stability in member countries. Thus, in addition to the existing country, regional, and global economic surveillance approaches, the Fund has announced the launching of a New Multilateral Consultation (surveillance) procedure that would allow its members to propose actions, undertake analysis and build consensus on how to address vulnerabilities that affect individual members and the global financial system. We welcome the new consultative vehicle and hope that it will truly complement the existing modes of consultations, and allow the Fund to take up issues of shared concern with several members or groups at the same time. We are informed that the first multilateral consultation has begun with five members and groups of members - China, the Euro area, Japan, Saudi Arabia and the United States on “how to address global imbalances while maintaining robust global growth”. Going forward, it is understood that surveillance would focus more on exchange rate policies, analysis of financial and capital markets, and increasing application of analytical tools to capture cross-country spillovers.

11. We agree with and support the notion that surveillance should have a more global perspective, with multilateral consultations, exchange rate surveillance, integration of macroeconomic and financial market analyses, and regional perspectives as its essential elements. We would, however, wish to see a situation where the Executive Board is allowed to continue to carry out its oversight responsibility through discussion and review of key issues and recommendations emanating from the multilateral consultative process. We are also of the view that exchange rate surveillance should be advisory and not prescriptive and intrusive in nature. We expect that the newly established department on financial sector and capital market work in the Fund would help sharpen existing analytical tools to assist raise the quality of related policy advice to a higher level. A regional focus of surveillance which provides analytical reports on potential risks and highlights appropriate responses in the various regions, including Sub-Saharan Africa, is highly desirable. The production of Economic Outlook for SSA is appreciated and should be kept up. The introduction of the streamlined Article IV Consultations is noted, and we
agree that it should be on experimental basis, taking into account countries’ specific circumstances. Of great importance also is the Fund’s focus on selected major surveillance themes to help meet the diverse needs of the membership. Such themes, which are considered of immense value, include “The Impact of Heightened Volatility in Financial Markets and how that affects the global outlook; The Spillovers and Risks Associated with Unwinding of Global Imbalances; and The Continuing Effects of High Oil and Non-oil Commodity Prices”. We encourage the Fund to persevere in this area.

C Progress Reports

12. We note and welcome the three key areas of the Fund’s work highlighted under the Managing Director’s progress reports. These are: Strengthening IMF engagement with emerging market countries (EMCs); IMF support to help low-income countries achieve the MDGs; and Activities of the Independent Evaluation Office (IEO)

(i) Strengthening the IMF Engagement in Emerging Market Countries

13. We observe that in response to concerns by EMCs that the Fund has not moved far and fast enough in meeting their needs on effectiveness of surveillance, quota share, and understanding of financial and capital markets, the Fund’s strategy has called for deepening financial and capital market surveillance and exchange rate and macroeconomic analysis in the EMCs. Given that vulnerabilities remain, as suggested by recent market turbulence, some EMC members and others have called for a new financing instrument specifically designed to support crisis prevention by members active in international capital markets. The reasoning indicated is that the Fund’s financial support can lower the likelihood of a crisis by providing liquidity and promoting strong policies in member countries vulnerable to shocks. We are informed that the Board is to follow up on a new precautionary instrument of up to 300 percent of quota and the basic elements of regional reserves pooling arrangements after Singapore. We support the proposal for enhanced focus on financial and capital market analysis in EMCs. We consider that assisting low-income countries to also have improved understanding of development in these markets would be useful to them, and some lessons learned would aid the deepening of their financial and capital markets. The Fund would need to consider sharing experiences from regional reserves pooling arrangement in EMCs with the rest of the membership, especially the LICs.

(ii) The Fund’s Support to help Low-Income Countries Achieve the MDGs

Surveillance and Policy Advice

14. It is heartening to note that the thrust of the MTS is for the Fund’s policy advice to LICs to be more focused on sustainable growth and macro-critical areas that would support the achievement of the MDGs. Traditionally, the range of the Fund’s areas of engagement in LICs have included; macroeconomic stabilization, policy advice, lending and technical assistance (TA) in support of financial institutions’ building and human
capacity development. In that wise, the instruments introduced by the Fund in the past year for engagement in LICs are the Policy Support Instrument (PSI) and Exogenous Shocks Facility (ESF). We expect the new focused approach to engagement to assist the Fund address new challenges facing it and the LICs, including assisting these countries effectively manage expected increase in aid flows, maintain debt sustainability, and facilitate better use of freed debt relief resources to facilitate the attainment of the MDGs. In addition to the new focused approach to surveillance, we note the proposal to undertake stream-lined Article IV Consultations. We agree that it should be undertaken on an experimental basis, taking into account countries’ specific circumstances.

15. Our countries recognize the importance of and appreciate the Fund’s policy advice, its development of new instruments and facilities and provision of TA. They are however, concerned about the quality of its engagement regarding hardly sustainable growth in many of the countries, illusive fiscal and external sustainability notwithstanding their long-term program engagement with the Institution, and lack of strong support for the development of growth-enhancing infrastructure, while reforms, including privatization have been unduly rushed. Further improvements in policy advice, program design, promotion of economic stability and ownership of programs as well as the conduct of surveillance along the lines of the PSI, and not necessarily through funded programs are called for. Growth in our countries needs to be supported through better alignment of PRSP/PRGF, PSI, and ESF processes, and investment in infrastructure to facilitate attainment of the MDGs.

**Aid flows, trade and the MDGs:**

16. It is encouraging to note that the Fund’s strategy calls for consistency between projected aid flows and macroeconomic stability and estimated costs of achieving set development goals, especially the MDGs by countries. Regarding the concern about aid absorptive capacity in some countries, the proposal is for Fund staff to inform donors when the scope exists to absorb more aid, and recipients when additional aid might trigger macroeconomic instability, including exchange rate appreciation. We welcome the Fund’s reference to the importance of aid for trade as a development priority as well as the point that failure to achieve a more rapid conclusion of the Doha talks means a significance opportunity foregone to boost the world economy and raise the growth prospects of poorer countries. The LICs, including those in our Constituency had hoped that a successful Doha round would help progressively reduce trade barriers, subsidies, and other trade-distorting measures in industrial economies for realization of benefits of a more liberalized global trading regime. Considering that trade-distorting measures in LICs, comparable to those in advanced economies, are being addressed as conditionality for the LICs, we request the Fund to intensify its trade advocacy role and assist in making the Doha negotiating process commence possibly before Singapore, and sustained there after.

**MDRI and HIPC Initiative:**
17. We note that in order that MDRI debt relief recipients avoid another round of debt crisis, reliance on debt sustainability framework (DSF) is being promoted by the BWIs. The DSF is expected to provide guidelines for information sharing by borrowers and creditors in making consistent financing decisions on effective management of MDRI debt relief resources. We maintain that while SSA countries, which have benefited from the Multilateral Debt Relief Initiative (MDRI), are appreciative and aware of the significance of making effective use of the debt relief resources, the providers of the relief and other donors need to accommodate the necessary fiscal space to enable these countries implement pro-poor policies; provide additional, timely, and predictable aid to supplement resources freed under the MDRI; and avoid funding-related disruption of implementation of pro-poor and growth-inducing projects. We also consider it necessary for the debt relief to be extended to other indebted poor countries so far excluded from the MDRI. On the HIPC Initiative, we stress that the decision on sunset clause should be such that allows remaining HIPC countries benefit from the Initiative.

Institutional Building and Capacity Development:

18. We are delighted that the Fund continues to provide TA in its core areas of expertise to facilitate the development of sound institutions and capacity critical for stability, growth and poverty reduction. Going forward, the Fund seeks to align capacity building activities better with the needs of member countries and its evolving priorities. Its TA and training activities are to increasingly stress country ownership and coordination with other providers. We encourage the Fund to sustain its new emphasis of alignment of TA to the preferences of countries and ownership, while the Institution should stand ready to provide TA to LICs, with donor funding seen as a supplement to its efforts. In this regard, continued donor financial support for early completion of work and opening of a third AFRITAC in Libreville, Gabon on schedule would be of immense value.

(iii) Independent Evaluation Office (IEO)

19. We note the Board discussion of the external evaluation of the IEO during the year which indicated a broad agreement that the Fund continues to need an IEO to contribute to its learning culture and facilitate oversight and governance of the Executive Board. We consider the agreement that the choice of topics for IEO evaluations should focus on the Fund’s core activities a wise one.

The Fund’s Income and Operational Issues:

20. Before ending my remarks, allow me, Chair to express appreciation to the Fund on the ongoing efforts to streamline internal procedure for carrying out various functions of the Institutions, taking into account its precarious income position for which a Committee of eminent persons are exploring options for improvement. In the same vein, an External Review Committee is examining collaboration between the BWIs to
establish areas of primary responsibility, and collaboration on thematic work such as Financial Sector Assessment Program (FSAP), public expenditure management and debt sustainability analysis in LICs. We look forward to successful outcomes in these endeavors.