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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **MAHFOUDH OULD MOHAMED ALI**,
Governor of the Fund for **MAURITANIA**, on behalf of the Arab Governors,
at the Joint Annual Discussion

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Governor of the Fund for Mauritania,
on behalf of the Arab Governors,
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Mr. Chairman, I am honored to speak today on behalf of the Governors representing the Arab members of the World Bank and the IMF, and I would like to begin by extending my congratulations on your selection as this year's Chairman of the Board of Governors.

At our annual meeting this year, we are pleased to note the success that the international community has achieved in containing the adverse effects of the series of financial crises that caused great damage to the economies of Southeast Asia, then spread to Russia and a number of Latin American countries, in particular Brazil. The people of these countries witnessed a large reduction in the growth rates of their economies, a significant increase in unemployment, and a sharp decline in their standards of living. Yet despite all these difficulties, the Asian countries affected by the crisis diligently implemented ambitious reform programs aimed at restructuring their economies, and within a relatively short period of time, succeeded in restoring confidence in world financial markets and achieving positive real growth rates. Brazil also implemented a difficult structural reform program, which helped restore stability to its financial markets. As for Russia, we hope that the authorities will proceed quickly to implement the comprehensive reforms necessary to revive the economy. The situation has also improved in other parts of the world, such as Japan, whose economy shows signs of recovering after a long period of stagnation, and Europe, where economic growth rates are expected to increase. In the United States, the economy continues its exceptional performance accompanied by general price stability.

Yet despite the recent marked improvement in the world economic environment, a number of latent dangers remain that could hinder continued increases in world economic growth in the foreseeable future. These dangers are largely related to an expected slowdown in the American economy. The international community hopes that other regions of the world, particularly Europe and Japan, can achieve sufficient increases in the growth rates of their economies to compensate for the slowdown in growth in the United States and ensure continuation of the current revival of the world economy. At the same time, we are aware that this reform process could also result in great fluctuations in the prices of the principal currencies, which could pose a threat to the soundness and stability of world financial markets. This danger will increase if the expected slowdown in the U.S. economy occurs suddenly, as a result of overly strict monetary policies enforced by the authorities or a sudden correction in the stock market, among numerous other factors that effect the U.S. economy.

It goes without saying that the international community places great importance on the economic policies adopted by the major industrial countries, given their tremendous effect on the degree of stability that will accompany the expected reform of the world

economic system. We therefore call upon these nations to adopt appropriate policies to protect the world from the latent dangers currently facing the world economy. We call upon the U.S. monetary authorities to follow closely developments in the stock market and take them into consideration in determining monetary policies. We hope that the European authorities will hasten to intensify structural reforms, especially in their labor markets, to stimulate growth in their economies. In Japan, it is hoped that the authorities will continue their expansionary policies to stimulate growth of the country's economy while continuing to implement important structural reforms in the banking sector, which have recently begun to produce positive results.

Mr. Chairman, I would now like to turn to a discussion of the initiatives proposed to strengthen the international monetary and financial system, in order to control outbreaks of future economic crises and the adverse effects that they produce.

We wish to assert first of all that, while we acknowledge the advantages of the globalization of financial markets and its effect on developing countries through the transfer of private capital and support of their development efforts, we must also acknowledge that the recent financial crises warned the international community of the dangers of premature capital account liberalization in developing countries, as well as the importance of strengthening the financial and banking sectors to ensure that they are well established, before proceeding to liberalize the capital account.

We support the efforts of the IMF to assist member countries in controlling short-term capital flows, which we believe played an important role in the outbreaks of recent financial crises. We also support the Fund's efforts to create mechanisms to help reduce dependence on these flows as a source of financing, and to stimulate long-term capital flows, especially those related to foreign direct investment.

We call on the IMF to expand and complete its study concerning systematic capital account liberalization in order to help developing countries determine the appropriate pace for liberalizing their accounts, and to take appropriate measures to maximize the benefits obtained from capital inflow and reduce the possible adverse effects upon their economies. It is important to take the particular circumstances of each country into consideration in determining the appropriate pace and phases for liberalizing their capital accounts.

We welcome the efforts of the IMF and the World Bank to help developing countries strengthen their financial and banking sectors, and we call on them to give greater importance to technical assistance in this area, focusing on the establishment of adequate precautionary measures to help the economies of these countries absorb the shocks that may result from fluctuations in capital flows.

We also welcome the Fund's increased interest in developing and publishing internationally accepted economic regulations and standards, while we stress the importance of taking into consideration the particular circumstances of each member

country and how they affect its ability to comply with these standards. Technical assistance from the Fund is necessary to help member nations publish and comply with the standards that are applicable to them, although we have some reservations concerning attempts to make the IMF responsible for monitoring the application of standards not directly related to its area of specialization. We would also like to mention the strong interest of the Arab countries in improving the management methods of their public and private institutions, and in taking the required measures to comply with the principles of transparency and accountability.

Mr. Chairman, we applaud the efforts of the IMF to get the private sector involved in reducing the likelihood of future financial crises and sharing the burden of handling such crises when they occur. It is also important to improve surveillance of the international activities of private financial institutions in the advanced countries, and to require these institutions to publish accurate data on their activities, in particular their high-risk activities.

The Arab countries support international efforts to reduce poverty and improve living standards among the world's poorest. The assistance provided to the poorest countries by the countries and institutions of our region testifies to the importance we attach to this goal.

We support in particular the international initiative to reduce the debt burden of low-income countries, and we welcome the recently proposed measures to increase the amounts of assistance provided and to accelerate the delivery dates, while strengthening the link between debt forgiveness and the requirement that countries take the necessary steps to reduce poverty within their borders. We also support the recommendation of the Group of 24 concerning the future expansion of this initiative to include highly indebted countries with mid-level incomes. We believe that the World Bank should take the leading role in implementing this initiative, as it is the institution with considerable experience in developing and implementing social policies aimed at reducing poverty. Close cooperation between the World Bank and the IMF is essential in order to distribute the tasks appropriately on the basis of each institution's area of specialization, to ensure that the objectives of this initiative are achieved in the optimal manner.

Mr. Chairman, the success of this noble initiative naturally depends on its receiving adequate funding. We support the international financing plan that includes selling a portion of the IMF's gold reserves and investing the proceeds of the sale. A large number of Arab countries, both oil producers and non-oil producing countries, are willing to help finance this initiative to the extent they are able, while maintaining the financial soundness of the Arab funds and other institutions concerned.

As was the case in other regions of the world, the Arab countries did not escape the adverse effects of the financial crises of 1997 and 1998. The decline in world demand for oil and the sharp fall in prices led to a marked reduction in resources available to the governments of the oil-exporting Arab countries and a corresponding reduction in their economic growth rates, especially in 1999, despite the fact that oil prices began to rise again last March. Although oil prices have risen lately, their actual levels still remain below the average rate over the past ten years.

The oil-producing Arab countries have confronted this significant decrease in revenues by intensifying their efforts at economic reforms aimed at reducing the deficits in government budgets and the balance of trade, by reducing expenditures, diversifying the sources of government revenue, and privatizing public projects. They have also increased their efforts to diversify the base of economic activities to reduce the effect on their economies of fluctuations in world oil prices. These efforts have included additional structural reforms aimed at encouraging private sector participation in various economic activities, including such infrastructure components as communications, electricity generation projects, water systems, and construction and management of airports and seaports, in addition to attracting foreign investments. At the same time, a number of oil-producing Arab countries are making concentrated efforts to develop financial market systems in order to increase participation by foreign investors.

The adverse effects of the successive world financial crises have not spared the non oil-producing Arab countries, which have witnessed a general reduction in capital inflows and demand for their exports, along with a significant increase in the size of their imports, owing to the fall in prices of imports from the countries hit by the crisis. These developments have had an adverse effect on the balance of payments in many countries of the region, although the economic reform policies and structural reform programs being implemented in these countries since the beginning of the decade have helped to reduce the severity of the effects of the world financial crisis upon them. These policies and programs, which are currently being intensified, have produced a marked improvement in the investment climate in these countries, which has in turn helped to increase private sector participation in economic activities. Important progress has also been made in privatizing public enterprises in many Arab countries, and private sector participation in various infrastructure projects has increased in a number of sectors. The banking sector in many Arab countries has been developed by strengthening bank supervision systems and updating regulations for trading in the stock market, to achieve the required transparency.

Regional cooperation among the Arab countries was enhanced last year, as a reduction of customs tariffs was implemented within the framework of the Greater Arab Free Trade Zone agreement, starting in January 1998, to stimulate development in the Arab countries. Partnership agreements were also signed between a number of Arab countries and the European Union, which we hope will help attract investments to the region and increase exports from Arab countries to foreign markets.

Mr. Chairman, I would now like discuss a number of topics that concern the World Bank Group.

The past fiscal year was characterized by a continued improvement, both quantitative and qualitative, in the Bank's activities. Loans and credits increased compared to the past year, and a larger percentage of projects achieved their development targets. Agreement was reached last year concerning the twelfth increase in the resources of the International Development Association, and the Bank's net income also increased.

Last year the World Bank Group participated in confronting the current challenges on a number of levels. Loans and credits increased considerably compared to amounts granted during the past two years, and assistance has been focused on promoting policies of reform and open markets, supporting the private sector, and providing relief to the poorest sectors of society. Borrowing countries in our region obtained loans and credits for projects in critical areas including human resource development, management systems, the agricultural sector, social services, and water resources. The Bank also provided technical services and sponsored research aimed at developing various aspects of economic and financial policy and benefiting from the exchange of experiences. The International Finance Corporation and the Multilateral Investment Guarantee Agency also continued their activities focused on supporting the private sector.

We applaud these efforts and call for a continued focus on assistance in priority areas for the borrowing countries, as well as expansion of the World Bank Group's activities to include countries that have not received assistance from the Bank for many years. We also call for continued assistance to the Palestinian Authority to develop its infrastructure and improve the living standard of the Palestinian people, as well as technical assistance to the non-borrowing Arab countries. We hope that the International Finance Corporation and the Multilateral Investment Guarantee Agency will likewise expand their activities to include a wider range of beneficiaries.

With respect to the policies of the World Bank Group in the foreseeable future, we call for increased efforts to reduce poverty, given the limited success that has been achieved to date, and a focus on long-term projects, along with continued efforts to achieve tangible results through development activities and projects. We call for efforts to reduce the debt burden of the largest number possible of low-income countries and assistance to developing countries—including Arab countries—to help improve their position in the upcoming trade negotiations in Seattle. With respect to the comprehensive development framework project, we would like to see a verification of its feasibility at the trial stage, with due consideration given to the particular circumstances and degree of readiness of each country. As for the Bank's financial situation, we commend the negotiations currently begin conducted by the Executive Board and the Development Committee, and we look forward to the recommendations they may produce for strengthening the Bank and its financial position.

We applaud all these positive developments and the efforts of the World Bank Group in a period of difficult and complicated world circumstances. At the same time, we wish to emphasize that the principal objective of the Group—the reduction of poverty—remains a distant goal, especially in light of the recent financial crises that have increased the number of the world's poor and greatly reduced economic growth rates in the developing countries, in addition to the destruction caused by armed conflicts and natural disasters. These challenges will require greater efforts and additional resources, directed in particular at the low-income developing countries.

The Arab countries look forward to playing an effective role in helping the international community to confront the many challenges that face it. The Arab countries—like all the developing regions—have met with great difficulties as a result of the financial crises that recently shook the world economy. We are still suffering from weak economic activity, the slow improvement of social conditions, and continually increasing unemployment rates, in addition to the most severe water crisis of any region in the world. Furthermore, the peace process continues to constitute one of the principle obstacles to achieving greater economic development and creating a suitable environment for investment.

In conclusion, I would like to express my appreciation to the Executive Directors of the IMF and the World Bank for deciding to hold the annual meetings for 2003 in Dubai, in the United Arab Emirates. These meetings, the first ever to be held in an Arab country, will enhance the position of the IMF and the World Bank in the Arab World, which over the years has demonstrated its commitment to international cooperation in all forms and all fields.