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Statement by the Hon. **JEAN-BAPTISTE COMPAORÉ**,
Governor of the Fund for **BURKINA FASO**,
on behalf of the **AFRICAN CAUCUS**
at the Joint Annual Discussion

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Governor of the Fund Burkina Faso,
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INTRODUCTION

1. I am greatly honored to address this important gathering on behalf of African Governors of the International Monetary Fund and the World Bank. Let me first take this opportunity to thank the American authorities for their hospitality. I would also like to congratulate the organization committee for the efficient preparation of this meeting including all the security measures provided

2. This year's annual meetings take place in the context of increasingly challenging social and economic outlook for the African continent. On the basis of actual trends, the Global monitoring report noted that, Sub-Saharan Africa would not be able to achieve most of the MDGs, particularly those related to health (maternal and child mortality) and those related to environment (access to clean water et sanitation) where almost all the countries are at risk.

3. In spite of these trends, our countries are committed to eradicate poverty and to put the continent on the path of sustainable growth and development. To take up this major challenge, our heads of States met recently in Ouagadougou, Burkina Faso to discuss employment issues, given that employment is at the heart of the fight against poverty. Our countries reiterated their commitment to accelerate reforms and to persevere in their efforts to improve the investment climate. To complement these efforts, our development partners made the commitment at Monterey to provide adequate financing. Nevertheless, there remains a huge financial gap that needs to be addressed. Beyond the issue of additional financing and to be selective , my speech focus on areas where actions of international financial institutions are needed to allow countries to move quickly toward the MDGs.

THE ROLE OF IMF IN LOW INCOME COUNTRIES

4. We welcome that the Fund is undertaking a comprehensive review of its support for low-income countries (LICs). Below are our proposals which we hope to contribute for this review.

5. We believe that the Fund should remain engaged in LICs for the long-term, providing policy advice, technical assistance, and financing where there is balance of payments need. The Fund should also consider extending the standard time horizon of its

programs from three to five years to ensure greater continuity and predictability in the reform process and its financing.

6. We urge the IMF to pay particular attention to program design and the need to adapt it to the special circumstances of our countries. We hope that work in the pipeline should address the following key issues: greater focus in the macroeconomic frameworks under PRGF on employment creating growth over the long-term, in order to reduce poverty; design of alternative policy options in the PRGF negotiation process to strengthen country ownership; realism in program assumptions, accelerating the PRSP-PRGF alignment and development of macro frameworks to support the MDGs, systematic poverty and social impact assessments of key reform; support for productive investment and economic diversification; more flexibility in accommodating higher aid flows and attention to political and social constraints.

7. As noted in the recent discussion on fiscal adjustment in Fund-supported programs, development needs of LICs have been unduly constrained by stringent fiscal targets, many of which are observed at the expense of key public investment. We urge the Fund to ensure that adequate resources are provided for essential government services, and particularly for the development of basic infrastructure that is necessary to promote private sector investment.

8. Many LICs are vulnerable to external shocks. To cushion the impact of these shocks, there is need to promote diversification of the productive and export base and to build contingency financing mechanisms into programs that could be activated in the event of exogenous shocks. We also call upon the Fund to explore modalities for assisting non-program LICs countries that are affected by external shocks.

9. There is need to provide for an appropriate bridge in the form of Emergency Post-Conflict Assistance (EPCA) with adequate concessional resources, without daunting conditionalities to allow countries emerging from conflicts to move to PRGF, HIPC and to meet the MDGs. We also encourage the Fund to strengthen collaboration with the World Bank and other institutions such as the African Development Bank, in areas that are beyond the core activities of the Fund but are essential to ensuring higher growth and sustained poverty reduction in low-income countries. These areas include, among others, trade, financial sector, investment climate, public enterprises, civil service reforms and institution building.

10. A major shortcoming of the Fund's work in LICs is that the Fund devices the policy framework, but the bulk part of the financing is provided by others. Hence the access limits under PRGF remain low and have not changed from those under its predecessor, the ESAF. We urge the Fund to accelerate the mobilization of resources to enable the increase in access limits under the PRGF, and to enable the self-sustaining PRGF to lend at more than the projected SDR 660 million per annum.

11. Finally, the Fund should have in place a strategy to prepare countries for an orderly exit from the use of its resources. In addition to low access PRGF, precautionary PRGF and the PRSP should be used to trigger donor disbursements, especially for successful performers. The Fund should also facilitate these countries' access to capital markets.

DEBT SUSTAINABILITY IN LOW INCOME COUNTRIES

12. We welcome the decision by the G-8 to extend the sunset clause. The main concern is for HIPC to deliver debt relief in line with the established framework by the completion point. There are four issues at the moment. First, the need to adequately fund the HIPC Initiative to ensure all eligible countries reach sustainable debt levels. Second, recent experience shows that there is an attempt to link the HIPC and debt sustainability frameworks, undermining the significance of topping up resources for those countries that have suffered unanticipated shocks before and after reaching completion point. We firmly believe that this attempt to link the two frameworks is counterproductive in our efforts to accelerate growth and poverty reduction. Third, there is need for more flexibility in the use of resources released under the HIPC Initiative to also finance infrastructure. Four, there is the issue of low income countries which are non-HIPC but still suffer heavy debt burden. We urge you to initiate works on those countries with a view to mitigating their debt burden

13. We agree with the main message of the proposed new debt sustainability framework that for low income countries, the scope for more debt is becoming increasingly limited; and more grant resources will be required to finance development. However, experience with the implementation of the MDGs and the Monterrey Consensus, more especially the Education for All Initiative, implies that a more robust financing framework will be required to substantially scale up IDA resources to provide the appropriate mix of financing.

14. We also know that donor assistance alone will not be sufficient to unleash the desired growth rates to significantly reduce poverty and achieve the MDGs. The new framework seems not to pay enough attention to the design of policies as the ultimate solution to debt sustainability. In this connection, there is need to improve policies aimed at new sources of growth and exports. There is also need to sharpen work on alternative scenarios and stress tests to capture country's vulnerability to exogenous shocks and mechanisms to mitigate them. We also urge you to address the mounting domestic debt burden which is also a source of concern for debt sustainability.

15. To ensure high growth and sustainable debt, there is need to seriously address issues related to trade and market access. We commend the heads of the BWIs for promoting market access for developing countries. Following the failure of the Cancun round of negotiations, there is need to step up the effort. While AGOA, EBA and other initiatives have provided temporary relief, long-term growth can only be more assured with a multilateral free trading system. At their recent COMESA summit in Kampala,

the African Heads of States called upon industrial countries to accelerate the removal of agricultural subsidies, to desist from tariff escalation on manufactured products from developing countries and for Africa to step up the export of manufactured products. We urge the BWIs to do more in exposing unfair trade policies practiced by industrial countries against developing countries.

INFRASTRUCTURE AND REGIONAL INTEGRATION

16. NEPAD has put infrastructure as a central issue for our economic development Indeed, our countries face an enormous infrastructure deficit. Less than half of Africa's population has access to safe water and only one in five has electricity. Total public infrastructure investment in Africa is now about $6 billion per year, roughly half of which is financed by donors. Estimates suggest that $18 billion is necessary annually to sustain levels of economic growth needed to reach the MDGs. This gap of $12 billion is far greater than IDA's current annual infrastructure commitment of $1.5 billion. Therefore, we welcome the Bank's commitment to leverage funds for infrastructure services using a blend of IBRD/IDA, IFC and MIGA instruments and products and urge it to scale up the financing of infrastructure in Africa.

17. The observance of very stringent fiscal targets in IMF programs by our governments leaves them with very little or no fiscal room to invest in infrastructure. In this regard, and as noted in the IMF's recent paper on public investment and fiscal policy, we urge the Fund and the Bank to reinforce the importance of public investment in the design of their programs, policy advices and technical assistance. In the same vein, we urge the BWI to address the issue of overoptimistic growth assumptions in their country analysis so as to avoid excessive fiscal policy tightening and unwarranted compression of public investment. The volatility of public investment is another source of concern to us. Therefore, we urge the Fund to ensure that in its programs, the level of public investment is more predictable, given the clear links between infrastructure and poverty. We urge also the Fund to adopt adjusted fiscal targets in order to smooth out investment over "good times" and "bad times".

18. We welcome the creation of a department for regional integration in the World Bank African Region and call for the establishment of a trust fund for capacity building in regional institutions in Africa and the design of sub-regional PRSP so as to invest in regional infrastructure projects. We call upon the Fund to step up its policy advice to promote regional integration in Africa.

19. Finally, we urge the Bank to include within IDA14 a regional resource allocation for regional projects, hence, departing from the current IDA practice of financing regional projects through country allocation.

PRIVATE SECTOR DEVELOPMENT

20. We welcome the World Bank's analytical work aimed at improving the investment climate and initiatives to support private sector development, including the recent joint IDA/IFC initiative to micro, small and medium size enterprises in Africa. For this initiative to succeed, there is an urgent need to resolve the tension between the financing policies of IDA and IFC. The experience so far shows that it is imperative to harmonize the policies on the use of IDA and IFC blend resources if indeed the Bank's initiatives towards supporting private sector development in Africa are to succeed. Also, MIGA needs to be an integral part of these initiatives in order to leverage its impact in Africa.

21. We urge the Bank and the Fund to go beyond assisting countries with generic investment climate issues and to also focus on industry, sector or firm specific issues that still constrain competitiveness. In this respect, we would like the Bank to play a major role in encouraging linkages between SMEs and large corporations through production or supply chains in order to benefit from economies of scale, innovation, and access to markets. In this regard, we urge the Bank to deliberately support the establishment of growth clusters and firm linkages, including proactively promoting contracting (or sub-contracting) to private sector enterprises, especially to small ones, in public and or Bank procurement.

OTHER ISSUES

22. We welcome the Bank's decision to enhance its support to middle income countries (MICs). This is very timely in view of the steep decline of Bank's lending to MICs, which is not consistent with the need for scalping up support to achieve the MDGs. We support the Bank's proposals to streamline the Bank's internal processes which will aim to reduce the burden of fiduciary and safeguard requirements on borrowers and loan conditionalities. This will help f (i) reduce the cost of doing business with the Bank; (ii) increase the flexibility in scaling-up the volume of lending for a well performing operation; (iii) the use of wider range of instruments such as programmatic analytic work and swaps. There is also a need for the Bank to rely on country's systems. We urge the Fund to complement the role of the Bank in MICs ,especially in developing modalities for alleviating the external and domestic debt burden in many middle-income African countries.

23. The issue of voice and participation in the decision making processes of the BWIs remain a major concern to us and our political leadership. Most of the BWI work related to programs, projects, policy advice and technical assistance is in SSA yet we are deprived of reasonable voting power and participation within the BWI Boards. We urge the heads of the BWIs to canvas for international support around our proposals, namely to increase our representation in the Boards of the BWIs, to ensure that we are represented at the Deputy Managing Director level in the IMF, to stop the precipitous

decline in SSA's quota in IMF Quota reviews, to increase basic votes for individual countries and to increase professional staff from our regions in the BWIs.

24. The UN will undertake a comprehensive review of progress towards the MDGs in 2005. It is clear that all our initiatives for the MDGs are being constrained by lack of adequate resources at appropriate terms. Since the Monterrey Consensus, it appears that attempts to mobilize financing on a large scale have so far not been successful. Instead, this effort has been substituted by bilateral windows that most of our countries find difficult to access. In this regard, we look for concrete actions towards achieving ODA level of 0.7 percent of GNI and welcome innovative approaches of additional resource mobilization, in particular the International Finance Facility (IFF).

CONCLUSION

25. In conclusion, we welcome the ongoing commitment of the Bretton Woods Institutions to helping African countries, including the LICs to achieve the MDGs. We urge them to provide additional financial and technical assistance and economic policy advice, and advocate on our behalf for greater market access and mobilization of international resources.