DEVELOPMENT COMMITTEE
(Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund On the Transfer of Real Resources to Developing Countries)

SIXTY-THIRD MEETING
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The Global Context

The cyclical slowdown of the global economy which began in the second half of 2000, initiated by higher interest rates and oil prices, has since intensified, and there are early signs that the long period of global expansion may be giving way to an economic downturn. Already, a sputtering US economy, slowing growth in Europe and the repeated failure of recovery efforts in Japan have dimmed the prospects for world growth in the coming months. This could have serious implications for developing country exports, and flows of private capital to developing countries have yet to reach their pre-crisis peak of 1997, continuing a trend of investor risk aversion observed in recent years.

Foreign Direct Investment (FDI) to developing countries declined to $178 billion in 2000, according to World Bank estimates, thereby reversing the dramatic growth of FDI that characterized most of the 1990s. The share of developing countries in global FDI flows fell from over 36 percent in 1997 to 16 percent in 2000, with low-income countries being disproportionately affected by this trend. While flows of official development assistance (ODA) rose by 9 percent in 1999 to $56 billion, they still represent only 0.24 percent of the GNP of Development Assistance Committee (DAC) countries — far short of the 0.7 percent needed to meet the international development goal of halving global poverty by 2015.

The HIPC Initiative

We welcome the progress report on the implementation of the Enhanced HIPC Initiative. We are encouraged by the progress achieved so far, and note that more than half of the expected beneficiaries of debt relief under the Initiative have reached their decision points and have thus begun to benefit from debt service relief. So far, only one country, Uganda, has reached its completion point, and we would like to see an acceleration of the process so that many more countries reach completion point before the end of the year in line with the principle of “faster, broader and deeper” debt relief. We hope that beyond reductions in debt stock and servicing obligations, adequate attention will be given to the important objective of assuring debt sustainability over the long term. We recognize that the achievement of this objective must begin with the HIPCs themselves, who must give appropriate focus to strengthening their own domestic policies and institutions. However, their efforts must be complemented by increased concessional flows of financing from the international community.

Debt service relief will offer HIPCs the opportunity to increase spending for poverty reduction, particularly in the priority areas of health, education and HIV/AIDS. There will thus be an urgent need to improve the monitoring and effectiveness of such spending through the establishment or strengthening of public expenditure management systems, for which World Bank support will be needed.

We note that the total cost of assistance under HIPC is now estimated to be $29.3 billion in NPV terms. We welcome the participation of both multilateral and bilateral creditors in the funding of the Initiative, and trust that they will honor their pledging commitments in timely fashion. We particularly commend the efforts of those Paris Club member countries that have pledged debt relief beyond their assistance under the Initiative, and encourage others to follow
this example. We would also like to encourage those non-Paris Club members that are yet to pledge their support for the Initiative to do so as soon as possible.

**The PRSP Process**

We are pleased to note that considerable progress has been achieved with the PRSP process, with several more interim PRSPs considered since our last meeting, bringing the total to 32 I-PRSPs and 4 full PRSPs. While this process is still at an early stage of development, the joint staff assessments and Board discussions at both the Bank and the Fund have helped refine the process based on the experience gained thus far. We recognize the need for PRSPs to be of high quality and to be enriched by stakeholder participation. We, however, trust that this will not hinder the speed of their preparation. Capacity and budget limitations of the countries concerned must be taken into account as PRSPs are integrated into the normal operations of the Bank, the Fund and their development partners. In particular, we would like to stress the importance of keeping conditionality simple, realistic, and focused on a few key issues. We welcome the introduction of the Poverty Reduction Support Credit (PRSC) instrument of the Bank and the Poverty Reduction and Growth Facility (PRGF) of the IMF. We encourage their implementation in an effective and complementary manner, giving due regard to their respective areas of competence while avoiding overlap, conflicting advice and cross-conditionality.

**Countries in Conflict**

Armed conflicts are a major impediment to the development of many low-income countries, leading to the destruction of infrastructure, the disruption of economic activity, displacement of populations and the likelihood for the rapid spread of diseases. Conflicts affect directly or indirectly almost half of all Sub-Saharan African countries and the lives of one out of five Africans. Most of these countries are also heavily-indebted, often with arrears to the international financial institutions. Top priority must be given to conflict prevention and conflict resolution if the strategy for growth and poverty reduction is to succeed. To this end, domestic and regional interventions must complement global and institutional efforts to prevent and resolve conflicts.

We would like to urge the Bank and the Fund to further enhance special policies and instruments currently in place to assist countries emerging from conflict. The substantial technical assistance needs of these countries must be met by enhancing the Post-Conflict Fund, broadening the scope of IDA grants, and helping to mobilize donor funding. The HIPC framework will also need to be implemented flexibly so as to accommodate the special circumstances of post-conflict countries by shortening the track record required for both the decision point and the floating completion point, and by front-loading interim assistance. Post-Conflict HIPC countries face special difficulty in preparing PRSPs and in meeting the implementation requirements of PRGFs and PRSCs, and will need flexibility and support for capacity building. Post-Conflict countries in arrears deserve particular consideration, and we urge the Bank and Fund, in collaboration with their development partners to seek effective measures for addressing the special needs of these countries, especially those with significant per capita arrears.
Trade and Development

Globalization has brought enormous benefits to many countries. However, the world’s poorest countries, many of which are in Africa, have not benefited from this phenomenon, which is likely to be irreversible. The key challenge for the development community is how to assist these countries to diversify their economies, achieve accelerated export growth and participate in the global economy. These in turn would enable them raise their share of world exports, provide an impetus to their economic growth and reduce their vulnerability to external shocks. In particular, Africa must make the transition from the production of primary commodities to that of manufactured goods thereby making faster progress towards regional and global integration.

Many African countries have made notable progress in the area of trade liberalization in recent years, and are taking important steps towards regional integration. However, their efforts must be matched by the opening of industrial country markets to their exports. This will mean the removal of significant barriers to trade. For example, OECD agricultural subsidies are currently estimated at $300 billion – more than Africa’s gross domestic product. Also, tariff escalation and the imposition of high standards further restrict market access. Industrial countries should grant comprehensive access to low-income countries’ products, including agricultural products, textiles and clothing. Lowering or eliminating non-tariff barriers would also be an important element in opening up developing countries’ markets. Access should not be bound by strict rules of origin, and should include commitments not to use anti-dumping measures against low-income country exports. Low-income countries will need funding to support WTO accession and the building of capacity for implementing WTO agreements.

Communicable Diseases

We note with grave concern that the HIV/AIDS pandemic has continued its dramatic spread across much of the world, with 36 million people now living with the disease, 95 percent of whom are in developing countries. In Africa — the region most greatly affected by this scourge — political commitment at the highest leadership levels to addressing the pandemic and, as a consequence, public awareness and knowledge about the disease, have increased significantly during the last few years. We commend the Bank’s expanded interventions against HIV/AIDS, especially through the Multi-country AIDS program (MAP) recently approved for African countries. We urge the Bank to further expand funding for HIV/AIDS. We encourage the Bank to continue its support for increasing low-income country access to appropriate drugs and to strengthen its partnership with UNAIDS and other partners in the effort to develop a vaccine and strengthen health delivery systems.

Other communicable diseases continue to constrain the development of low-income countries. These include malaria, tuberculosis and other diseases, many of which have developed drug-resistant strains, making their prevention and treatment more difficult. In this regard, we commend the efforts of the Bank and its partners in establishing the Rollback Malaria Initiative, and we urge them to continue to seek innovative ways of addressing other communicable diseases.
World Bank Group Support for Middle-Income Countries

We welcome the World Bank Group’s continuing role in helping to reduce poverty in the middle-income countries, home to nearly 80 percent of the world’s poor. Middle-income countries are fast becoming important players in the global economy, and their economic well-being often translates into trade opportunities for low-income countries. Moreover, financial instability, environmental degradation and communicable diseases in middle-income countries can lead to adverse impacts beyond their own borders. The Bank Group can play a strategic role in supporting middle-income countries by leveraging its funding for poverty reduction through its support for policy and institutional reform and catalyzing stable and sustainable private capital flows. Fundamental to this process must be the country assistance strategy, economic and sector work, the program approach to lending, and participation and country ownership. In seeking to respond to the needs of middle-income countries, due regard must be given to the diversity and uniqueness of country circumstances and capacities, necessitating an appropriate menu of instruments and advisory support.

International Financial Architecture

We note the significant progress made by the Bank and the Fund, in partnership with other agencies, in strengthening the international financial architecture through the development of international codes, standards, and best practices. In this regard, we welcome the Financial Sector Assessment Program, the Reports on Observance of Standards and Codes, the Guidelines for Public Debt Management, and the Principles and Guidelines for Effective Insolvency and Creditor Rights Systems. All these documents are the outcome of Bank-Fund collaboration in this important area. We would like to see such collaboration continued in the future. It is important to stress that the observance of these guidelines, standards and codes must remain voluntary, bearing in mind the unique circumstances and capacity limitations of individual countries. Adequate resources must be made available to developing countries for building their institutional capacity to strengthen their financial systems. It will also be important for advanced economies to address regulatory weaknesses in their own financial systems, given their implications for developing countries.

We recognize that money laundering is a matter of growing global concern and efforts to combat it must be based on a cooperative strategy involving both developing and developed countries. Primary responsibility for addressing money-laundering remains with the countries themselves, with the support of specialized institutions that have a mandate and expertise in this area. We believe the Bank and the Fund can play a limited and complementary role within their respective mandates and comparative advantage, limited to support for capacity building and policy advice to help countries reduce the risks of financial abuse.

Financing Africa’s Development

Sub-Saharan Africa remains a special challenge for the international development community. To a large degree, the Bank and the Fund’s poverty reduction efforts will be judged by the extent to which they succeed in achieving sustainable development in Africa. Conflicts, natural disasters and disease have ravaged many countries in the region. When these are combined with weak infrastructure, limited trade opportunities, an unsustainable debt burden and
limited capacity, it is no surprise that social indicators remain low in the region. There is renewed optimism in the region, however, and years of reform have begun to bear fruit, with more and more countries beginning to enjoy the benefits of debt relief. With increasingly more open political systems, a more educated workforce and a more dynamic private sector we are optimistic about Africa having a bright future.

African countries and governments are well aware that the solutions to their problems and challenges lie primarily within themselves. Their success in facing these challenges, are however, significantly impacted by the level of, among other things, concessional aid flows. Ultimately, the most important contribution the Bank and the Fund could make to Africa is to support it in its quest for its own solutions to its social and economic problems.

We would like to take this opportunity to express our appreciation for the recent joint visit of Messrs. Kohler and Wolfensohn to Africa at the invitation of the African Heads of State. The African Heads of State shared their vision of the Continent’s development, stressing the importance of conflict resolution, human development and trade, among other priorities. They envision a true partnership with the Bretton Woods institutions based on international support for the efforts of their own countries to improve their own economic and social wellbeing.