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)

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Statement by
Mr. Trevor Manuel
Minister of Finance
South Africa

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Strategic Direction of the World Bank Group

Economic growth in Sub Saharan Africa averages 6 percent and projected slightly higher for 2008 - it’s strongest in recent years. In addition to steady growth, largely the result of the boom in commodity prices, many countries continue to consolidate macroeconomic reforms and the development of sustainable policy frameworks. However, the end of poverty is not imminent.

Dealing decisively with the poverty challenge and accelerating progress in meeting the MDG targets requires sustained growth and stronger mutual partnerships.

In keeping with policy concerns articulated by African leaders, President Zoellick outlined six key focus areas in his vision to better position the World Bank to support growth promotion, poverty reduction and global equality. There is widespread recognition that the Bank must adapt if it is to contribute to an inclusive and sustainable globalisation in a rapidly changing world. In the note he submitted to this meeting, the President details a range of new and interesting innovations and ideas to move the Bank forward.

We welcome the President’s emphasis on helping to overcome poverty and promote sustainable growth in poor countries, particularly those in sub-Saharan Africa. However this is not a new emphasis. Africa has been on the development agenda for some time. In April we reviewed progress with respect to the Africa Action Plan, and we have frequently given consideration to the limited progress in meeting the MDGs at this Development Committee and other policy fora.

Sub-Saharan Africa is the least integrated region in the world, and continues to be a primary commodity exporter providing raw materials to manufacturing and other industrial processes located in other parts of the world. Regional and global integration increases cross-border flows that include goods, services, financial capital and labour. Accelerating these flows promotes efficiency and access to prosperity. Poor interconnectivity constrains economic growth and affects landlocked countries particularly badly. Poor links between rural and urban areas undermines the potential for farmers to shift from subsistence to commercial production and constrains agricultural development.

African governments remain committed to scaling up public sector investment in infrastructure, agriculture, health and education, to enable a deeper, more sustainable and equitable growth. The President’s acknowledgement in his speech on 10 October that: “social development objectives are necessary but not sufficient …. The countries want assistance to build infrastructure for higher growth – especially energy and physical facilities that can support regional integration” suggests a real understanding that the absence of such investment constrains growth. The reality is that for many developing countries, achieving the MDGs is an outcome of rapid economic growth, enabling improvements in social welfare, and not interventions that are too narrowly focused on particular indicators or outcomes.
The President’s understanding that states coming out of conflict are not well served by the current institutional approaches, and his recognition that we need “a more integrated approach involving security, political frameworks, rebuilding local capacity with quick support, reintegration of refugees, and more flexible development assistance” in dealing with fragile states, suggests a new pragmatism at the Bank that could be of real benefit to countries in our constituency.

Addressing the challenges inherent in the scaling up the production of global public goods will also require a renewed flexibility at the Bank to address issues across borders. The Bank must take a broader view of our development within the overarching context of globalisation, and its approaches to countries must be informed by the global picture of imbalance, exchange rates, trade dynamics and extent of regional integration. In coming decades, global and regional issues will need clear economic and policy thinking backed up by institutions and regulatory frameworks. These must be capable of handling the intersection of national governments and economies, cross-border environmental concerns and externalities arising from our increased interconnectedness. This must be undertaken in close cooperation with our organizations and institutions that have complementary mandates including our regional development bank, and regional economic structures.

Many economies are currently grappling with the challenges of a shortage of the skills they need to sustain their growth and social development outcomes. The challenge in our region to develop competencies in support of a more broad based growth is profound. In order to ensure positive results, particularly in low-income countries, we need a real understanding of how policy should be developed, and resources be best allocated to relieve the constraint on the delivery of development outcomes. The Bank’s commitment to ‘knowledge and learning’ has the potential to contribute to capacity and skills development, and should review the manner in which it promotes educational and training opportunities to this end.

We recognize the critical importance of improving governance and ensuring institutional development. Country ownership of the reform agenda is critical to its sustainability and this is why we have placed governance at the centre of NEPAD in the form of the African Peer Review Mechanism.

**Scaling up and the Role of IDA**

We welcome the Bank’s decision to commit US$3.5bn of IBRD and IFC resources in support of the IDA15 replenishment, as the strongest statement yet of the Bank’s commitment to development. Moreover, this will spur donors to deepen their commitment.

There are concerns that countries cannot absorb additional resources without an adverse impact on their economies. The Bank’s analysis finds that considerably more aid can be absorbed by a number of countries and early delivery on the Gleneagles commitments, including doubling aid to Africa by 2010, should now become a reality. The key to addressing concerns with respect to currency and other instability is good planning and well crafted development support over a longer time frame, as aid volatility and unpredictability remains a major challenge for recipients. The Bank must do all that it can to instill some discipline in the potential for chaos and waste to ensure that additionality is provided in a transparent and predictable manner, that supports countries’ in identifying activities consistent with national and regional priorities. The implementation of the Paris Declaration is critical to managing aid fragmentation, and the Bank must play a leadership role in promoting the use of country systems in the delivery of additional resources.

The President acknowledges that “there is a two-way relationship between aid and institutions: aid is more effective when institutions are strong, but properly directed aid can also be instrumental in building stronger institutions”. The Bank must be innovative and creative in identifying how it can build local
capacity and support reconstruction and development in states. The Bank must be responsive to the limits of state capacity while remaining sensitive to the domestic political economy, if it is to be effective.

**HIPC and the MDRI**

HIPC and the MDRI have had a major impact on improving the creditworthiness of beneficiaries many of whom are in our constituency. There are however a number of key remaining challenges which include: full donor financing of HIPC and the MDRI; an understanding of country vulnerability to external shocks; and the need for additional resources to support growth and development, after debt relief has been granted. The President’s proposal to encourage official bilateral creditors’ participation in HIPC by posting ‘scorecards’ to identify debt relief granted by each bilateral creditor as among the welcome innovations to move forward with applied solutions to issues of common concern.

**Aid for Trade**

Despite the continued uncertainty with respect to the fate of the Doha Round, the accelerating pace of global integration requires that countries improve their domestic competitiveness. With bargaining power securely vested in developed countries, without impartial advice informed by thorough empirical work, there is a real danger that trade agreements may be disadvantageous to developing countries. This is a key area where the Bank can work to ensure that the costs and benefits of our globalisation are better understood and more equitably shared. As a knowledge bank must apply itself to concrete problems such as the development of non-tariff related revenue sources, one of the most pressing technical challenges facing many governments in our constituency.

We are concerned that the aid for trade agenda is competing with other donor priorities within an existing donor envelope, and it does not appear that significant additional resources are being provided for this purpose, or that there is a really clear idea on how this would be best utilized. The Bank must actively engage governments and other institutions working on this issue to assess how to mobilize additional resources, but also to identify what needs to be done to increase capacity to trade which is integral to national expenditure and development planning, within a dynamic global environment.

**Bank reform, Voice and Participation**

The Bank must continue to explore the manner in which the President of the Bank is selected as this is going to be a recurring issue, which erodes the legitimacy of the Bank and ultimately impacts on its development effectiveness. It should explore ways in which it could facilitate a deeper engagement between IDA donors and recipients in a manner that promotes improved governance, greater cooperation and accountability.

The Bank is a shareholder institution, but it must enable broader participation of its clients in the policy formulation process. The Bank should be an organization that seeks cooperation between nations to promote growth and development.

**Bank-Fund Collaboration**

We are pleased to see that efforts are being made to translate the principles of cooperation into practice. It is critical that organizations with such complementary mandates as the Bank and the Fund must work very closely together.