Statement by

Mr. Pravin Gordhan
Minister of Finance
South Africa

For Africa Group 1 Constituency
Statement by

Mr. Pravin Gordhan
Minister of Finance
South Africa

For Africa Group 1 Constituency

at the 81th Development Committee Meeting
Washington, D.C., April 25, 2010

Introduction

Today our Joint Committee on the Transfer of Real Resources to Developing Countries meets at the most opportune moment in the context of the UN target date for achieving the Millennium Development Goals (MDGs). With only five years remaining, we are far from attaining the goals. Prior to the financial crisis, all regions, except Sub-Saharan Africa (SSA) which started off on a lower base, were on track to meet the 2015 poverty goal. In the post-crisis period, however, the poverty level for all developing countries has increased and the situation for SSA could be much worse. Indeed, the financial crisis will push 64 million people back into poverty, with 20 million of them in SSA.

With relatively more people below the poverty level in 1990, and a relatively larger infrastructure deficit - only about 30 percent of the population having access to electricity and less than 60 percent having safe water -, it goes without saying that Sub-Saharan Africa was slower than other regions in benefiting from global growth and constrained in its ability to contribute to global growth. SSA’s performance in the last decade represented a clear break from its historical past and signaled a take-off to a more prosperous future.

Thus, SSA can and should achieve higher rates of sustainable and shared growth if provided with more and better quality development assistance to close the infrastructure gap and to accelerate human development. It is important that development assistance is supported by a global trade regime that is fair and equitable. It is against this backdrop that we urge our development partners to (i) deliver on Gleneagles promises to double aid to SSA, (ii) provide a substantial IDA 16 replenishment, and (iii) strengthen the financial capacity of the World Bank Group, as well as regional institutions.

Strengthening Development after the Crisis

(i) Post-Crisis Directions

The financial crisis created unprecedented challenges and tested the readiness of our institutions to act in a coordinated way in assisting member countries to cope with and manage its short- and long-term impacts. We are pleased to note the increase in lending to IBRD and IFC clients. In IDA’s case, the fast-tracking of commitments helped countries cope, but the crisis revealed a major short-coming in IDA’s ability to respond quickly. We are pleased to note that the short-coming will be addressed under IDA16 but urge that crisis financing be additional to long-term investment in productivity enhancing expenditure.

Within the refocusing of the WBG’s strategic direction following the experience of this financial crisis, we welcome the renewed emphasis on poverty reduction as an overarching objective with special focus on SSA and post-conflict states. In this context, we strongly support the emphasis on growth and employment creation. However the potential for growth and development in our economies must be
considered in the broader global context and the pursuit of balanced and sustainable global growth. Achieving this will require a substantial scaling up of investments in infrastructure and in key sectors such as agriculture. ‘Hard’ infrastructure investment in transport systems and power is critical to realizing the gains of the WBGs work in support of the ‘soft’ infrastructure over many years, particularly in support of improving the business environment and governance.

Looking ahead, therefore, we see a need for both IBRD and IFC to be well capitalized to ensure delivery of a lending scenario that is commensurate with post-crisis needs as well as for increased IFC attention in IDA countries and frontier markets. The post-crisis directions also make a strong case for a substantial replenishment of IDA 16 in order to recoup some of the lost ground in IDA15 and to accelerate growth rates. Anything short of that will result in further deepening the long-term negative impacts of the crisis in IDA countries, most of which are in SSA.

(ii) The Internal Reform Agenda

We welcome the on-going internal reforms aimed at strengthening the WBG’s development effectiveness by improving its efficiency and accountability, as well as enhancing the quality of relationships with client countries. We therefore welcome the proposed improvements in the governance structure and urge speedy completion of the on-going institutional reforms, including investment lending reform and greater decentralization of key staff and decision-making authority, matched with more efficient and effective service delivery. We would also like to see a strengthened consultative process in policy making between IDA’s donors and recipient countries. Effective implementation of the internal reform agenda, will determine to a large extent, the success or otherwise, of the reforms in achieving aid and development effectiveness.

(iii) Review of IBRD and IFC Financial Capacities

Given the challenging post-crisis environment, a strong IBRD balance sheet will be crucial to address the issues the Bank proposes to apply itself to in a refocused mandate. We believe that a strong General Capital Increase (GCI) provides the basis for IBRD to meet these objectives. It is also important that the recapitalization framework provides for continued strong support to IDA.

IFC like IBRD is unique in its global reach on private sector financing with strong development impact. Despite constraints on its capital, we believe that IFC responded actively to the crisis through various initiatives. For the IFC to continue its leadership role and extend its development reach especially in a counter cyclical manner, it will need to grow its business engagement at levels that are consistent with its proposed strategy for FY10 -13 and the capital provided to support that growth. We encourage the IFC to redouble its efforts to identify sound investment opportunities in Sub Saharan Africa, and increase the size of its lending portfolio in the region.

World Bank Group Voice Reform: Enhancing Voice and Participation of Developing and Transition Countries in 2010 and Beyond

We look forward to the conclusion of the voice reform agenda to ensure alignment of the governance structure of the World Bank Group with the 21st century global economic realities and enhance their legitimacy and engagement with both shareholders and other key stakeholders.

We note that the proposed package of reforms is broadly consistent with the directions provided at our last meeting. However, we are disappointed that the process has resulted in dilution of the voting power of some SSA countries, in spite of the collective acknowledgement of the need to protect them. We strongly believe that more should have been done to prevent such dilutions.
In view of the need to reach closure at this meeting, we consider the progress made to date as a starting point for more robust outcomes in future and urge that conditions should be put in place to ensure the accomplishment of a more meaningful and equitable shareholding by the 2015 review.

With regard to IFC review, we support and agree with the increase in Basic Votes to 5.55 percent of total voting power in parallel with an open subscription Selective Capital Increase (SCI). The SCI should generate a minimum of $200 million to support IFC’s growing investments in the private sector of both IDA and middle income countries. As this SCI will not be enough to address IFC’s capital requirements, we encourage further exploration of alternative funding models, including the Long-Term Hybrid Capital option.

Conclusion

SSA has achieved unprecedented progress in the last decade, thanks to improvements in economic management and structural reforms. The region’s capacity to usefully absorb additional resources is no longer in question. However, progress towards the MDGs continues to be masked by a history of under-investment in infrastructure, especially access to energy and in human development. The global financial crisis has compounded the situation, pushing the development ambitions in SSA several years back. With five years remaining to 2015, therefore, we urge the Joint Bank/Fund Committee on the Transfer of Real Resources to Developing Countries to make a clear statement on the need to substantially scale up IDA 16 resources and to adequately capitalize the IBRD and IFC and demonstrate a real commitment to our shared objective of improved global growth and development prospects for all. We welcome efforts aimed at strengthening SSA’s voice in World Bank Group and we look forward to further progress by the next review. We must face up to the shared responsibilities to each other, and recognize the opportunities they may represent.