



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

## **BACKGROUND TO 2006 ANNUAL IMF AND WORLD BANK MEETINGS 7 SEPTEMBER 2006**

The Annual Meetings of the International Monetary Fund (IMF) and World Bank will take place in Singapore on 19 and 20 September 2006. The meetings are preceded by a range of preparatory meetings of the International Monetary and Financial Committee (IMFC) and Development Committee (DC) on 17 and 18 September. Further, meetings of the Commonwealth Financial Ministers take place on 12-14 September in Colombo, Sri Lanka. There are also a series of side events such as the World Economic Outlook press conference on 14 September, the launch of the Raffles Forum on Good Governance and the Growth Commission on 16 September.

The South African delegation will be led by the Minister of Finance, Trevor Manuel and includes the Deputy Minister of Finance, Jabu Moleketi, Director-General of the National Treasury Lesetja Kganyago and other officials. Two MECs of Finance, MEC Pule Makgoe of the Free State Province and MEC Mmathulare Coleman of Mpumalanga Province have also been invited to form part of the delegation. A number of CEOs from key parastatals, the private sector and South African banks will also be attending many of the side meetings taking place.

Key issues for discussion are proposals to improve the international financial architecture, better and more rigorous surveillance of developed economies, improvements to financial instruments for low-income countries and emerging markets and the monitoring of the debt sustainability framework. For developing economies, governance reform, additionality of resources, aid for trade and policy conditionalities remain critically important. All of these issues will come to a head in the key discussion of increased quota and voice reform for developing countries.

### **The International Monetary and Financial Committee (IMFC)**

The primary policy objectives of the IMFC meeting on 17 September include an assessment of the key risks to the global economy, and the IMF's medium-term strategy.

#### *Global Economy*

The discussion is likely to focus on some of the major downside risks to the global economic outlook, which have intensified over the past few months. These include:

- A potential slowdown in the growth of house prices in advanced economies, particularly in the US;
- Surging inflationary expectations, which could force central banks to raise rates (driven in part by the recent jumps in oil prices to new highs);

- Global economic imbalances;
- Slower growth in advanced economies, particularly the US and Japan.
- Possible overheating in China's economy;
- Increasing protectionist sentiment around the world following the collapse of Doha; and
- The avian flu pandemic.

### *The IMF's Medium-Term Strategy*

The IMF has been under increasing pressure to reform and to make itself more relevant for the current global economy. As a response, a new "medium-term strategy" was presented at the 2005 Annual Meetings; this has been followed by various papers presenting ideas on implementation. The medium-term strategy covers 6 broad areas, namely:

- Surveillance
- Role of the Fund in emerging market economies
- Role of the Fund in low-income countries
- Building institutions and capacity
- Quota and voice issues
- Managing an effective institution.

On surveillance, the idea is for the Fund to focus more on multilateral surveillance (given the current context of a rapidly globalising world) and to streamline its bilateral surveillance of countries to focus on its areas of core competence - monetary policy, fiscal policy, the financial sector and exchange rate policy. On multilateral surveillance, the Fund has already initiated a policy dialogue between China, the Euro area, Japan, Saudi Arabia and the US on the issue of global imbalances, and it intends to convene more such dialogue as new issues arise.

The IMF is working towards a discussion of a review of a 1977 decision which currently defines the remit for IMF surveillance. This review is unlikely to result in a fundamental shift in the Fund's mandate to ensure the stability of the international financial stability, but is rather a refining of the decision to deal with current concerns around the ineffectiveness of IMF surveillance, particularly in the larger developed economies.

SA has supported the idea of enhancing the effectiveness of IMF surveillance and promoting policy co-ordination at the global level to ensure the stability of the international financial system.

### *IMF Quotas & Voice*

The current proposal on quotas, voice and participation to be voted on is a two phase process, with the first phase to increase the quota of four countries (Mexico, Turkey, Korea and China) by a total of 1,8 per cent, and the second phase to increase the basic vote to preserve the share of African countries. This proposal tries to deal with the problem experienced with previous proposals that increasing the share of growing emergent countries will result in a decline in the share of African countries.

The objective of the reform is (1) to ensure that the quota shares of members are better aligned with their relative economic weight in the world economy and to make quota and voting shares more responsive to future changes in these relative weights; and (2) to enhance the participation and voice of low income countries where the Fund continues to play an important advisory and financing role.

The two year programme of reforms will include: (a) phase one of ad hoc quota increases limited to China, Korea, Mexico and Turkey. These countries are most underrepresented on the basis of the existing quota formula and are also underrepresented on the basis of all four variables of the formula; (b) phase two with another round of ad hoc increases implemented after an agreement on a new quota formula; (c) the second stage would also include a doubling of basic votes as well as a process to ensure that the ratio of basic votes to total voting power remains constant so as to safeguard the voting share of low-income countries.

It should be noted that measures are envisaged to increase resources for the offices of the African Executive Directors (EDs), including more senior advisors and a second Alternate Executive Director.

African Ministers of Finance have had a number of meetings to discuss this proposal, including meetings convened by Minister of Finance of Mozambique Manuel Chang in Mozambique and a meeting with the Managing Director of the IMF in Spain. African countries have argued for mechanisms to protect the share of African countries.

#### *Development Committee (DC)*

4.7 The two primary issues for the meeting of the DC on 18 September on the provisional agenda are:

- Strengthening Bank Group Work on Governance and Anti-corruption;
- Strengthening the World Bank's engagement with IBRD Partner Countries;

There are also three progress reports:

- An Investment Framework for Clean Energy and Development;
- Progress Report for the Education Fast Track Initiative;
- Doha Development Agenda and Aid for Trade;

and one background paper on the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI): Status of Implementation Report.

#### *World Bank Group Work on Governance and Anti-corruption*

The President of the Bank, Paul Wolfowitz made a major speech in Jakarta, on 11 April 2006, stressing that promoting good governance and fighting corruption is critical to helping countries achieve economic progress, promote sustainable development, and ensure that governments are accountable to their citizens. The speech outlined his plan to enhance the Bank's work on governance and anticorruption, and a number of actions have since been taken.

The Bank proposes to scale up its work in three areas: within Countries, within the Bank, and in cooperation with other institutions. The detail of what it proposes will be scrutinised by the DC.

#### *World Bank's engagement with IBRD Partner Countries*

The Bank is trying to identify why its lending to Middle Income Countries (MICs) is not at the levels they would like. Bank staff argue that they have comparative advantage helping governments to provide public goods essential to accelerated growth and poverty reduction, and they believe that there is significant value-added in its packaging together financial and analytic support.

Nearly 2/3 of the world's poor (less than US\$ 2 a day) live in MICs (26 percent in IBRD-only countries and 39 percent in IBRD/IDA blend countries); more than half of MICs have little or no market access to private capital markets; and about 20 countries have volatile market access that is expensive and where the Bank still has a critical role to play with respect to its development and poverty reduction mandate to finance those projects with the potential to crowd in public finance, FDI and other forms of private finance.

In its efforts to address low levels of lending, the Bank has defined an Action Plan but it is too early to predict whether the measures to be adopted by the Bank will result in an increased level of lending to MICs.

The Progress Report on an Investment Framework for Clean Energy and Development reviews existing financial instruments, in an effort to identify ways of closing the financing gap for energy for development and energy access.

The central issue with respect to the Progress Report on Education Fast Track Initiative is adequate and predictable funding. Though the impact of the suspension of the DOHA negotiations are not clear, the Progress Report on Doha Development Agenda and Aid for Trade suggests that there is a general consensus that aid for trade is an initiative which can proceed regardless of whether the multilateral trade negotiations are concluded or not. The Aid for Trade Task Force Recommendations included supporting a significant strengthening of capacity in each LDC recipient country to manage the IF process, a funding target of US\$400 million over an initial 5-year period and a monitoring and evaluation framework. There is a risk that the resources will not be additional in the sense that it will form part of the scaling up of aid which has already been promised. There is already a reshuffling of existing resources towards aid which can be considered "trade-related". It is of concern that support for Aid for Trade is presumed to support the attainment of the MDGs, and resources for social development may be cut.

The key points to note on the implementation of the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) are:

- Increased creditor participation in HIPC and MDRI is critical to IDA and ADF sustainability;
- South Africa could play a key role in monitoring the successful implementation of the MDRI, and ensure this issue does not fall off the agenda, as the issue of

additionality of resources beyond 2006 is important for the success of this initiative.

### **The Commonwealth Finance Ministers Meeting**

Commonwealth Finance Ministers are meeting on 12-14 September in Colombo, Sri Lanka, to consider a number of issues in advance of the Annual Meetings. Commonwealth Finance Ministers will review existing approaches to Small States Issues, and will be giving specific consideration to HIPC Debt Relief and the MDRI. The special theme this year is an Agenda for Growth and Livelihoods, and the challenges of ensuring sustained and equitable growth will be considered.

South Africa's recent consideration of policy in this regard (ASGI-SA) is likely to be of interest to participants. The Technical Theme is Reform of the International Aid Architecture, and participants will debate a number of options with respect to accelerating the implementation of the Paris Declaration for Aid Effectiveness.

### **Raffles Forum on Good Governance and the Wealth of Nations**

The Raffles Forum on Good Governance is taking place from the 14-15 September during the IMF/WB Annual Meetings. The event is hosted by the Lee Kuan Yew School of Public Policy and the National University of Singapore. Participants include Minister Manuel, Amartya Sen of the University of Cambridge and Lawrence Summers, Professor at Harvard University.

The Forum will discuss issues including: Good governance in the 21st Century; The Role of the State in Global Financial Markets; Translating Good Governance into Wealth Creation through Privatisation; Investing a nation's wealth; Managing a Nation's Natural Resources; Balancing risk and regulation and Pension reform.

### **Commission on Growth and Development**

The World Bank released a paper on Fiscal Policy for Growth, and announced the creation of an independent commission on growth at the spring meetings in April this year. The intention of the commission is to deepen the understanding of economic growth for development and poverty reduction.

Minister Trevor Manuel is a member of the Commission and will attend its next meeting scheduled to be held in Singapore on the fringes of the main IMFC and DC meetings. The independent Commission is chaired by Nobel laureate Michael Spence, former Dean of Stanford Business School and is a joint Bank-Fund initiative. A new analytical framework has been proposed to look at how governments may create fiscal space for growth. A full report is to be completed by early 2007.

### **International Task Force on Global Public Goods**

The International Task Force on Global Public Goods is an independent, consultative body that was created through an agreement between France and Sweden in 2003. The Task Force's mandate is to assess and prioritize global and regional international public

goods and make recommendations to policy makers and other stakeholders on how to improve and expand their provision.

### **The Institute of International Finance (IIF)**

Minister Manuel has accepted an invitation to serve as a Trustee for the Principles for Emerging Markets of the IIF. The IIF is the world's only global association of financial institutions and was created in 1983 in response to the international debt crisis. Members include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. The Institute has more than 320 members headquartered in more than 60 countries.

The IIF aims to support the financial industry in prudently managing risks, including sovereign risk; in developing best practices and standards; and in advocating regulatory, financial, and economic policies that are in the broad interest of our members and foster global financial stability.