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2 Speaking on behalf of the Fund Nordic-Baltic constituency.
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<td>AFRITAC</td>
<td>African Regional Technical Assistance Center</td>
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<td>anti-money laundering</td>
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<td>AsDB</td>
<td>Asian Development Bank</td>
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<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
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<td>BT</td>
<td>business technology</td>
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<td>BWIs</td>
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<td>CIS</td>
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<td>IEO</td>
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<td>international financial architecture</td>
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<td>LOI</td>
<td><em>Law on Investment</em> (Cambodia)</td>
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<td>National Poverty Eradication Program</td>
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<td>Organization for European Cooperation and Development</td>
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<td>Partnership for Capacity Building in Africa</td>
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<td>PFTAC</td>
<td>Pacific Financial Technical Assistance Center</td>
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<td>Poverty Reduction and Growth Facility</td>
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<td>Poverty Reduction Support Credit</td>
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<td>state-owned commercial bank</td>
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<td>SDDS</td>
<td>Special Data Dissemination Standard</td>
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<td>special drawing right</td>
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<td>Sovereign Debt Restructuring Mechanism</td>
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INTRODUCTORY NOTE

The Fifty-Sixth Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C. on September 29, 2002, jointly with the Annual Meetings of the Board of Governors of the World Bank Group. The Honorable Ahmed Bin Abdulnabi Macki, Governor of the Fund and the Bank for the Sultanate of Oman, served as Chairman.

These Proceedings include statements presented by Governors during the meetings; resolutions adopted by the Board of Governors of the Fund since the last Annual Meeting in September 2000; reports, recommendations, or communiqués issued by the Committees of the Board of Governors at the time of the meetings; and other documents relating to the meetings.

Statements by the Governors are listed in alphabetical order by country on pages iii-v, speakers are listed by session on pages vii-ix, and a list of abbreviations used in the statements and documents is given on pages x-xii.

Shailendra J. Anjaria
Secretary
International Monetary Fund

Washington, D. C.
November 1, 2002
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OPENING ADDRESS BY THE CHAIRMAN
OF THE BOARDS OF GOVERNORS AND
GOVERNOR OF THE FUND AND THE BANK
FOR THE SULTANATE OF OMAN

Ahmed Bin Abdulnabi Macki

Introduction

Managing Director Kohler, President Wolfensohn, my fellow Governors, Excellencies, ladies, and gentlemen, it is my great privilege to welcome you to the 2002 Annual Meetings of the International Monetary Fund and the World Bank Group. On behalf of the Boards of Governors, I would like to express our sincere appreciation to the President and the people of the United States of America for their hospitality. I would also like to extend our deep gratitude to the authorities and the people of Washington, D.C. for hosting these meetings. Let me also extend a special welcome to the newest member of the Fund and the World Bank Group, the newly independent nation of Timor-Leste.

There is much to be accomplished during these meetings, and we will all need to work together if we are to make tangible progress. I come from a region where we fully recognize that we need to cooperate with our neighbors to address issues of common concern and to strengthen and deepen relationships. The Sultanate of Oman has developed rapidly during the last 30 years by achieving the stability that comes from the collective cooperation of our people and from working together with our regional neighbors and key trading partners.

The economic development of Oman has been achieved by maintaining a strict fiscal policy and by ensuring that inflation is kept under control. In more recent years, there has also been a strong drive for privatization. Oman has encouraged international investors to participate in the expansion of the power sector. We have also encouraged international investors to participate in the privatization of the management, operation, and maintenance of our main air and sea ports to ensure the efficient use of our national assets. We have also cooperated with a number of international institutions to update our legal and health systems and to improve education.

At the regional level, Oman is cooperating with our neighbors in the Gulf Cooperation Council (GCC) to harmonize our economic policies.
We are also working to achieve the GCC customs union by January 2003. Oman is a strong advocate of international cooperation as the best way to tackle the various challenges facing us all.

Managing Global Integration through Increased International Cooperation

Fellow Governors, an outstanding fact of our world today is its growing integration and interdependence. The process of globalization has presented our countries with tremendous opportunities for growth and prosperity but has introduced new risks as well. As this global integration deepens, concerted action on the part of developed and developing countries, national and international authorities, and the public and private sectors alike is needed to ensure that the benefits of globalization are shared by all. The various initiatives for globalization are important, and we must all do more to address the concerns that are being raised in various quarters in both developed and less developed countries.

There is, now more than ever, a need to strengthen international cooperation to guide the process of global integration and the pursuit of our common goals—the fight against poverty, the sustained development of our economies, and the prevention of financial crises—and in light of our universal membership, no institutions are better equipped than the Fund and the Bank to facilitate such cooperation and to ensure that all our voices are heard. Nevertheless, it is critical that each country, for its part, demonstrate the necessary political will and commitment to follow appropriate policies and create the necessary institutions, as well as establish an environment conducive to economic growth based on good governance and the rule of law.

The Global Economy

Fellow Governors, the global economic outlook is improving slowly, and global economic growth is expected to be 2.8 percent this year. The recovery has yet to take firm hold, and the downside risks to the global economy have increased. The recent volatility in equity markets and new concerns in the area of corporate governance clearly indicate that the risks and vulnerabilities arising from industrial countries are as significant, if not more so, as those in emerging market and developing countries. In this regard, I welcome the prompt action taken by the U.S.
authorities to strengthen regulation and enforcement in the financial sector.

A major risk to the economies in my region in particular, but also to the global economy in general, is the deteriorating security situation in the Middle East. I therefore urgently call for greater efforts by the international community and all parties involved to seek a peaceful resolution to this and all other conflicts, especially as political turmoil, civil unrest, and conflict all severely hold back progress in tackling poverty and achieving economic prosperity.

Poverty Reduction

Fellow Governors, the greatest challenge that continues to face us today is to eliminate poverty, which, sadly, remains widespread in many parts of the world. It is our responsibility to ensure that the world’s poorest also benefit from the increasing integration of the world economy.

In this regard, an unprecedented degree of agreement about what is required to overcome poverty and promote global development was reached at the International Conference on Financing for Development in Monterrey. The conference recognized that both developed and developing countries have important roles to play if real improvements in growth and poverty reduction are to be realized. The Monterrey Consensus reaffirmed the importance of sound policies and good governance to ensure the effectiveness of official development assistance (ODA). I welcome the announcements made by the European Union, the United States, Canada, and others at Monterrey to boost their levels of ODA. Oman and other Arab donor countries have demonstrated our long-standing commitment to international cooperation by contributing substantial concessional assistance and aid to developing countries. Indeed, we have consistently exceeded the target of 0.7 percent of GNP for ODA set for the industrial countries.

The recent United Nations World Summit on Sustainable Development held in Johannesburg reaffirmed the primacy of sustainable development as a central element of the international agenda. It concluded with significant commitments in the areas of water and sanitation, energy, health, agriculture, biodiversity, and ecosystem management. The challenge before us now is to implement these commitments in order to improve the lives of people living in poverty and to reverse the degradation of the environment.

I am pleased that the recent review of the Poverty Reduction Strategy Paper (PRSP) process by the Fund and the Bank confirmed the effectiveness of the PRSP approach to help countries reduce poverty, as
it promotes ownership of policies by the countries themselves and requires a broad-based participatory effort in which all stakeholders in the fight against poverty can have a voice.

The Bank and the Fund have also made substantial progress in approving debt relief for heavily indebted poor countries through the HIPC Initiative. Twenty-six countries have so far benefited from the initiative, and will receive over US$40 billion in nominal debt service relief over time. The debt relief has allowed these countries to increase their spending in such critical areas as health, education, and basic infrastructure. We hope that additional countries will soon be receiving debt relief under this program.

Fellow Governors, it is clear that education and adequate health care are central to poverty reduction. However, more than 113 million children of elementary school age in developing countries are not in school, two-thirds of them girls. I therefore particularly welcome the adoption of the Education For All (EFA) Initiative as one of the Millennium Development Goals (MDGs).

Sadly, today 40 million people live with HIV/AIDS. I am pleased therefore that the Bank's lending and technical support for HIV/AIDS have increased significantly, and that today more countries than ever are turning to the Bank for assistance in combating the epidemic.

Trade

Fellow Governors, international trade has a vital role to play in fostering economic development and reducing poverty. In this regard, enhanced market access for developing countries and their effective participation in the Doha Development Agenda are essential to ensure that the benefits of further trade liberalization are shared by all. It is regrettable, however, that the trade policies of many industrialized countries continue to restrict access to the exports of developing countries, particularly textiles and agricultural products. I call upon the industrial countries to commit themselves to a meaningful opening of their markets. Developing countries should also push ahead with their own liberalization efforts.

Financial Sector Issues

Fellow Governors, globalization of the financial markets has created new opportunities for both industrialized and developing countries. It has also underscored that, in today's global financial system, which is
characterized by vast and volatile cross-border capital flows, strong financial sectors are necessary to promote savings, investment, and growth.

The Fund and the Bank have a special responsibility to help members better protect themselves against financial crises. In this connection, I welcome the efforts by the Fund over the past several years to sharpen and focus its surveillance function in order to better identify vulnerabilities and provide timely advice and support for preventing future crises.

Another area where the Fund and the Bank are playing an important role in safeguarding the stability and the integrity of the international financial system is in combating money laundering and the financing of terrorism. These issues are of critical importance to the entire membership as they affect countries at all stages of development.

Conclusion

Fellow Governors, in conclusion, I believe that our institutions are now stronger and ever more committed to ensuring that the opportunities and benefits brought about by globalization are made available to, and shared equitably by, all members, particularly the less fortunate. I am certain that the synergies of our working together will help achieve much more than the sum of our individual efforts.

Fellow Governors, I hereby declare open the 2002 Annual Meetings of the International Monetary Fund and the World Bank Group.
ADDRESS BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE
INTERNATIONAL MONETARY FUND

Horst Köhler

Mr. Chairman, Governors, honored guests, it is a pleasure to welcome you to these Annual Meetings. I would like to join Chairman Macki in extending special greetings to our newest member country, Timor-Leste, and to wish the Timor-Leste authorities every success in their task of building a new nation.

A little more than one year ago, the world experienced a traumatic attack on stability, peace, and human dignity. The community of nations rose to the challenge and demonstrated that it is capable of acting together to make the world a better place. We should not lose this momentum, but build on it and strengthen international cooperation to meet the global challenges that lie ahead. I see today’s gathering of 184 member countries of the Fund and the World Bank as an important part of that effort.

The IMF in a Process of Change

Two years ago, at our last Annual Meetings in Prague, we dedicated ourselves to making the IMF an active part of the international workforce to make globalization work for the benefit of all. Our vision of the future role of the IMF defined it as an institution that:

- Is committed to openness, dialogue, and learning from experience;
- Cooperates closely with other institutions dedicated to the provision of global public goods;
- Promotes sustainable and broadly shared economic growth in the world; and
- Is the center of competence for the stability of the international financial system.
My report to the IMFC demonstrates that our member countries, Executive Board, management, and staff have been working hard and making progress. The IMF has become more transparent and accountable. Our surveillance review will lead us to better vulnerability analysis, greater attention to institutional weaknesses, and better tailoring of our advice to social and political realities. We are more focused on financial sectors and international capital markets. We are actively engaged in the fight against money laundering and the financing of terrorism. In our work with low-income countries, the PRSP process has become recognized as an effective way to organize poverty reduction strategies and a path to debt relief under the enhanced HIPC Initiative. We have strengthened and prioritized our technical assistance, not least through the establishment of regional centers in the Pacific, the Caribbean basin, and sub-Saharan Africa. We are streamlining and focusing IMF conditionality, for more effective programs and greater national ownership of reforms. We are collaborating more closely with the World Bank and other organizations. And we are building a culture of listening and learning in the Fund, most recently through the establishment of the Fund’s Independent Evaluation Office (IEO). I am pleased that the IEO’s first report has confirmed that we are on the right track in our reforms of IMF conditionality and surveillance, and I have established an internal task force to follow up on its suggestions for further improvements.

I have no doubt that our comprehensive work program will help to promote sustained growth and make financial crises less frequent and less severe. But the benefits we can see in our member countries are the true measure of progress. On that basis, it is clear that we still have a lot of unfinished business.

The Global Economy

Our most immediate concern must be to strengthen the global economy. There are clearly a number of risks and uncertainties. But we should beware of undue pessimism. There are still good reasons to expect that the recovery will continue. And while there are widespread signs of risk aversion, I trust that there are still entrepreneurs who look for new opportunities and are not content to follow the herd. I take particular encouragement that discussions in the IMFC showed that our members know what to do in case of further signs of weakness in economic activity. Monetary policy should be the first line of defense, as long as inflation prospects remain subdued. I also expect a boost to confidence as the advanced countries take energetic action to tackle underlying impediments to stronger growth. And I take confidence from
the fact that these Annual Meetings demonstrate that international cooperation is alive and well.

The advanced countries have a particular responsibility and must show leadership in making the global economy stronger. We look to the United States to set a continued example, and to guard against the reemergence of sustained fiscal deficits. We look to Europe to stick to the Stability and Growth Pact and accelerate structural reforms in labor markets and pension systems. We trust that Japan will now move forward with bold reforms of the banking and corporate sectors, and act decisively to end deflation. We welcome further action to build confidence in accounting and corporate governance. And we look to the advanced countries for leadership in strengthening the multilateral trading system and bringing the Doha Round to a successful conclusion.

**Fighting World Poverty**

It is essential for the IMF, as a universal institution, to be actively engaged in the fight against world poverty. Monterrey and Johannesburg have paved the way with a “two-pillar” approach for overcoming world poverty, based on self-responsibility and better international support. I am particularly encouraged that this also forms the guiding spirit of the New Partnership for Africa’s Development (NEPAD). The IMF will continue to act decisively—in close cooperation with the World Bank—in helping our low-income members to promote macroeconomic stability and sustained growth. We will continue to show flexibility in our support for postwar institution building and economic recovery in Rwanda, the Democratic Republic of the Congo, Afghanistan, and other countries emerging from conflict. And I also think it is right for us to speak out on behalf of the poor—for stronger growth in the world, for better market access and a phasing out of trade-distorting subsidies, for more aid, and for doing more to build local capacities. That also means that faster structural change in the advanced countries is indispensable for a breakthrough in the fight against poverty.

**Investing in Better Globalization**

We should welcome the broad and critical public debate about globalization. I see this as an important part of the search for ways to make globalization more inclusive, and better balance its risks and opportunities. This means that integration into the global economy must be accompanied by investments in making integration pay off for the
people of the world, and especially for the poor—investments in better national policies, and better cooperation. I see five guideposts for investing in better globalization:

- First, interdependence. Growing interdependence means that no nation should neglect the impact of its actions on the rest of the world. This also obliges us to pay as much attention to risks originating in the advanced countries as we do to problems in emerging markets and developing countries.
- Second, self-responsibility. Self-responsibility is the natural counterpart of freedom, human dignity, and national identity. Our actions should support and encourage it.
- Third, solidarity. The fight against world poverty is everybody’s business. We should all be actively engaged in promoting socially and environmentally sustainable development, by helping the poor to help themselves.
- Fourth, a level playing field. This requires sound institutions and respect for the rule of law within nations. It requires transparent international decision making. And it also requires an inclusive process for developing internationally accepted standards and codes of conduct, as rules of the game for the global economy.
- Fifth and finally, no “one size fits all” approach. The diversity of the human experience should be understood as part of the wealth of this planet. Indeed, I see some degree of competition among economic models as healthy for the global economy.

Priorities for Further Reform of the IMF

These principles are guiding the process of change at the IMF. Beyond the initiatives already underway, I am convinced that they should also be reflected in an integrated concept for further reform, to strengthen confidence and match the IMF’s capacities with the needs of the global economy. For this concept I would suggest combining actions in four crucial areas.

- We need to provide a better safety net for countries pursuing sound policies.
- We need clearer and more predictable policies on access to IMF resources.
- There should be better mechanisms for dealing with unsustainable sovereign debts.
• And our members should demonstrate their willingness to ensure that the IMF has the resources to be a confidence-building anchor for the international financial system.

The IMF’s member countries have overwhelmingly embraced the principles of democracy, openness, and economic stability. Now we need to support them, and help them stay the course. On the one hand, we should encourage countries to put in place “shock absorbers” to cope with volatility and risk in the global economy. These include appropriate exchange rate regimes; better debt and reserve management; sound budgets that leave room to maneuver in difficult times; efficient and diversified financial sectors; and more effective social safety nets. At the same time, where a country has been doing all it reasonably can to cope with risks in the global environment, we should have a contingency mechanism that provides rapid, effective support with a high degree of automaticity, when they are threatened by turbulence in the global economy. I know there are differing views about the wisdom and relevance of the IMF’s Contingent Credit Lines (CCL), and we will be reviewing this facility in the coming months. I am convinced that the underlying principle is still correct, and that we should work to make this principle operational.

We have been working to develop a comprehensive approach to crisis resolution that combines a clearer and more predictable access policy, including greater selectivity in IMF lending, with systematic debt sustainability analysis and better mechanisms for restructuring unsustainable sovereign debt. There is now broad agreement within the public and private sectors on the need for ways to restructure sovereign debt in a timely, orderly, and less costly manner, while protecting asset values and creditors’ rights. The IMF will continue to support efforts to develop collective action clauses that could be included in international debt instruments. And I appreciate the strong encouragement that the IMFC gave us this weekend to come back with a concrete proposal for a Sovereign Debt Restructuring Mechanism (SDRM), to be considered by our membership at the time of our meeting next spring.

In a world of integrated global capital markets, we should be aware that the principle of helping good performers to withstand disturbances in the global economy will at times require the capacity to provide very strong support. This does not mean that the IMF should seek to match the scale of private financial flows or become a global lender of last resort. The Fund has adequate liquidity for the immediate future. But markets and political processes are forward-looking, and it would not be prudent to allow the size of the Fund to shrink in relation to the size of the global economy. Thus, as the final element in an integrated concept for further
reform, openness to an increase in IMF quota resources at the appropriate
time should be seen as an important investment in better globalization.

At the same time, I share the view that the current distribution of IMF
quotas needs to be reconsidered—especially to correct the under-
representation of a number of emerging market countries. We should also
strengthen the voice of African countries in the Fund. These will be
important steps to strengthen the cooperative nature of the IMF.

A Global Economy Needs Global Ethics

Mr. Chairman, Governors, honored guests, I am convinced that a
better world is possible, if we are willing to invest in better globalization.
But I also believe that we need to take our concept of global governance
one step farther. Recent corporate scandals should remind us that there
must be more to a market economy and entrepreneurship than profits
alone. As President Vaclav Havel said two years ago in Prague, a global
economy needs a sense of global ethics. I would encourage you to visit
the exhibition “World Religions, Universal Peace, Global Ethic,” pre-
pared by the theologian Hans Küng, that is now underway at the IMF. I
share Professor Küng’s view that there can be no survival of the globe
without a global ethic. And I think that you will be struck by how much
common ground he has demonstrated among the major religions and
philosophies of the world. And I trust that you, too, will see this as
another source of hope for the future of the world.
OPENING ADDRESS BY THE PRESIDENT OF THE
WORLD BANK GROUP

James D. Wolfensohn

A Time to Choose, A Time to Act

It is my pleasure to welcome you to these Annual Meetings. I would like to extend my appreciation to the U.S. authorities for making our meeting in Washington possible and to the D.C. government, the D.C. Police Department, and to all the security personnel for all their support throughout the meetings.

I also thank my friend, Horst Kohler, for a collegial and cooperative working relationship in the last two years and for his thoughtful speech this morning. To our newest member country, the Democratic Republic of Timor-Leste—I join Chairman Macki in welcoming you to the Bank. Please accept our best wishes for every success in your efforts to build your nation.

When we gathered two years ago, I spoke of the opportunities and challenges of development. These have been a tough two years. In the rich world, collapsing stock markets and corporate scandals have shaken confidence and mutual trust. In the developing world, people have been badly hit by continuing wars and conflict, falling commodity prices, a slackening of demand, and continuing restrictions on trade with rich countries. The human toll in Africa and Latin America has been heavy.

Yet, in the face of these difficulties, much of the developing world has shown strong resilience. This resilience is a tribute to the progress that has been made in shaping and implementing policies. Many countries have taken on the problems of dislocation inevitably involved in reform. They have worked to improve institutions and governance. And through these difficulties and our collective action, we have, in many ways, seen the best of people. We have seen a coming together—a recognition that international problems require international responses.

On September 11 last year, the world finally came to recognize that there are not two worlds—rich and poor. There is only one. We are linked by finance, trade, migration, communications, environment, communicable diseases, crime, and drugs, and certainly by terror.
Today more and more people are saying that poverty anywhere is poverty everywhere—and their voices are getting louder. Their demand is for a global system based on equity, human rights, and social justice. It must be our demand too. For the quest for a more equal world is the quest for long-term peace—something that military power alone can never achieve.

The world is beginning to listen. We have seen a year in which the commitments reached at Doha, Monterrey, and Johannesburg have laid a new basis for a global deal. The development community has confirmed the Millennium Development Goals as our framework for action. In pursuit of these goals, we have witnessed the emergence of a global partnership built on a consensus that the countries of the world are interdependent. Our thinking and action must be local, regional, and global, and we must work and act together.

We have reached a remarkable consensus on what is needed for successful poverty reduction. First and foremost, developing country leaders have asserted that the responsibility for the future of developing countries is in the hands of those countries. Developing countries must drive their development and create a constructive environment to encourage growth that is equitable and just for poor people, indeed for all people.

This growth must be based on sound social and economic policies. To create the conditions for entrepreneurship, productivity, and jobs, the developing countries must invest in health and education, including early childhood education. These countries must also invest in effective legal and judicial systems, clear tax and regulatory frameworks implemented in approaches that fight corruption at all levels, and strong and well-regulated financial systems. Gains from reforms leading to economic and social growth must be channeled to empower poor people so they can shape their own lives. Poor people are assets, not liabilities.

In Monterrey and Johannesburg, developed countries agreed to work in partnership with the developing countries—to assist them to build capacity, to increase overseas development assistance where it is effective and well managed, to open markets to trade, and to reduce agricultural subsidies. They reaffirmed their commitment to the Millennium Development Goals for poverty and hunger, education and health, gender equality, and the environment.

We have set 2015 as the deadline for our results. We must now, together, move beyond words and set deadlines for our actions. We have said we are mutually accountable. It is time to deliver.

If the goals of 2015 are to be achieved, each of us must act now. In doing so, we must recognize that development is not about quick fixes. Achievement of lasting change requires vision. It requires time and
patience. It requires a long-term commitment. It requires focus and
discipline. And it requires us to measure effectiveness.

Some may say we need to learn more before we act. To those people I
would say, of course, we will learn more as we go along, but we already
know much about what works and what does not. We know enough to
begin implementation now.

What must each of us do?

Let me start with the rich countries.

Deliver on the Doha agenda. We know that rich-country barriers to
trade are too high. Bring down the tariffs and cut back the nontariff
barriers that all too often are covert protectionism. Keep to the Doha
timetable. But there is so much that can be done by rich countries with­
out waiting for Doha.

We know that agricultural subsidies in rich countries, at $1 billion per
day, squander resources and profoundly damage opportunities for poor
countries to invest in their own development. There should be a fixed
timetable for the subsidies' elimination. Take the opportunity at the
World Trade Organization meeting in Cancun in 2003 to make firm
commitments on subsidies, but I urge you to act sooner.

Deliver on the welcome commitments of increased aid made at
Monterrey, and the excellent response at Kananaskis to financing of the
HIPC Initiative shortfall. There appears to be an emerging willingness to
increase aid that is productively used.

Remove conditions on the use of aid that tend to render aid
ineffective, and move to better coordinate and harmonize development
programs and policies. The fragmentation of donors' efforts has long
under-mined the effectiveness of aid. Many of the failures blamed on
borrowing countries actually represent the failure of donors to coordinate
their efforts.

Better development multilateralism will deliver better development
results.

What must developing countries do?

They must continue to build capacity, good governance, and insti­
tutions—to push ahead with legal, judicial, and financial reforms and to
invest in their people.

Like the developed countries, developing countries must increase
their focus on results—on monitoring outcomes and managing programs
so that growth and poverty reduction goals can be achieved. For many countries, the New Partnership for African Development shows the way.

*What must the Bank do?*

Focus on fulfilling our promises to work toward the Millennium Development Goals. Though as an institution we have changed greatly over the last decade, we must do more. Our operations must become more transparent. We must support developing countries in better building their capacity. Although we have been a leader in measuring the results of our projects and programs, we must measure our results more rigorously, and, with others, we must be held accountable in the broader context of country goals and the Millennium Development Goals.

We are anxious to move ahead with efforts to harmonize and coordinate our work with the International Monetary Fund, the United Nations, multilateral development banks, and other donors.

All partners in development must pay special attention to inclusion, participation, and empowerment:

—Inclusion, because we cannot expect reforms to be sustained if poor people are excluded when choices and trade-offs are made.
—Participation, because poor people know best what makes a difference in their lives.
—Empowerment, because we will not have lasting change unless poor people acquire the assets and means to shape their future.

Societies the world over are changing. People demand to be informed, to be consulted, to have a say, to have a voice. Unless we build on their strengths, we will forgo the most powerful force for implementation.

But actions by governments of developing and developed countries and by international institutions are only part of the solution. We must all do more to enhance the role of civil society and the private sector. The old multilateralism included only governments. The new multilateralism must include the voices of the private sector and civil society. We must *all* be more accountable. Better partners. Better listeners. Better deliverers.

And we must keep track of our actions.

We have made real progress in reaching broad agreement that development must be addressed comprehensively—and that it must be owned by developing countries. For most poor countries, this approach is
embodied in their Poverty Reduction Strategy, an approach that is transforming strategy and partnership in many countries. The comprehensive development framework is also proving effective for middle-income countries.

For the first time we have a tool—the Development Gateway—that enables us to collect information on and learn more about development projects around the world. According to the Development Gateway, more than 63,000 development projects, not including those programs undertaken by civil society or church groups, are ongoing. All too often, projects in one sector in a country are run by multiple agencies that do not talk to one another. We must use the Development Gateway to track our actions so that we can better coordinate our efforts.

We have come a long way. We do not have to start from scratch. We already have programs that can be implemented. The Education for All Initiative, for example, would enable us to work together to enroll some 17 million children in school for the first time.

We have programs on HIV/AIDS. As of today, 20 developing and transition economies have developed and are implementing AIDS strategies that build on existing prevention, care, and treatment.

We have programs for clean water and sanitation.

But we need to scale up these programs so that they can have national, regional, and global impact. And we need donor support to implement them.

Let education, AIDS, and clean water be a first test of our commitment to partnering for results.

If we are to meet the 2015 goals, we must agree to set deadlines now for our actions. But we must go further. The year 2015 is only a staging post on a much longer journey.

Over the next 50 years, we will likely see world population grow from 6 billion to 9 billion; almost 95 percent of that increase will occur in the developing world. Food needs will double; annual output of carbon dioxide will triple; and for the first time more people will live in cities than in rural areas, placing an enormous strain on infrastructure and on the environment.

If we are to meet the 2015 goals, and go on reducing poverty effectively, we will need an estimated average annual growth rate of the world economy of approximately 3.5 percent—giving us, perhaps, a $140 trillion world economy by 2050.

If we cannot protect our environment and make such growth ecologically responsible, we will not have sustainable development.

If we retain the current distribution of income in which 15 percent of the world’s population controls 80 percent of the world’s income, we will not have sustainable development.
If we continue to exclude the disenfranchised—women, indigenous people, the disabled, street children—from playing their rightful role in society, and if we ignore their human rights, we will not have sustainable development.

And if we do not have sustainable development, we may not have long-term peace. Sustainable development is the challenge that together we must meet.

I cannot conclude without saying that I am extremely proud of the staff in the World Bank Group. They are united by a desire to fight poverty with passion. I thank them, from the bottom of my heart, for their hard work and commitment.

My friends, working together, we have the opportunity, the responsibility, and the privilege of shaping the planet of the future. We are not hapless bystanders. We can influence whether we have a planet of peace, of social justice, of equity, of growth—or a planet of unbridgeable differences among people, a planet of wasted physical resources, of strife, of terror, and of war.

Ours can be a time of a new renaissance of values, of justice, of freedom from want and fear. We must set our sights high. We must not be distracted.

We must act now on our promises. We must deliver on them with a sense of urgency. Completing this task is our responsibility and our destiny.
REPORT TO THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND
BY THE CHAIRMAN OF THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Gordon Brown

Representing 183 economies across the world, the International Monetary and Financial Committee met here in Washington this weekend—knowing that we are being tested by the risks in the world economy, but resolved to build on our shared sense of common purpose.

The committee recognized that, in part reflecting the determined international policy response, there are continuing indications that the recovery is proceeding, although at a slower pace than expected earlier this year. And that there must neither be undue pessimism, nor unacceptable complacency.

There was not only a strong sense of common purpose but a strong sense that this purpose is crucial to maintain the conditions for stability and growth in the world economy. And while remaining vigilant about the economic risks and challenges ahead, we are agreed on a common course of action and on the need to stand ready to act if risks materialize.

First, we are agreed on the contributions each of our continents should make:

- In the United States actions are under way to strengthen corporate governance, accounting and auditing;
- In Europe we agreed that further reforms in labor and product markets are needed; and
- In Japan we are agreed that banking and corporate restructuring should be vigorously pursued.

Aware ever more of our interdependence, we are more than ever aware that it is only by each country taking necessary action that we will secure economic growth. So, in promoting sustained domestic demand and global growth, all countries and regions must play their part. And so too must the international institutions. We agreed on the need to strengthen the mechanisms for crisis prevention and resolution:
• On crisis prevention, as part of a wider move toward greater transparency, we welcomed the considerable progress on the adoption of codes and standards, and agreed on the need to increase their integration into Fund surveillance. In particular, we highlighted the importance of enhanced standards and principles on corporate governance, accounting and auditing, and of stronger national practice.

• On crisis resolution we are agreed on the need to continue to work together on a two-track approach: for the official community, the private sector, and sovereign debt issuers to continue to work together to develop collective action clauses (CACs); and, we called on the Fund to develop a concrete proposal for a statutory Sovereign Debt Restructuring Mechanism.

The committee was united in its firm belief that, at this time of economic recovery, the imperative to shape a new deal for the global economy—ensuring that all countries share in the benefits of globalization—is now more not less necessary, more not less urgent.

This shared vision is enshrined in the Millennium Development Goals—including that by 2015 world poverty will be halved and all children will have the chance of primary education. And we have reiterated our common cause throughout 2002—in Monterrey in March; at the Group of Seven (G-7) meetings in Canada; and at Johannesburg last month.

But we also recognize that the era of promises must be replaced by and era of implementation. There must be no conspiracy of passive consensus—now is the time for active implementation of an agreed program.

The true test of globalization will be that it works to the benefit all countries—the richest and the poorest. This will require a new development compact between developed and developing countries: developing countries committing to sound economic policies, strong institutions and good governance; and developed countries opening up their trade, increasing debt relief and radically improving aid for anti-poverty programs—particularly on health and education.

Specifically, we have reaffirmed our commitment to full financing of the HIPC Initiative, to help countries to ensure a lasting exit from sustainable debt and to do more to support HIPCs (heavily indebted poor countries) and other low-income countries which face legal challenges from creditors who are unwilling to deliver debt relief.

Noting that the financing shortfall in the HIPC Trust Fund could be up to $1 billion, we called on donor governments to make firm pledges...
and contributions as a matter of urgency. And I can report that in the meetings over the past few days 15 countries have come forward with their pledges, and I expect further announcements in the next period of time.

We welcome the huge progress made in raising aid levels. Pledges from the United States and the European Union (EU) made at Monterrey will raise an extra $12 billion each year—an historic reversal of years of decline in aid levels.

But we recognize the need to look urgently at innovative ways of maximizing these resources—improving aid effectiveness and leveraging in additional funds. And the top priorities for new aid and resources released through debt relief must be education and health.

Developing countries must commit to their side of the development compact—showing genuine commitment to education, health, and poverty reduction and demonstrating that both public and donor funds are properly and effectively used.

Our key challenge now is to achieve concrete progress, and to move from identifying options to working out the details of implementation.

While we meet at a time of global economic uncertainty, nevertheless before us is an unprecedented possibility of progress. A shared vision has emerged—that in an increasingly interdependent world, all can benefit if each meets agreed obligations for change.

Through our shared commitment to economic reform, and our determination to put in place a new development compact, we remain resolute in our pursuit of justice on a global scale, recognizing that prosperity is indivisible and that to be sustained it must be shared.
Mr. Chairman, Mr. Köhler, Mr. Wolfensohn, Governors, ladies and gentlemen, as Chairman of the Development Committee, I am pleased to report to you on the Committee’s work during the two meetings held this year.

During the committee meeting in April, we welcomed the important progress achieved in the Monterrey Consensus, which sets out a new partnership compact between developed and developing countries based on mutual responsibility and accountability to achieve measurable improvements in sustainable growth and poverty reduction.

This new partnership was reaffirmed in Johannesburg earlier this month, and a series of important commitments were made in the areas of water and sanitation, energy, health, agriculture, biodiversity, and ecosystem management. These commitments were accompanied by the launch of implementation initiatives.

Under the new partnership, developing countries have committed themselves to pursue sound policies and good governance. Developed countries made a commitment to ensure sufficient financing for development. The primary mechanisms for achieving this aim are to increase the level of official development assistance provided to developing countries and to implement the HIPC Initiative. At Monterrey, heads of state further agreed to consider alternative sources of finance for development.

The Development Committee recognizes that the challenge before us is to make good on our commitments and move forward on implementation. The Bank has embraced the challenge of translating those commitments into tangible results that will lead to an improvement in the living standards of people living at the grassroots level. The Development Committee recognizes the need to increase its focus on performance by ensuring that development results are reviewed through clear
and measurable indicators. Progress in this area, as set out in a paper entitled "Better Measuring, Monitoring, and Managing for Development Results," was reviewed by the committee.

We reaffirmed our strong support for the current work program to harmonize operational policies and procedures of bilateral and multilateral agencies, so as to enhance aid effectiveness and efficiency. We committed to further action in streamlining such procedures and requirements.

In April, we emphasized that more attention should be given to the building of institutions and capacities, as well as to the timing and sequencing of the reform process. We underlined the importance of an enhanced focus on results that can be used by countries in designing and implementing their strategies, and by donors and development agencies in scaling up and allocating their support. In April, we endorsed the Education for All Fast Track Initiative.

We reviewed progress on this initiative yesterday and, in addition, considered the challenges of scaling up activities in two additional areas; namely, HIV/AIDS/communicable diseases, water, and sanitation. We have urged the Bank to pursue work in these areas.

We reviewed and welcomed the steady progress that has been made on the HIPC Initiative, and remain committed to its vigorous implementation. The Development Committee fully supports the objective of finding an enduring exit from unsustainable debt for our poorest members. Success of the HIPC Initiative will require full participation and delivery of relief by all affected creditors, and adequate and sufficient concessional financing by international financial institutions and the donor community.

The financing component of the HIPC Initiative is critical to its success. We welcome the indication of support to meet the anticipated financing shortfalls in the HIPC Trust Fund, estimated to be about US$1 billion, and call upon donor countries to make firm pledges as a matter of urgency. It is especially important that the cost of debt relief to the International Development Association (IDA) is not permitted to compromise IDA’s resources, and donors should not count commitments as part of their overall aid budgets. Moreover, it is critical to the financial sustainability of recipient countries that bilateral debt relief does not reduce the debt relief provided under the HIPC Initiative through recalculation of assistance.

In April, the Committee noted that the Comprehensive Development Framework/Poverty Reduction Strategy Paper (CDF/PRSP) approach is increasingly providing a common foundation for implementing the new partnership at the country level. While recognizing that scope for improvement exists, we shared the positive assessment of
implementation to date, particularly in enhancing ownership. At our meeting yesterday, we reviewed further experience with PRSPs, which confirmed the broad findings of the review earlier this year. The committee is encouraged by the increased momentum in efforts made by countries to develop and implement their PRSPs.

The committee welcomes the role performed by the Bank and the Fund in assisting countries to achieve the Millennium Development Goals. A central role in that effort is played by the Poverty Reduction Strategy Papers, and other country-owned development programs, and the financial support associated with them, including the Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Support Credit (PRSC). We have called on donors, the Bank, and the Fund to more fully align the PRGF and the PRSC with countries’ PRSPs. It was indicated by the committee that further collaborative efforts are needed to strengthen the analyses of sources of growth, to help countries improve their public expenditure management systems and to promote financial sector development. Poverty and social impact analyses should provide a systematic basis for helping countries to assess the impact of their policies.

During our meeting yesterday, we recognized the special challenges faced by Africa in meeting the MDGs. We therefore urged the Bank and the Fund to scale up assistance to African countries and to build on the New Partnership for Africa’s Development initiative, as a unique opportunity to make significant and quick progress.

The committee further agreed that improving the coherence of policies, coordination, and cooperation between multilateral organizations would provide an important support to the overall effort to improve the effectiveness of aid and reduce poverty. To that end, the committee agreed that it would review a background document on broadening and strengthening the participation of developing countries in international decision making and norm setting, to be prepared by the Bank and the Fund at its next meeting.

We reviewed a progress report on anti-money laundering (AML) and combating the financing of terrorism (CFT). We endorsed the conditional addition of the Financial Action Task Force’s (FATF) 40+8 recommendations to the list of standards and codes useful to the operational work of the Bank and the Fund.

Lastly, as Chairman of the Development Committee, I would like to congratulate the Bank and the International Development Association Deputies for reaching an agreement on the thirteenth replenishment of IDA resources.
It gives me a great pleasure to represent Afghanistan in this forum. After a relatively long and painful absence, Afghanistan is formally rejoining the international community and the Bretton Woods institutions (BWIs). Unlike the previous 23 years, this year the news from Afghanistan is significantly good.

Afghanistan is in the midst of profoundly positive political, social, and economic changes. Less than a year ago, Afghanistan was an oppressive theocracy. Today, it is a more inclusive polity taking promising steps toward democracy. Socially, the country is no longer segregated by gender, and, while maintaining its Islamic character, it is comfortably interacting with other civilizations. However, I do not want to dwell on sociopolitical changes in this forum, but rather to inform you about the profound systemic economic changes, in general, and monetary changes, in particular.

The most fundamental economic systemic change in the past year has been the commitment of Mr. Karzai’s administration to a market economy. For the past half century, Afghanistan’s economy, especially the modern sector, has been controlled by the state. Even though efforts at privatization are still in their early stages, the government’s commitment to a free and competitive economic system is unwavering. Accordingly, a newly adopted investment law strongly encourages both domestic and foreign private investment in the country. The return of previously confiscated private property to the original owners is another manifestation of the government’s commitment to the sanctity of private property. Similarly, the government’s foreign trade policy orientation has a clearly liberal character. In monetary matters, over the past 15 years, the main problem in Afghanistan has been the reliance of the government on printing money to finance the deficit. However, the Karzai government is now committed to a policy that permits no monetization of the fiscal deficit.

Da Afghanistan Bank—that is, the Central Bank of Afghanistan—is the agent for monetary change in Afghanistan. To overcome most of the problems created by irresponsible printing of banknotes by various governments over the past 15 years, the central bank decided, last April,
to introduce new banknotes and to withdraw old banknotes from circulation. Da Afghanistan Bank will launch its banknotes exchange operation on October 7, 2002, and the process is expected to be completed by December 4, 2002. Even though the banknotes exchange project is very costly, given the negative social and economic consequences of the existing chaotic currency situation and our expected gains from the introduction of new banknotes, we find it prudent to undertake the banknotes exchange project.

The introduction of new banknotes will enable us to reduce the high cost of cash transactions; it will restore the central bank’s control over the printing and issuing of money; and, it will enable us to have an accurate count of the total amount of banknotes in circulation. Consequently, Da Afghanistan Bank will be in a position to pursue meaningful monetary policy aimed at general price and exchange rate stability.

With tremendous help from the IMF staff, Da Afghanistan Bank has also prepared a draft central bank law and a draft general banking law, which, respectively, call for the autonomy of the central bank and market competition among commercial banks. We are confident that in the next few months these laws will be adopted. We intend to privatize some of our existing state-owned commercial and specialized banks. We also intend to allow foreign banks to operate in Afghanistan, and the central bank to relinquish its commercial activities and focus only on its own responsibilities. We have launched the computerization of the bank's operation; and, once again, with the help of the IMF staff, we have prepared a general plan for a comprehensive organizational restructuring of the central bank.

In short, Da Afghanistan Bank has launched a multifaceted modernization program. To implement our plans, we have received financial assistance from USAID (Agency for International Development), Germany’s GTZ (German Agency for Technical Co-operation), Sweden’s SIDA (Swedish International Development Cooperation Agency), Britain’s DFID (Department for International Development), and the World Bank. We also have the promise of further financial assistance from the Asian Development Bank and the World Bank. With the kind of advice and financial assistance that Da Afghanistan Bank has been receiving, we are confident that we will be able to implement our reform and modernization plans within the next 18 months.

We are very appreciative of the assistance that we have received thus far from the international community. We are, however, definitely in need of further technical, as well as financial, assistance. We are confident that soon Da Afghanistan Bank will become a typical modern central bank, able to achieve price stability and help create the macroeconomic environment for private-sector driven growth.
I thank the world community, especially the United States for its leadership in making it possible for Afghanistan to rejoin the world community. And I thank the IMF and the World Bank for their advice and technical assistance, and all donors for their material assistance. Afghanistan looks forward to becoming a normal member of the international community; your assistance will help us reach our goal.

STATEMENT BY THE GOVERNOR OF THE FUND AND BANK FOR AUSTRALIA

Peter Costello

Since we last met two years ago—before the tragic events of September 11 last year—much has changed in the world economic outlook. And the challenges now are much greater.

In the wake of September 11, the international community responded quickly and decisively to undertake important changes that will deter and intercept the financing of terrorism. Our ability to act together in a timely and effective manner provides evidence of what we can achieve when we cooperate in a determined way. It is useful to reflect on this experience as we face the challenges ahead in lifting global growth and development opportunities.

In 2001, world economic growth slowed to about 2 percent, the lowest rate in almost a decade. Despite conditions improving in the first half of this year, the recovery has been weaker and more drawn out than previously anticipated. While the outlook is for continuing modest recovery, noticeable downside risks are evident. These risks reflect the impact of the falls in equity markets, the loss of confidence in corporate governance, and the potential for rising oil prices.

Of major concern is the sustainability of large macroeconomic imbalances between the large industrial economies. The U.S. current account deficit is now at historically high levels while weakness in final domestic demand in the euro area and Japan has made these economies increasingly reliant on external, and particularly, U.S. demand.

Policies that promote and rebalance world economic growth by supporting an orderly reduction in global imbalances must remain a priority for all national authorities. In Japan and Europe it is evident that domestic policy reform will be required to promote longer-term growth.
Failure to undertake the necessary policy responses not only constrains consumer and investor confidence today but makes the eventual adjustment harder and more painful. Immediate, decisive and clear policy actions designed to gradually unwind imbalances between the major industrial economies is far preferable to the potential instability caused by the rapid unwinding of imbalances that international financial markets can mete out in the face of perceived policy shortcomings.

In Australia, we have found over a long time that macroeconomic and structural reforms have resulted in very strong productivity gains, solid employment growth, and higher non-inflationary potential growth. One of the clearest benefits we have derived from these reforms has been the strengthening of our resilience to adverse external developments. Australia came through the Asian crisis relatively unscathed, and more recently has continued to record strong growth despite the slowdown in most of the rest of the world. As result, Australia has now completed its eleventh year of practically uninterrupted growth, the longest economic expansion since the 1960s.

This is not to dismiss the potentially adverse impact on our growth—as well as on that of our major trading partners in East Asia—from protracted weakness in the global economy.

A return to a strong and growing global economy also offers the best prospects for assisting developing economies in achieving the growth necessary to continue reduce the numbers of people living in poverty. It is salutary to note the impact that the Asian crisis had on halting, and even reversing, the substantial improvements in poverty alleviation that had occurred in Asia during the decades preceding the crisis. More recently, events in Latin America have also seen the numbers facing poverty in countries such as Argentina increase. These events, continuing problems in Africa, and a weak global outlook, pose serious challenges to our efforts toward making further progress in reducing the incidence of poverty around the world.

Reducing the number of people living in poverty remains a fundamental issue for the international community. Australia welcomed the Monterrey Consensus and its premise that attacking poverty and promoting development requires a partnership of actions of both developed and developing economies. And we were pleased to see many of these themes reinforced at the recent World Summit on Sustainable Development.

In particular, we welcome the emphasis placed on national governments’ implementing policies appropriate for domestic resource mobilization and the attraction of foreign direct investment, particularly in the areas of governance and rule of law. We also endorse the emphasis placed on a conducive external environment and, in particular, the need...
for broad-based trade liberalization. Trade liberalization is vital for more rapid growth—and growth is the best answer we have to deal with poverty. There is no shortage of analysis that shows the potential benefits to economic growth and welfare that would accrue to both developing and developed countries from comprehensive trade liberalization.

And yet, trade-distorting agricultural subsidies in developed countries still amount to US$350 billion per annum or almost seven times aid flows. The EU’s support for the cattle and dairy industries amounts to around 10 times, per head of cattle, the OECD’s support per person in a developing country. Much more is spent propping up inefficient and unsustainable activities in developed countries than is spent on aid to developing countries. Moreover, existing trade policies in many industrial countries in fact directly neutralize the effectiveness of aid.

We need the political will to seize the opportunities for broad-based agricultural trade liberalization presented by the Doha trade negotiations agenda. Greater coherence is needed between trade and aid. But comprehensive trade liberalization will generate far greater and certainly more sustained benefits for developing countries than increasing aid resources. Further progress in the Doha trade negotiations will play a key role in catalyzing improvements in global confidence and growth. A benchmark of the Doha round’s success or failure will be the degree of progress made in reducing farm protection. This is vital for the poorest economies. As they enter the arena of international trade, some of their earliest export opportunities will be in agricultural products. The experience of the last 50 years is unmistakable. Countries that have been able to open themselves up to the world economy have made the best gains in addressing poverty.

Crisis prevention and resolution

The main challenge for the IMF is to improve crisis prevention and resolution. Seven years after the Mexican financial crisis of 1995, emerging market economies still average more than one major crisis each year. Much has been done, but the simple fact is that the incidence and severity of crises has not decreased. It is highly disconcerting that a number of countries that have catapulted into crisis did so from the position of IMF programs, where one assumes the Fund would have been at its most influential. There is a clear message. The Fund must continue to work to make its analysis and advice more timely and effective, and to ensure that this is reflected in better program design. In our view, the key area for improvement is more timely identification by the Fund of the
policy changes needed to avert crises, and the need for the Fund to be influential in getting member countries to adopt these changes.

Of course, national authorities are ultimately responsible for implementing policy, and the Fund cannot dictate to members. Nonetheless, management and the Executive Board must be prepared to take the hard judgments in surveillance and in program design. Assessment of debt sustainability needs to be a core competency of the Fund. Unless all the factors that affect debt sustainability are considered—including the maturity profile, currency denomination, debt-servicing capacity, and sensitivity to adverse external developments—the Fund will not be in a position to provide appropriate policy advice or assess the likely success of any program.

In this respect, attention should also be paid to the terms at which countries regain access to financial markets. The challenge for Fund programs is to facilitate a return to markets at terms that do not impose excessively high costs, constrain domestic policy flexibility, or sow the seeds of future crises.

The large scale of recent IMF programs emphasizes the need to improve the framework for determining access to IMF resources. As the amount of IMF financing increases it is appropriate that the justification for this financing is comprehensive and rigorous. It is also important that decisions about financing are not just based on simple rules, but are thoroughly grounded in approaches that re-emphasize such factors as need, capacity to repay, and exposure of the Fund.

The evidence from recent crises suggests that at some stage many countries will need to engage the private sector in debt restructuring. We urge swift action by the international community toward the implementation of debt restructuring proposals, including both statutory and contractual approaches. Australia wants to see further progress on the Sovereign Debt Restructuring Mechanism, and we are ready to move with the international community to include collective action clauses in future international debt issues.

Of course, no conceivable proposal for new crisis resolution mechanisms can ever substitute for timely advice, good judgment, and effective decision making. Ultimately, the credibility and effectiveness of the Fund as an institution relies heavily on—and will be assessed on—the quality of its analysis and advice, as well as its ability to engender market confidence in that advice.

If the Fund is to be effective, it must be able to involve all members. In this respect, governance at the Fund needs to more closely reflect members' relative economic standing, while maintaining participation by smaller, developing countries. This issue needs to be tackled directly and resolved as a matter of priority. Australia strongly supports the calls by
our Asian neighbors for an increase in their representation at the international financial institutions.

Poverty alleviation

If the Millennium Development Goals are to be achieved, it will be necessary to ensure a significant and ongoing focus on the real development needs of the Asia-Pacific Region. The region is home to around two-thirds of the world's poor—or 800 million people. The Monterrey and Johannesburg conferences appropriately placed emphasis on the importance of national policies in developing countries, the opportunities provided by trade liberalization, and the need for more effective and higher aid volumes. The Bank has a critical role in play in each of these spheres, in concert with the Fund, as appropriate.

We continue to place critical importance on sound country policies and strong institutions. We see improvements in governance as an absolute necessity for achieving significant and sustained progress in reducing poverty. For many countries, the PRSP process can be a vital tool in making progress on this front. PRSPs play an important role in ensuring that improvements to governance arrangements are made, including strengthening institutions and improving policies. For this reason, the PRSP process must continue to be strengthened, and countries must be given the technical assistance needed to build their capacity to provide more reliable data, improve public expenditure management systems, and undertake more realistic projections. Such actions should also assist in ensuring that assistance is better linked to PRSP priorities, and in placing PRSPs at the center of a range of Bank, Fund, and other donor activities.

The Bank together with the Fund must take every opportunity to promote the benefits of trade liberalization and build a consensus in support of liberalization in developed and developing countries alike. Australia also urges the international institutions to provide support to developing countries in order to benefit from the opportunities provided by trade. Australia has provided trade-related technical assistance to developing countries and is a substantial contributor to the Doha Development Agenda Global Trust Fund.

Where a sound policy environment is in place and strong institutional capacity exists, aid can generate significant results. In recognition of the prominence placed on such issues, Australia placed considerable importance on maintaining its burden share in a very significantly expanded IDA-13 replenishment, as well as providing an additional $A18 million commitment to the HIPC Initiative, also aimed at
maintaining our burden share. The latest contribution brings Australia's total contribution to the initiative to $A77 million. In addition, Australia is providing 100 percent bilateral debt relief to countries qualifying for HIPC assistance.

Australia has been a strong supporter of the HIPC Initiative, and we place considerable importance on its full implementation. The robustness of debt sustainability analysis is integral to the effectiveness of the HIPC process, and in this regard, we welcome the scope for flexibility, on a case-by-case basis, to provide additional debt relief to ensure debt sustainability. However, there is more to longer-term sustainability than debt relief, which is the start. But countries must go on to adopt rigorous institutional frameworks that assess appropriate future levels of borrowing, the productive investment of borrowed resources, realistic assessments as to the external environment, including access to export markets, and an ongoing commitment to longer-term structural reform efforts.

Donor resources can never be unlimited, so making aid more effective will remain vital. In this context, we welcome recent moves to improve the measuring and monitoring of results, and the useful focus on outcomes. However, in developing indicators and measuring results, it will be important to take account of specific country circumstances. We would also attach considerable weight to closer matching of programs to the needs and capacities of developing countries.

It is also important to have the right indicators. Performance indicators are only useful if they are in fact a true indicator of the desired objective. Too often, achieving the desired objectives—such as poverty reduction—can be compromised or diluted by the undue attention given to performance indicators serving as inexact proxies. Indeed, much of the Bank's work—that part that supports sound economic policies and governance—may not be directly measurable through improvements in social indicators in the short term. Yet they are crucial to sustained economic growth, and must not be ignored. The Bank will need to remain focused on its strength in supporting complex and sensitive activities that are crucial for development but are difficult for other donors.

In this context, I encourage the Bank to remain closely engaged in assisting poor performing states, those countries with weak policies and institutions. The international community cannot afford to disengage. The consequences would be felt by those least able to bear the burden—the poor.

Engagement strategies to assist poor performers need to be flexible and tailored to specific needs. A balanced approach will be required, with a focus on maintaining service delivery, engaging in dialogue and
practical support for governance reforms, strengthening donor coordination, and addressing conflict. Perhaps most important, realistic expectations are necessary as we go about addressing this difficult and long-term task.

For its part, Australia plans to continue working closely with poor performing states in our region. We strongly support the Bank’s work on its framework for assistance to low-income countries under stress and look forward to further discussions on this issue. The Bank and all donors should press ahead with work to increase harmonization of policies as a way of reducing the administrative burdens on recipient countries. This is an area where Australia, together with New Zealand, has placed considerable emphasis and believes significant benefits can be realized from this process. We warmly welcome Italy’s offer to host a high-level forum in early 2003.

Conclusion

We face many challenges—an uncertain global outlook, financial crises in some key emerging market economies, a continuing need to combat the financing of terrorism, and the ongoing imperative to improve the welfare of the 1.3 billion still living in poverty. We must commit ourselves to taking the actions required to improve the prospects for global development and prosperity, reduce vulnerability to, and the costs inherent in, crises, and strengthen our financial systems. The IMF and the World Bank are playing a vital role, but we should not be complacent that everything that could be done is being done. We must commit ourselves to taking the actions required to improve the prospects for global economic growth and prosperity: at the national level, in economic reform; at the international level, in improving the financial architecture; and in our aid commitments, to fight the scourge of poverty.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR BANGLADESH

M. Saifur Rahman

It is a great honor for me to address the Annual Meetings of the Boards of Governors of the Fund and the Bank for the eighth time since
1980. During the 22 years of my association with the Bank and Fund Boards, the world in general and Bangladesh in particular have witnessed significant achievements and difficult challenges in the economic sphere. Compared with the past, the challenges of economic management today are much more complex and painful. I would like to congratulate both Mr. Wolfensohn and Mr. Köhler for their stewardship of the Bretton Woods institutions at this critical juncture and extend my warm felicitation to you, Mr. Chairman, on your election. We welcome Timor-Leste as the newest member of the Bretton Woods family.

The political and economic outlook in the global context continues to be uncertain. We are meeting today in the United States, which was traumatized in the recent past by the sinister forces of terrorism. Bangladesh, under the leadership of Prime Minister Khaleda Zia, is totally opposed to terrorism in all its forms and will continue to extend full support for its elimination everywhere. This year the prospect of economic recovery in many parts of the world has turned out to be elusive. According to the latest forecast, the world economic recovery is likely to be weak, vulnerable to shocks, and confined to a few countries. Oil prices are back to a very high level, and the terms of trade for developing countries like Bangladesh have significantly deteriorated, leading to the paradox of lower earnings for more exports. According to reports of the Development Committee, the flow of official development finance declined in both 2000 and 2001, and the actual flow in 2001 was less than the average flow during the periods 1985–89 and 1990–99. It has been accompanied by a decline in the flow of private capital in much of the developing world.

Against the backdrop of an adverse international economic environment, a number of initiatives have already been taken to reverse the declining flow of resources to developing countries. The Monterrey Consensus is a milestone in forging a new partnership between developed and developing countries. We also welcome the successful conclusion of IDA-13. The World Summit on Sustainable Development at Johannesburg has revitalized the urge for environmental protection and climatic equilibrium. The highest ever replenishment for the Global Environment Facility is also welcome. The Millennium Development Goals, by setting quantifiable targets for economic and social development, have added new dimensions to the Monterrey and Johannesburg consensus.

The initiatives taken so far are in the right direction. However, they are not sufficient. If we really want to implement the Millennium Development Goals, past practices for allocating aid must be reviewed, and more resources must flow where many of the poor live. It may be relevant here to note that Asia contains the largest concentration of the
world's poor. Measures should also be taken to swiftly implement the Fourth Amendment of the IMF's Articles of Agreement on the allocation of SDRs and to satisfactorily complete a review of IMF quotas.

In parallel with additional measures for the increased flow of assistance to developing countries, the gains of globalization must be consolidated. With a view to removing the misgivings about globalization, high-income countries must come forward unilaterally with protrade policies and demonstrate good faith by curbing nontrade barriers, including unrealistic labor standards. Low-income countries should be allowed duty-free and quota-free access to markets in industrial countries. Globalization must be embedded in democratic institutions both nationally and globally, and measures for the further democratization of multilateral financial institutions and instruments of global governance should be explored.

Development cannot be generated from outside by the flow of assistance alone. The developing countries must themselves create an enabling environment for the effective utilization of foreign assistance. In this context, we welcome measures to better measure, monitor, and manage development results. We support the surveillance measures of the IMF and welcome its intensified work on anti-money laundering and combating terrorism. Nevertheless, it must be remembered that development cannot be promoted by policing alone. The ends and means of development must not be confused. Development is a complex transformation in an ever-changing environment. The multilateral institutions must remain ready to respond flexibly to challenges of development on case-by-case basis.

The last decade in Bangladesh started with great promise. During the period 1991–96, major reforms were implemented in the areas of trade, banking, fiscal consolidation, human resource development, and privatization. Unfortunately, political changes in 1996 stalled and reversed the process of reforms for five years. The present government, which pioneered reforms in the early 1990s, has within the shortest possible time restored macroeconomic balance and undertaken the painful process of restarting reforms. Fiscal consolidation and the closure of large loss-making industries have already contributed to high social costs. The government has so far mitigated some of these costs from its meager resources. However, further reforms are not likely to be socially acceptable unless additional resources for safety net, investment in physical infrastructure, and human resource development could be mobilized. The government has already prepared a draft Interim Poverty Reduction Strategy Paper (I-PRSP) through a participatory process, and we hope to complete the process expeditiously.
Bangladesh has demonstrated its ability to efficiently use aid, significantly lower population growth, build rural infrastructure, increase food production, reduce poverty, and introduce innovative measures for empowerment, such as microcredit. Given adequate support from the world community, we are confident that Bangladesh will attain its millennium development goals by 2015, despite the enormity of its problems.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF BELARUS

Andrei V. Kobyakov

First of all, I would like to express my gratitude to the government of the United States of America and the authorities of Washington for their cordiality and hospitality and for a good hosting of the meetings.

This year is significant for our country. Ten years have passed since Belarus’ accession to the World Bank Group and the IMF organizations. The Republic’s decision to become a member of these organizations was, undoubtedly, sound and made a beginning for our long-term mutual cooperation. We have experienced different periods along the way, including a period of active cooperation (1992–95) as well as periods of relatively stagnant relations (1996–2000).

Since the autumn of 2000, relations with the World Bank and the IMF have been improving. In 2001 the government of the Republic of Belarus started to implement an IMF Staff-Monitored Program that contributed to the current Republic’s market transformation and macroeconomic stability. The tightening of monetary and fiscal policy, and foreign exchange market liberalization made it possible for the country to assume the obligations under paragraphs 2, 3, and 4 of Article VIII of the IMF’s Articles of Agreement. Significant steps have been taken with regard to price liberalization, achieving a more transparent fiscal sphere, phasing out directed loans, strengthening the banking system, facilitating economic activities, and creating a more efficient targeted social safety net.

In 2001, a new Loan Agreement was also signed with the International Bank for Reconstruction and Development concerning the loan for the Belarus Social Infrastructure Retrofitting Project in the amount of

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US$22.6 million, and a new World Bank Country Assistance Strategy for Belarus for fiscal years 2002 through 2004 was approved in March 2002.

During this decade, the Republic of Belarus received approximately US$500 million in financing from the IMF and the World Bank in the form of credit and technical assistance.

In shaping the country’s economic policy, the government of the Republic of Belarus follows Fund and Bank recommendations. Taking them into account, over the last few years, it has successfully achieved the national currency exchange rate unification, reduced foreign trade limits, and attained relative progress in privatization.

The Republic of Belarus intends to further develop cooperation with the international financial institutions assuming that it is an essential condition for the deepest reform of the national economy and its integration into the world economy. At the same time, despite the revival of cooperation with the international financial institutions, Belarus, unfortunately, does not receive ample external financing, and the deficit of financing and investment resources is one of the deep problems in the Republic’s economic development.

The government of the Republic of Belarus mobilizes to the utmost national financial resources for development, namely, by providing a stepwise liberalization of financial and trade markets, creating an investment friendly environment, supporting the poor, and stimulating entrepreneurial development; however, resources are scarce to resolve the acute domestic development problems.

The government of the Republic of Belarus calls on the IMF and the World Bank to actively assist us in our transformation. Under the country’s stable and dynamic economic development—the annual increase in gross domestic product averaged approximately 6 percent over the past five years, while industrial production increased by about 10 percent—we are carrying out a comprehensive large-scale privatization program in such spheres as petrochemicals, electronics, and others, totaling one-third of industrial output.

Considerable reorientation toward liberalization is a distinctive feature of the present economic policy of the Belarusian government. In this context, we proceed from the assumption that it is necessary to uphold and further increase macroeconomic stability based on a rigid monetary policy. We consider it extremely important to develop small and medium-size enterprises (SMEs) and provide favorable conditions to attract foreign investment.

Belarus, while sharing in the main the approaches set forth in the statements by the IMF and the World Bank executives, would focus the IMF’s and the Bank’s attention on a time factor necessary for rendering prompt assistance to the developing countries and countries with
economies in transition. The Republic of Belarus also needs lending support for carrying out economic reforms.

Great challenges are now facing us, the region as a whole, and the global economy. These challenges set new priorities and call for serious reforms within the international financial institutions and international development banks. The role of the latter in achieving sustainable growth and poverty eradication worldwide is increasing. The reforms the international development banks are undergoing now are aimed at increasing their effectiveness, strengthening their positive impact on the development and growth processes, poverty reduction, simplification of conditions and principles attaching to the use of their financing, and political instruments.

The Republic of Belarus calls upon the World Bank and the IMF to follow the provisions of the resulting documents of the International Conference for Financing For Development (Monterrey Consensus) and the World Summit on Sustainable Development in Johannesburg, stipulating major approaches to combining efforts to eliminate poverty and provide assistance in the sphere of sustainable development for the future. Our country attaches great importance to implementing the provisions concerning improvements in the coherence and consistency of the international monetary, financial, and trading systems, encouraging the IMF and the World Bank to broaden the participation of all developing countries and countries with economies in transition in their decision-making processes, and thereby to strengthen the international dialogue and the work of these institutions aimed at addressing the development needs of the said countries.

Allow me to stress that the Bretton Woods institutions should continue to play the leadership role in establishing international cooperation with the participation of the UN system agencies as well as all other stakeholders to ensure that globalization and the related processes increase human capacity, and its benefits reach all people. In this connection, both global and regional cooperation in the field of financing for development must take account of the regional peculiarities and specific character of each country. Financial resources should be directed by donors and creditors not only toward promoting countries' macroeconomic and financial stability but also toward broader support for the real economy, infrastructure development, the elimination of disastrous effects (including the Chernobyl catastrophe), and bridging the telecommunications and digital gaps.

The mobilization of international resources for development, predominantly carried out by the World Bank Group and the IMF institutions, is a major component of financing for development. Only by conducting a competent, well grounded policy will these agencies be able
to offer real assistance to national governments in their capacity-building efforts.

In conclusion, I would like to express a hope that the decisions made on the results of the Annual Meetings of the World Bank and the IMF Boards of Governors would make an important contribution to increasing the efficiency of the support provided by these organizations to nations in carrying out reforms with the aim of promoting their sustainable development.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BELGIUM

Didier Reynders

This year the economic and financial climate has been particularly fraught with uncertainties, which have in turn slowed economic growth. It is therefore incumbent on policy makers and the Bretton Woods institutions to pursue a policy that will reduce these uncertainties, establish the foundation for balanced growth, and generate hope for sustainable development throughout the world.

Economic prospects

Economic prospects have deteriorated over the past year. The reasons for the deterioration have been amply debated in this forum and need not be enumerated again. As policy makers, we must now determine what policies are needed to reverse this trend in the world economic outlook. The specific content of these policies will naturally vary from one economic zone to another, and from one country to another, reflecting the weaknesses of our individual economies. These diverse responses aside, however, we are all confronted with the same situation, namely, a lack of confidence within both enterprises and households.

Domestic demand has declined, thereby slowing the growth rates of our economies, which in many industrial countries still depend too heavily on net exports. Our task is therefore to determine the best ways to restore confidence. In so doing, we recognize that because some solutions are more geopolitical in nature, we can influence them only
indirectly, whereas others are specifically economic and financial and are therefore our direct responsibility.

Belgium, by virtue of the fact that it is in the euro area, is very closely integrated with European market as a whole. The challenge of restoring confidence that Belgium faces is virtually the same challenge confronting the European Union, and the euro area in particular.

As steps are undertaken to restore confidence, it is essential to underscore the importance of continuing with structural reforms and of adhering to the Stability and Growth Pact, especially since significant progress has already been achieved in these areas.

Experience has proved us capable of managing adjustment in a pragmatic and realistic manner, without deviating from our medium-term objectives. However, it is important not to keep on deferring these objectives, allowing them to become “moving targets.” The European Union has thus made it a practice to establish timetables and deadlines enabling it to take stock periodically and make gradual progress. This has been the approach applied to the Stability and Growth Pact and the Financial Services Action Plan, as well as to tax harmonization issues.

Failure to proceed in this manner will generate yet additional uncertainty, thereby facilitating behavior among economic agents that could jeopardize sustainable economic growth. The consequent further loss of confidence would then prompt additional precautionary saving by households in the face of perceived negative job and pension prospects. Businesses would react by deferring growth-oriented investment decisions and, undoubtedly, by increasingly refocusing on capital-deepening investments. As policy makers, we must endeavor to prevent such behavior from occurring.

Risk and uncertainty nevertheless remain a threat to a global recovery, particularly where financial markets are concerned. This summer’s sharp stock market decline will unquestionably have an impact on growth. The wealth effect and a decline in confidence will have a negative impact on private consumption. Venture capital for business financing will be harder to come by. The impact on the behavior of financial institutions will undoubtedly be even more troubling, given both their increased wariness concerning the quality of their debtors and their severe portfolio losses, which have made them weaker. Efforts to shore up confidence in financial stability are therefore imperative.
International financial stability

As underscored in the Monterrey Consensus, a healthy financial sector is essential for growth and development. Flexible and well-regulated financial systems are indispensable for macroeconomic and financial stability, especially in an environment characterized by increasing capital flows. The authorities of each country must ensure the health and stability of their financial sectors by adopting and implementing appropriate rules, standards, and codes. Multilateral financial institutions, for their part, have an important role to play in strengthening the financial system, by promoting sound policies and supporting their implementation.

The events of the past 12 months have shown that progress has been achieved. For example, the global financial system has withstood a number of shocks, most notably the impact from the September 11 attacks and crises affecting a number of emerging countries, and significant corrections to financial markets have been registered.

However, there is no room for complacency. The recent accounting scandals and deceptive corporate reporting that have attracted wide media attention underscore the need for the authorities to remain vigilant, continually assess the effectiveness of existing rules, and adapt them where necessary. Additional steps must also be taken to improve governance, accounting and reporting practices, and transparency within companies in order to strengthen the functioning of financial markets.

Other developments, though less obvious, still require at least as much attention. These include increasing linkages among financial markets, the consolidation of payment and settlement systems, the blurring of the borders of financial market segments, and the emergence of increasingly more complex financial institutions.

The debate on strengthening the international financial architecture has accelerated considerably recently. It is essential to maintain this momentum and continue to make progress with respect to implementation, which is often difficult and is viewed as moving too slowly.

With regard to crisis prevention, countries experiencing payment difficulties should be identified quickly, the scope of their problems should be quantified, and countries should be encouraged to take corrective measures sufficiently early. The Fund and the Bank have a key role to play in this area. A number of initiatives have already proved successful and will be pursued resolutely in the years ahead. They include strengthening oversight of the financial sector, awareness of vulnerability to crises, increased transparency on the part of the Fund and its members, compliance with standards and codes, and multilateral surveillance of capital markets.
The Bretton Woods institutions have an important role to play in helping member countries improve the health and soundness of their financial systems. The Financial Sector Assessment Program (FSAP) is a key component of this effort. As a sign of the importance Belgium attaches to the program, we have invited it to evaluate our financial system.

In order to confront the challenges described earlier, Belgium has begun to restructure its procedures for financial sector regulation and supervision and has, in particular, strengthened cooperation among the authorities responsible for macro and micro prudential supervision. These new structures will soon be operational.

Financial stability cannot be assured without waging a constant and unrelenting fight against such abuses as money laundering and the financing of terrorism. I therefore unreservedly endorse the efforts of the Bretton Woods institutions and the Financial Action Task Force on Money Laundering to collaborate in this fight and to finalize a comprehensive methodology for combating money laundering and the financing of terrorism. I also endorse the development of a specific Report on Standards and Codes incorporating all aspects of the 40 + 8 FATF recommendations. I urge all countries and territories that have not yet taken all necessary measures to implement these recommendations as soon as possible. I reaffirm Belgium’s commitment to the international community’s fight against the financing of terrorism.

Resolution of financial crises

I have already addressed the question of crisis prevention efforts. Such efforts help to diminish the likelihood of such crises, but there is some question as to whether they can always be prevented. Accordingly, a parallel effort has been undertaken to develop ways to strengthen the ability of countries to manage financial crises properly.

At its meeting in Prague in September 2000, the IMFC adopted a framework for crisis resolution. While some progress has already been reported, there is still a need to enhance the work being done within this framework. More particularly, the involvement of the private sector in the resolution of financial crises, which is increasingly recognized as a key element in international financial architecture, needs to be strengthened.

To improve the crisis resolution mechanisms, it is important to devise a more orderly and transparent arrangement for sovereign debt restructuring. Studies are currently under way for the simultaneous
adoption of two parallel approaches: the "contractual" approach and the "statutory" approach.

Belgium has given these studies its full support, and believes that the two approaches are not only mutually complementary but also mutually reinforcing and inextricably intertwined. We also support the ongoing efforts to identify and clarify the modalities and rules concerning the suspension of payments and to implement the IMF's strengthened debt strategy for countries experiencing payment arrears.

Another concept that is increasingly gaining ground is that the introduction of collective action clauses in sovereign bond contracts will guarantee, on the one hand, that all debt restructuring takes place in as orderly a manner as possible, and, on the other hand, that a minority of lenders will no longer be able to take actions capable of preventing the majority of lenders from preserving the value of their assets.

A Group of Ten (G-10) working group (the Quarles group) has studied the legal procedures underlying this contractual approach. The objective of this group is to propose specific clauses: however, one of the key components is to urge debtors and lenders alike to effectively adopt those clauses. In conformity with the European Union's recent political commitment to set an example in this matter, Belgium has announced its willingness to include majority action clauses and collective representation clauses in all its sovereign bonds issued under foreign legislation. While this can help bond markets and lawyers to become familiar with the clauses, there is nevertheless a risk that the CACs will not be used by the emerging countries, because they are very concerned about the rising costs of borrowing and the reduction of access to the financial markets that such clauses could entail.

It is therefore essential, if this G-10 initiative is to be successful, to involve not only the private sector but also the emerging countries. Also, in my capacity as G-10 chairman, I had the honor of opening this dialogue, as recently as this past Friday, with a certain number of emerging countries. It will be important during the next few months to deepen this dialogue and expand it to include other emerging countries.

The statutory approach to the mechanism for restructuring sovereign debt is currently in process of preparation, and due attention is being paid to the comments and reactions of the various parties involved. While the issues are very complex, substantial progress has already been made in developing the features of this ambitious approach.

The objective of this arrangement is to urge both debtors and lenders to reach timely agreement on relieving unsustainable debt, without actual recourse to the mechanism itself. By providing the IMF with a reasonable and orderly restructuring alternative, while offering debtors real financial relief (by granting preferential status for the
obtaining of new funds, and thanks to a lending policy to clear payment
arrears), this mechanism could strengthen the ex ante credibility of the
limits on access to IMF financing.

To successfully encourage lenders and debtors to conduct timely
negotiations and to enable them to negotiate efficiently, the statutory
arrangement must naturally work hand in hand with the inclusion of
collective action clauses in bond contracts. These clauses should create
the appropriate legal framework for conducting such negotiations and for
guaranteeing their success without the need to resort to the statutory
mechanism.

While acknowledging the length of time and the difficulties
involved in such a project, Belgium believes that the setting up of a debt
restructuring mechanism is an essential component of any policy to
involve the private sector in financial crisis management.

**Poverty reduction**

Implementation of the poverty reduction strategies and the HIPC
Initiative has made it clear to us that the Bank and the Fund, together
with other donors, both multilateral and bilateral, have an essential role
to play in helping the poorest countries regain their footing on the path to
sustainable development. This strengthened partnership was also
emphasized at both the Monterrey and Johannesburg conferences. It
seems clear that a reduction in inequalities and a sharing of growth are
the true guarantees of stability and security for all. The precise objectives
of development were established in the Millennium Declaration, and the
means for achieving them were also identified.

I would remind you in particular that, for its part, Belgium is
committed to achieving by 2010 the objective of increasing its public
development assistance to 0.7 percent of its gross national product.

There is still a need to develop targeted policies whose impact on
poverty reduction and on the promotion of sustainable growth can be
clearly measured and assessed. In this area, I am convinced that the
Bretton Woods institutions have an important role to play.

Specifically, by collaborating with countries as they prepare their
national development strategy, the World Bank and the IMF can henceforth
contribute toward the implementation of policies that are effective
and unequivocally oriented toward results beneficial to all. Within this
framework, it is important to identify cohesive and realistic objectives,
intermediate indicators capable of measuring the progress being made
toward the achievement of those objectives, and institutional capacities
with the ability to monitor that progress. However, to avoid development
of the perception that the management of poverty reduction strategies is
less the province of the beneficiary countries than of the donors, I believe
it is a good idea for the governments of those countries to consider opting
for alternative policies. It is also important to be careful not to adopt too
ambitious an agenda, which could threaten a country's ownership of its
development process.

So why don't we start by limiting the review of results to those
areas where development offers the greatest potential in terms of poverty
reduction and stimulation of economic growth, as well as to other areas
where efforts have already been made with a view to collecting sufficient
data to facilitate adequate oversight? Health, education, and promotion of
the private sector seem to respond to this dual requirement.

In order that growth may be shared by all, it is also important to
intensify efforts in the direction of the most fragile populations, in partic­
ular, those of countries that have only recently seen an end to a conflict
situation. In this area, Belgium has been a constant driving force in the
new dynamic that now seems to be evident in Central Africa, a dynamic
that has led to renewed involvement by the Bretton Woods institutions in
the region.

The enhanced HIPC Initiative offers certain of the poorest countries
the opportunity to lighten their unsustainable debt burden. It has become
increasingly evident that the challenge now will be to ensure that these
countries remain permanently sheltered from all unsustainable external
debt.

Because of far too optimistic growth projections and harmful
external shocks, several of those countries are experiencing very real
difficulties in exiting permanently from their debt situation. Should the
HIPC Initiative be made more flexible, or even modified as to its sub­
stance? I am convinced that the response may be viewed from three
different perspectives. First, countries should give priority to
strengthening their systems of public management to ensure that the
funds released by debt relief operations are effectively used to reduce
poverty. Second, the international institutions are also responsible for
considering the debt sustainability issue on the basis of realistic growth
and export projections. Third, lenders who have not yet proceeded to
forgive debt under the HIPC Initiative should be encouraged to do so
without delay. But debt remission should not be the only means by which
the multilateral and bilateral donors provide support for structural
reform. An additional contribution of aid in the form of concessional
lending or grants should also be considered as an essential component of
the strategy.
I would like to add my warm congratulations to those extended by other Governors for your election as Chairperson for these Annual Meetings. I would like also to congratulate the Managing Director of the IMF and the President of the World Bank for their constructive contributions in reviving global economic prospects and dedicated leadership during the past period.

Just one year ago, when we were supposed to have our 2001 meetings in Washington, D.C., the global economic situation was much more promising and stable. The outrageous terrorist attacks on the United States shocked all peaceful people around the world, and since then almost every country in the world has been affected. The collective determination to fight terrorism has been clearly demonstrated and gives us hope that democracy and the rule of law will finally prevail all over the world. We fully support the battle against money laundering and the financing of terrorism and think that the World Bank and the IMF should continue to provide clear guidelines and advice in that respect.

Discussions at two global meetings in 2002 (Monterrey and the World Summit in Johannesburg) showed there was a common understanding that radicalism and poverty are strongly related. We welcome the commitments by developed countries to provide future assistance to developing and transition countries to help reduce the gap between poor and rich. Recent findings proved that international development agencies and donors have learned how to make development assistance effective and efficient. Lessons learned over the past decades have helped both the donor community and recipient countries to develop successful strategies for poverty alleviation and economic development.

Bosnia and Herzegovina's experience shows how beneficial and important donor assistance is for post-conflict countries. Our post-war economic recovery was designed in close collaboration between the donor community and our government. I wish to underline that the role of the Bretton Woods institutions was crucial in designing proper economic policies and mobilizing donor assistance. Achievements in reconstruction are significantly improving efforts to bring utilities and infrastructure to prewar levels. Important progress has also been made in
the return of refugees, although that process has only recently gained momentum.

Bosnia and Herzegovina continues to experience steady noninflationary growth, but at a considerably lower rate than three years ago. Self-sustained growth has yet to take root, and the economy is still dependent on foreign assistance. The current account deficit is still significant and is projected to decrease to 4 percent of GDP over the next two years. Foreign borrowing is only under concessional terms, and the authorities are trying to increase national creditworthiness. Monetary stability is based on strict implementation of the currency board arrangements, and international reserves have risen strongly in 2001. However, the high unemployment rate and domestic production well below the prewar level present serious economic challenges and have a direct impact on poverty.

Our efforts are aimed at further fiscal consolidation, which should support the currency board. A large stock of outstanding claims (including frozen foreign currency deposits and war claims) on the public sector need to be settled. We are determined to make substantial changes in public expenditure and institutions in order to make public financing sustainable in medium term. The demobilization of 10,000 soldiers was challenging to implement, but it helped reduce current expenditures by more than 1.3 percent of GDP. Important improvements in public finances have taken place in the last two years. The establishment of public auditors and introduction of treasuries have helped to improve the transparency and management of public finances. Improvements have also been introduced in budget planning and execution.

We began a Poverty Reduction Strategy Paper a year ago to formulate a cohesive strategy for medium-term economic development and poverty reduction. We are pleased that the World Bank and the IMF have reviewed the I-PRSP and provided helpful guidelines for the successful completion of process. We attach great importance to the PRSP process and have launched extensive consultations with civil society and the general public. A Living Standard Measurement Survey was conducted as a part of the PRSP process, and it showed that the poverty rate is about 21 percent, with significant regional differences. The development of pro-poor policies is proving to be a major challenge, but we expect that broad-based discussion will help to achieve full ownership of the program.

We continue to implement a broad range of structural reforms, including privatization of all large enterprises, labor market reform, reform of the social protection system, and reform of public expenditure. Special attention is being paid to improving the business environment and private sector development. The private sector is supposed to be the
main engine of our future development, and we have started to implement changes that will establish a more business-friendly legal and institutional framework. We already have positive developments in the banking sector, which is much stronger that it was two years ago and includes the significant presence of foreign banks. On the path of trade liberalization, we have actively participated in removing all trade obstacles in southeast Europe by the end of 2002, and we are keen to complete negotiations for World Trade Organization (WTO) membership in 2003.

Over the past two years there has been fruitful cooperation with the IMF and the World Bank. The recently approved Stand-By Arrangement is important to sustain the positive trends in macroeconomic stabilization. When our PRSP process is completed, it will be a good basis for discussing the Poverty Reduction and Growth Facility as a next step. Ongoing technical assistance has helped increase local capacities in many areas. The introduction of the value-added tax (VAT) system will require extensive technical assistance from the IMF and the World Bank.

Bosnia and Herzegovina has come a long way since the end of the war. We have chosen to build our economic development on the basis of a balance between growth and equity, modernization and environmental consciousness, peace and democratization, and of private sector-led growth. In partnership with the international community, we have achieved significant results, but our reform and development agenda is still long. We expect that the Bretton Woods institutions and the donor community will continue to assist us in our efforts to promote growth and alleviate poverty.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BULGARIA

Milen Veltchev

I am honored to address this high-level forum. My statement will focus on the significant progress achieved by Bulgaria in the context of IMF-supported programs. This progress is even more remarkable in view of the uncertain international environment.

Bulgaria has achieved and maintained macroeconomic stability under three successive Fund-supported programs. Since 1997 real GDP has increased by about 20 percent, inflation has decelerated to the single
digits, and external public debt has declined from over 100 percent of GDP to below 60 percent. This outcome has been accomplished in the context of a currency board arrangement (CBA) supported by prudent fiscal policy and strict income policy for state enterprises. Significant progress has also been achieved in implementing the structural reform agenda under the government program actively supported by the World Bank in terms of both development and financing.

The European Commission recognized these positive developments in its 2001 progress report, noting that Bulgaria had established a satisfactory track record of macroeconomic performance and is close to being a functioning market economy. Based on further positive economic developments since then, we expect this estimate to be upgraded in the forthcoming 2002 progress report. Bulgaria is well advanced in its accession negotiations with the EU. We have already closed 21 out of 30 negotiating chapters, and one more is in the pipeline to be closed soon. There is broad public support and consensus for EU membership across the political spectrum, and membership is expected by end-2006. There is also broad political support for the maintenance of the currency board arrangement, which is a key element of the government's policy framework, until accession to the EU. The second key element of our program is the implementation of a cautious and flexible fiscal stance, and the third is the acceleration of structural reform. These key elements of the policy framework have already been incorporated in the Pre-Accession Economic Program developed with the EU and other strategic documents of the Bulgarian government.

Despite the encouraging economic achievements, we are fully aware of the remaining vulnerabilities and the challenging reform agenda. The income gap between Bulgaria and the EU is still large, our unemployment rate is high, and the progress of structural reform in several areas, including in the energy and transportation sector, is still insufficient. We will address these problems more aggressively in the context of our new programs supported by the Fund and the Bank.

Two areas are crucial for the success of our reform efforts—fiscal policy and the financial sector. Bulgaria has an excellent track record in implementing fiscal policy that is vital for the sustainability of the CBA. We have demonstrated not only the will, but also the ability to achieve sizable fiscal adjustment. Since 1998 we have kept the budget broadly balanced. The small deficits (below 1 percent of GDP) were entirely due to one-off expenditures to cover the cost of structural reform. We are committed to further strengthening the fiscal position by maintaining the budget with a small surplus in 2002, as a strong policy response to external risks.
As for the financial sector, our main task is to create the environment required to support enhanced credit activity to the private sector and expedite the full privatization of the financial sector. The results so far are encouraging. Credit to the private sector is expected to increase twofold in 2002 compared with 2000. Over 80 percent of assets in the banking sector are in private hands, and we plan to finalize the process by privatizing the only remaining state-owned bank before the end of the first quarter of 2003. As indicated in the Financial Sector Sustainability Assessment, the Bulgarian banking system is generally well supervised, highly capitalized, profitable, and risk-averse. We are strictly implementing the recommendations of the joint World Bank-IMF Financial Sector Assessment Program mission in addressing the remaining vulnerabilities, and we are already using the FSAP in our accession negotiations with the EU.

Finally, I would like to express our satisfaction with the streamlined conditionality under the new program for Bulgaria supported by the IMF, which has a clear focus on areas that are macro-crucial and limits structural conditionality to measures that are deemed critical for the success of the program. I consider this a direct result of the initiatives of the Managing Director of the IMF and the President of the World Bank to streamline conditionality and promote ownership of IMF- and Bank-supported programs, and strongly recommend moving forward in this direction.

JOINT STATEMENT BY THE
GOVERNORS OF THE FUND AND THE BANK FOR CAMBODIA

Chea Chanto and Keat Chhon

It is indeed our great pleasure and honor to participate in this the 2002 Annual Meetings of the International Monetary Fund and the World Bank here in Washington, D.C. We would like to take this opportunity to express our gratitude to the Fund and the Bank, as well as the government of the United States, for the excellent arrangement made for the meetings.

This statement will provide an overall assessment of the status of the world economy and the economy of Cambodia, and provide information on the initiatives of the Royal Government of Cambodia to advance
its reform agenda aimed at reducing people's poverty and promoting development.

**The Global Economy**

In 2001 the world economy experienced a synchronized and widespread slowdown following a strong performance in 2000. This slowdown was mainly due to the weakness of the information technology sector, a rise in energy prices, and the tightening of monetary policy in industrial economies to respond to evidence of rising demand pressures. These weaknesses were further exacerbated by the September 11, 2001 terrorist attacks in the United States.

However, in the first few months of 2002 there were signs that the slowdown was bottoming out in most regions and that growth was turning up, notably in North America and a number of east Asian economies. Within Europe, performance was mixed with some countries being weak and some being relatively more robust. Although there are signs of recovery in the world economy, uncertainty still prevails given the fluctuation of oil prices, concerns over war on Iraq, and the weakness of international trade and world stock markets, among others.

Since the Asian financial crisis in 1997, the world economy has experienced many other crises, including those in Russia, Argentina, Turkey, and Brazil. The fact that the crises keep moving from one place to another indicates the need for a new international financial architecture that would be able to cope with the challenges of globalization. This situation also requires that countries expedite the establishment of the new system.

**The Cambodian Economy**

The year 2001 represented a period of deepening the continued implementation of Cambodia's wide-ranging reforms, and was a decisive year for the Royal Government's development agenda. It witnessed the consolidation of peace and security and the deepening and widening of the reforms in all sectors: fiscal, banking, administrative, military, land and natural resources management, among others. The year 2002 should further consolidate the foundation for Cambodia moving toward broad-based, sustainable development. Our economic and financial policies are aimed at sustaining economic growth, reducing poverty, promoting good governance, maintaining macroeconomic stability, undertaking fiscal reforms, strengthening banking and financial institutions, and social and
human development. Good governance is considered by the Royal Government as the backbone of these reforms.

As the result of the implementation of the reform programs, Cambodia has achieved its macroeconomic and fiscal targets. The Cambodian economy continued its strong growth of 6.9 percent in 1999, 7.7 percent in 2000, and 6.3 percent in 2001, despite severe flooding consecutively in 2000 and 2001, and the global economic slowdown, which was exacerbated by the events of September 11, 2001. This strong performance has been due to continued robust growth in garment manufacturing and tourism. Textiles, clothing, and footwear manufacturing posted 26.8 percent growth in 2001, following an increase of 40.6 percent in 2000.

Overall, Cambodia has achieved macroeconomic stability, with annual GDP growth during 1999-2001 averaging 7 percent, very low inflation, and a stable exchange rate. Such performance is indeed consistent with the target of 6-7 percent annual growth set by the Prime Minister and the Second Socio-Economic Development Plan (SEDPII).

For 2002, GDP is expected to grow at 5 percent due to a slowdown in the growth of garment production and exports, as well as the impact of drought and flooding on the agricultural sector, while growth momentum continues to be driven by increased tourist arrivals and strong construction activity. Thus, the Royal Government has taken major steps to build up and strengthen the foundations and prerequisites for the accelerated growth and competitiveness of the tourism and garment sectors. These include programs to rehabilitate and develop roads and bridges, airports, ports, and related facilities, such as water, power supplies, and telecommunications. We need this entire infrastructure to transform Cambodia’s potential and comparative advantages into economic reality. Efforts are also placed on legal and judicial reform aimed at improving an environment conducive to investment and business activities.

Inflation is expected to remain low and the exchange rate broadly stable. More employment will be created in the services sector. The slowdown of international demand following the previous U.S. recession and the events of September 11, 2001 had a real but limited impact on Cambodian exports. Total exports reached US$1,391 million in 2001, after US$1,277 million in 2000; that is, an increase of 8.9 percent. For the first half of 2002, exports amounted to US$628 million, which might let us expect a total volume for 2002 not far from the level recorded in 2001.

Nevertheless, services and income partly offset the slowdown of exports, so that the balance of current accounts shows a lessening deficit. Eventually, the balance of current account and capital transfers turned positive in 2001 and is likely to stay in the black in 2002—a negative
US$57 million in 2000, a positive US$29 million in 2001, and a positive US$15 million for the first six months of 2002. Thanks to this positive evolution, and to the continuous support of donors, gross international reserves increased regularly and have now reached 3.8 months of imports.

Overall, during the first half of 2002, the Royal Government of Cambodia has exerted serious efforts to ensure our country’s take off toward sustainable economic development. Recognizing the positive developments, on July 22, 2002 the Executive Board of the International Monetary Fund completed the fifth review of Cambodia’s economic performance under the Poverty Reduction and Growth Facility program. This review was encouraging, and the achievement has enabled the immediate release of an additional tranche for the support of Cambodia’s balance of payments.

The Royal Government has taken measures to prevent the impact of this year’s drought and flooding on the agricultural sector from constraining economic growth and people’s livelihoods. Agriculture contributes about 40 percent of our gross domestic product (GDP), and the production of rice and other crops together contribute around 15 percent of GDP. Efforts have been made to mobilize resources from domestic, as well as external sources, to cope with the disasters.

This year, Cambodia will host several very important international meetings and conferences. All these meetings will contribute to improve the credibility of Cambodia in the region and in the international arena as a whole. In June 2002, the meeting of the Consultative Group (CG) of donors for Cambodia was held for the first time in Cambodia. At this meeting, the donor community discussed and assessed the progress and setbacks in the performance of the Royal Government’s reform programs. Based on their assessment, they pledged a total of US$635 million in new assistance to Cambodia.

This pledge far exceeds the Royal Government’s 2002 request for only US$486 million. It is an important encouragement for the government’s efforts in bringing peace and political stability, strengthening the foundations for democracy and respect for human rights in our society, and especially, promoting sustained economic growth and reducing poverty. Indeed, the success of the CG signifies the approval and support of the international community for the appropriateness and success of the government’s reform policies and programs.

In early November, Cambodia will be honored to host the first and historical summit of the Greater Mekong Subregion (GMS). Immediately thereafter, Cambodia will host the ASEAN (Association of South East Asian Nations) Summit, the summits of ASEAN+3 (Japan, Republic of Korea, and the People’s Republic of China) and ASEAN+1, the
ASEAN-India Summit and ASEAN-South Africa Union Summit. We believe that GMS is one of the effective tools to narrow the gap between new and old members of ASEAN and to promote development in the region, and this summit will help accelerate this process. In addition, Cambodia is preparing for other important events, such as the ASEAN Cultural Week for 2002 and the ASEAN Tourism Forum early in 2003.

Further Policy Reforms

So far in 2002, there have been some improvements in investments compared to 2001. However, the Royal Government is not satisfied even with such a positive result, since we believe we can and should do much better! Our philosophy is to make and enable private investment to play a more pivotal role in spurring greater economic growth. For this purpose, the Government-Private Sector Forum and its related working groups, including the financial sector working group—which is a dialogue mechanism and a form of partnership between the government and the private sector—have been established to ensure the full participation of the private sector in the development process. Thus, the Royal Government has focused on major policy actions to intensify legal and judicial reforms that will ensure an enabling environment for business and improve Cambodia’s competitiveness as an investment destination.

A basic thrust of our economic development policy is reducing the cost of doing business and streamlining the regulatory environment. The Cambodian government is taking systematic action to encourage and facilitate investment. The satisfactory amendment of the Law on Investment (LOI), with broad participation from all stakeholders especially from the private sector, should build greater confidence among investors. After extensive consultations, the Royal Government has finalized the amendments to the LOI, and the amended version is now being debated at the National Assembly.

The amendment of the LOI will facilitate investment by streamlining procedures and paperwork in the processing of investment approvals. Streamlining will also cover imports and exports of goods and equipment covered under the framework of the investment project. The main objective is to simplify and reduce paperwork and promote transparency and predictability in the process of approving, monitoring, and implementing investment projects.

Amendments to the Law on Taxation, aiming at making it consistent with the amended LOI, were also approved by the Council of Ministers and submitted to the legislatures for adoption. The same process of consultation with the private sector and broad participation from
stakeholders has been applied to the amendments of this law. The Council of Ministers is now working on the new Customs Code that was submitted by the Ministry of Economy and Finance in July of this year. Furthermore, the Law on Corporate Accounting and Audit entered into force on July 8, 2002. These steps have been taken to enhance corporate governance, which is crucial to ensuring the development of the private sector and its role as an engine of economic growth.

The Royal Government realizes that transport and container handling costs, electricity and water tariffs, and telecommunication costs in Cambodia are high compared to our neighboring countries. However, the collection of tolls would improve our capacity to maintain the roads and thereby help keep transport costs low in the end. The eradication of high and illegal charges in the customs zone is being pursued through concerted actions of an interministerial task force. With container scan devices being set up, Cambodia is ready to embrace the Container Security Initiatives as part of its support for the global crackdown on maritime terrorism.

**Promoting Tourism Development**

Complementing the policies and programs in support of competitiveness is more intensive attention to the promotion of tourism opportunities. In this regard, we shall work closely with the private sector to develop tourist destinations. As you know, we have given much attention to the improvement of sanitation and health services in Siem Reap, to ensure the sustainability and continuing beauty of the monuments and the city.

The Royal Government has also devoted more attention to the development of the tourism potential of areas other than Siem Reap. We should promote attractions that enable greater tourist traffic in underserved areas, as well as longer stays and increased spending by tourists. Thus, the Royal Government encourages the development of access to ecotourism destinations such as Mondulkiri and Ratanakiri, beach tourism in our sea access areas to the south, the upgrading of the Kang Keng airport in Sihanoukville, and the promotion of initiatives, such as the night market. We should push for all of these initiatives as we prepare to serve as hosts for the ASEAN Tourism Forum in 2003.

**Looking Forward**

After launching the Second Socio-Economic Development Plan (2001–05), the Royal Government signed the Poverty Reduction
Partnership Agreement (PRPA) with the Asian Development Bank in July this year. The Royal Government is now working on Poverty Reduction Strategies Papers, with broad participation by all stakeholders, including the Bretton Woods institutions. The overall thrust of the SEDPII and the PRSP is the reduction of poverty in which the Royal Government adopts the following main strategies: sustained high economic growth with equity; social and human development; and sustainable management of natural resources and the environment. The underlying principle in achieving the ultimate goal of poverty reduction through the implementation of the said strategies is good governance at all levels, including the empowerment of people through decentralization.

Crucial to the reduction of poverty is the accelerated creation of employment, so that each Cambodian will have a dignified, human livelihood. Therefore, it is a key aspect of the industrial policy of the Royal Government to give priority to the development of other labor-intensive industries, such as toy making, footwear, and the assembly of electrical and electronics appliances. The development of micro- and small enterprises is at the heart of Cambodia’s plan to promote industrial development. This strategy is being applied particularly in the areas at the outskirts of Phnom Penh, and in Sihanoukville, Banteay Meancheay, and Koh Kong.

Cambodia still has vast untapped resources and potential in agriculture and livestock, particularly in high-value products and processed foods. Cambodia’s agricultural sector can provide jobs for so many, if the rural sector is nurtured in a rational and sustainable manner. Thus, the resolution of land issues and the establishment of roads and irrigation systems are the priorities of the government in the next several years.

Moreover, the Royal Government will focus on the proposed industrial and export processing zones to attract private investment. Priority attention will be focused on completing the road network, systems for power and water supply, ensuring waste management and environmental protection, and the necessary social infrastructure.

Demobilization

The Royal Government remains strongly committed to the transformation of our excessive stocks of swords into plowshares, especially with continuing support from our development partners. We are committed to the full demobilization and reintegration of up to 30,000 discharged military personnel. The first batch of 15,000 soldiers has been demobilized and we are working on the discharge of the remaining
15,000. The Cambodian people have begun to enjoy the dividends of peace, which are reflected in the improvement of security and increased social and economic spending. The reform and restructuring of the Royal Cambodian Armed Forces is an agenda for the long haul, and a very sensitive concern of the government, and all the population who have to undergo the wrenching changes associated with the integration of former soldiers into the mainstream of society.

**Continuing Partnership for Development**

Given the history and status of the Cambodian economy, there is little doubt that continued partnership and collaboration with the international financial institutions and donor community is crucial for the country’s sustained recovery and growth. Much progress has been attained, and growth is steady. Certainly there are major challenges yet to be overcome, but Cambodia is fully determined to resolve those difficulties, particularly with the assistance of the international community.

The Cambodian government is confident that an overall, independent assessment of the country’s development record is a convincing argument that the assistance so far extended to Cambodia has been well spent. International assistance has gone a long way to help Cambodia get on its feet and move forward. Such assistance has been vital in enabling our nation to regain its rightful place in the community of nations and to realize our common vision of a prosperous, socially unified, educationally advanced, and culturally vibrant Cambodia.

At this stage, it is clear that the development assistance required by Cambodia is now ready to evolve in character from relief and rehabilitation in the wake of war, to assistance and cofinancing for growth in a mutually respectful partnership among sovereign nations. We believe that the key to success in this partnership is the ownership of recipient governments. Therefore, the international community should help build national technical capacity by shifting from traditional technical assistance toward direct support for the Royal Government’s national capacity-building initiatives to ensure effective local ownership.

For its part, to ensure transparency and accountability vis-à-vis donors, the Royal Government has set up a mechanism of consultations to check performance against goals in the form of a meeting with the donor community every six months. This mechanism is supported by various joint working groups, including the fiscal working group.
Toward International Unity and Peace

In the wake of the events of the past year, humankind is confronted with sobering realizations. No nation can afford to be complacent in a world of plenty among a few and deprivation suffered by many. The contrasts are stark and painful, providing fertile ground for enmity, greed, and envy. The international financial institutions have the resources and opportunity to make a difference in world development. In this context, reforming conditionality is necessary so that the sustainability of development of poor countries is ensured, and these countries would be in the position to share the benefits of globalization.

The Royal Government of Cambodia, having witnessed both the heights and the depths of human development in its history, is very well aware of the significance of the imperative of peace and prosperity for all. Thus we strongly recommend that the IMF and the World Bank should make it their sustained, institutional goal to foster shared prosperity—and peace—for all nations.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR CANADA

John Manley

The global economy has weathered the uncertainty in the wake of September 11, 2001, better than expected. However, economic activity has slowed in a number of countries in the past few months, and some emerging uncertainties have moderated growth forecasts.

Canadian Economic Prospects

Against a background of weaker global economic performance, Canada's economy has performed exceptionally well. In the first half of the year, the Canadian economy expanded at an average rate of more than 5 percent. Moreover, this growth was coupled with the strongest expansion in employment in almost a decade. Strong consumer and business confidence is apparent in household spending and growth in investment in machinery and equipment. Canada's strong economic
performance is the result of a commitment to sound public finances, including balanced budgets, and low and stable inflation. Looking forward, Canada’s outlook is bright; the Fund forecasts that Canada will lead the G-7 countries in economic growth this year and next.

Risks to the Global Outlook

The industrial countries’ prompt policy responses to the impact of the tragic events of last year helped ensure that their economic impact was less severe than initially feared. Although the global economic recovery is expected to continue, concerns have emerged recently about the strength and durability of the expansion. Projections for growth next year in industrial countries, especially the United States and the euro area, have been revised downward. This reflects a number of factors, in particular, the recent collapse of major U.S. companies amid accounting irregularities, which has adversely affected investor and consumer confidence. It has also contributed to a sharp weakening in stock prices that may well ultimately affect private spending decisions.

The weakness in stock markets has reduced investors’ appetite for risk across a wide range of assets, including emerging market debt. In this respect, the outlook for the global economy has been further clouded by recent developments in Latin America. The situation in Argentina, which has been in crisis for some time, continues to be critical. Other countries in the region have sought IMF assistance. And while the Argentine crisis has had some impact on economies in the region, in most cases, domestic policy imbalances have also contributed to financial difficulties. While the IMF and World Bank can help, it is essential that national authorities address these domestic policy problems.

Strengthening Crisis Prevention and Crisis Management

Strengthening investor confidence and market integrity will require actions in a number of areas. The recent corporate scandals in the United States make increased vigilance by policymakers all the more important. Sound monetary and fiscal policy frameworks reduce uncertainty and bolster confidence. But this is not enough. Effective governance arrangements that allow markets to access, weigh, and evaluate risks are also required. In Canada, federal and provincial regulators, accounting standard bodies, and industry are taking steps to review corporate governance practices, including the creation of a new auditor oversight body to improve the quality and integrity of public company accounts.
For emerging market and developing economies, recent events are a stern reminder of the need for strong policy frameworks based on sound monetary policy, strengthened financial sector supervision and regulation, and the adoption of prudent public debt and fiscal management. The IMF has an important role to play through its surveillance function and in providing technical assistance to its members. We will work with all countries to enhance the Fund’s ability to play an important role in crisis prevention. Progress has already been achieved as a result of joint Fund/Bank work on Reports on Observance of Standards and Codes (ROSCs) and the Financial Sector Assessment Program. But, more needs to be done—in particular, in the area of identifying and avoiding currency mismatches.

International financial stability benefits all countries—from the richest to the poorest—and we must all work to promote it. However, we must recognize that, despite our best efforts, financial crises will occur. Our efforts to promote financial stability should be based on three complementary elements: a contractual approach involving the development and adoption of new contingency clauses in sovereign debt contracts; ongoing work by Fund staff to design a Sovereign Debt Restructuring Mechanism to complement the contractual approach; and greater discipline in adhering to presumptive limits on official financing.

The Monterrey Consensus

In Monterrey and Johannesburg, world leaders stressed the importance of a development partnership to work toward the Multilateral Development Goals for dramatically reducing global poverty. This partnership is grounded in mutual responsibility and accountability of both developed and developing countries. The Monterrey Consensus recognizes country ownership and a commitment to stronger economic policies and improved governance as key developing country responsibilities. This partnership will see donors do a better job of harmonizing their actions among themselves and working more closely with developing countries. For their part, developing countries will commit to improve macroeconomic policies and governance. Our challenge is to act on this new momentum to move from a theoretical framework to sustained implementation of the new development agenda.

The Initiative for Heavily Indebted Poor Countries

Reducing the debt burdens of HIPCs is an important component of our broader struggle against global poverty. We must make good on our
existing commitments to fully implement the enhanced HIPC Initiative. The existing HIPC framework is flexible enough to provide HIPCs with a strong basis for a sustainable exit from debt problems. However, four major outstanding issues remain to be addressed:

- getting all creditors to participate in debt relief;
- ensuring that donors provide sufficient contributions to the HIPC Trust Fund to help pay the cost of debt reduction by the international financial institutions;
- allowing for flexible consideration of additional debt relief for those countries completing the HIPC process, should their economic circumstances merit it; and finally,
- making sure that the debt sustainability analysis of the Bank and Fund is more realistic up front.

Debt relief provides an opportunity that HIPCs themselves must exploit to further development and poverty reduction. By itself, debt relief cannot guarantee longer-term debt sustainability. It is clear that a sound policy environment, good governance, prudent new borrowing, and sound debt management are essential to ensure that poor countries do not relapse into debt problems.

Strengthening Institutions in Developing Countries and Building Human Capacity

Robust institutions are crucial to empowering the poor and promoting longer-term development. Strong institutions can ensure that the benefits of debt relief and of investments accrue to all. The rule of law is critical for allowing investors, and especially the small investors that are important drivers of poverty reduction, a safe environment free from arbitrary actions by authorities. In many of the poorest developing countries institutional capacity is particularly weak. Moreover, institutions are often ineffective in overcoming strong resistance to reform from entrenched interests benefiting from the status quo. Development policy and development assistance, if they are to succeed, must attach priority to helping governments—and societies more broadly—create the institutions that foster growth and equity, that allow women and men to fully participate in civil society and make their needs known, and that hold authorities accountable for their actions.

While there is no single model for success, it is clear that determined political leadership can be effective in overcoming resistance to
reform. Both the Bank and the Fund have strengths in analyzing institutional capacity gaps and in providing assistance for institution building. We will continue to look to both institutions to work with their partners in this critical development area.

Investment in institutions must be complemented by investment in human capital, and universal access to basic education is the best avenue for ensuring that the poor have the opportunity to help themselves. We commend the Bank staff for its continued efforts to work closely with its partners to develop an Action Plan and “fast tracking” initiative to help countries implementing good education plans achieve the Millennium Development Goals on primary education. We believe that we must maintain the momentum on this important initiative. Thus, we encourage donors to provide financial support and would welcome future efforts to monitor progress on implementing the Action Plan.

Measuring, monitoring, and analyzing the results of efforts to promote development are fundamental to helping both developing countries and their development partners assess whether development strategies are working. We welcome the Bank’s recent work in strengthening its own results focus. We look to the Bank to assist members develop statistical and analytical capacity.

Freer Trade—An Important Element of the Monterrey Consensus

Development partnership implies freer trade. In Monterrey and Johannesburg, leaders reaffirmed that trade is key to development. We look to the World Bank and the IMF, in support of the WTO and the Doha Development Round, to enhance their own analysis of how developing countries can best take advantage of the global trading system.

Developing countries must have opportunities to trade in the global market place if they are to prosper. However, trade-distorting agricultural subsidies in the developed world continue to depress global markets for developing country products. Moreover, trade barriers in both the developed and developing world continue to depress exports from least developed countries. We all must commit to working toward the elimination of trade-distorting subsidies and to improving market access for the world’s poorest countries. Earlier this year, Canada announced that, effective January 1, 2003, it would provide duty-free and quota-free access to its market for virtually all products from least developed countries.
Looking Forward

Looking forward, prospects for the Canadian economy are strong. The prospects for the global economy are promising, although policymakers need to remain vigilant to the risks. The international financial institutions are continuing to adapt their policies to ensure that they are better able to achieve their objectives of supporting growth and stability. In an increasingly integrated global economy, an important objective is a better model for the prevention and management of financial crises. Progress in this area will allow both developed and developing countries to fully benefit from the opportunities of globalization.

Nevertheless, the challenge that both developing and developed countries face will be to maintain our resolve, to keep our efforts focused where there will have maximum effect, and to build actively a genuine and long-term partnership that will yield tangible results. But most important, this new partnership must rest on deeper mutual accountability that will produce development results on the ground that will better the lives of the poor in developing countries.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE PEOPLE’S REPUBLIC OF CHINA

Dai Xianglong

With the slowdown in the world economic recovery and increased uncertainty, a number of risks demand our vigilance and attention today. We hope the international community will help in creating a favorable environment for world peace and development, working together to promote a global recovery.

We believe, in the process of globalization, attention should focus on protecting the interests of developing countries, especially those of the least developed countries, to prevent them from being marginalized. Should the rich become richer and the poor poorer as a result of globalization, the resulting unfairness must be addressed because such an imbalance is not at all in the interests of development for all the people in the world.

In the context of global economic and financial integration, we call for establishing a fair and rational new world economic order and
international trade system, and reforming and improving the present international monetary system. In particular, the developed countries should strengthen their policy coordination and maintain stable exchange rates. Developed countries should also vigorously carry out the initiatives of the Monterrey Consensus by further opening their markets to developing countries and by providing sustained and sufficient financial and technical assistance to help them improve their capacity for self-development and reducing poverty. We appreciate the commitments made by the EU in this regard and urge other major developed countries to assume their share of responsibility. International institutions, including the Fund and the Bank, should build on their current efforts, increase their financial and technical assistance to developing countries, and help those members to sustain their debt levels.

We appreciate the Fund’s enormous efforts in recent years to maintain the stability of the international financial system. We believe the establishment of a fair and orderly Sovereign Debt Restructuring Mechanism is an important supplement to the existing international financial architecture. In this regard, we welcome the recent debate in the Fund and support its initiative to explore further both the statutory and contractual approaches and feasibility of sovereign debt restructuring, taking account of the opinions of the developing countries in the process.

To achieve the Millennium Development Goals, we should continue to enhance ownership and stress development as a priority. Whether or not a country enjoys ownership in designing a development strategy tailored to its own specific situation has a bearing on the ultimate outcome of that country’s development. The measure of whether or not a development program is effective is if it improves people’s living standards. The final judges are the people in the developing countries. In monitoring and measuring the implementation and results of a development program, the recipient country should play the predominant role, setting the relevant evaluation criteria with input from all stakeholders. The institutions providing assistance can help the recipient country enhance its capacity to monitor the program, as well as assess and set the evaluation criteria.

The Chinese government firmly opposes all forms of terrorism, and supports and implements the resolutions of the UN Security Council on combating the financing of terrorism. The Chinese government is actively participating in the international cooperative effort to combat terrorism. China has set up special units in charge of anti-money laundering and combating terrorism, and has drafted relevant laws and regulations. We have always believed that AML/CFT efforts should be carried out by governments under the leadership of the United Nations.
and that the Fund and the Bank should confine their operations in this regard to their mandates in accordance with their Articles of Agreement.

Over the past two years, the Chinese government has adopted accommodative policies to stimulate domestic demand—a proactive fiscal policy and sound monetary policy—and has achieved a fairly rapid economic growth, a stable RMB exchange rate, and a substantial increase in foreign exchange reserves. By August this year, foreign direct investment had increased by US$34.4 billion, an increase of 25.5 percent compared with the same period last year; and total imports had reached US$183 billion, an increase of 14.5 percent. These figures show that China’s accession to the WTO has not only contributed to strong growth in China but will also bring about new opportunities for growth in other countries in the region and the world as well.

The authorities of Hong Kong Special Administrative Region and Macao Special Administrative Region have taken firm steps to maintain social stability and promote economic development since China resumed its exercise of sovereignty. They both now enjoy a more dynamic economy, and we are fully confident about their future development. Experience has shown that the principle of “One Country, Two Systems” has been a success.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR THE REPUBLIC OF CROATIA

Boris Vujcic

It is my great honor and privilege to address these Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank. I would like to express my gratitude to our hosts for their warm hospitality and for the admirable organization of these Meetings.

I would like to point out that greater cooperation and coordination in international economic relations is the goal we all seek to achieve. In that sense the role of Fund and the World Bank is indispensable. These institutions’ efforts to strengthen surveillance over macroeconomic policies and to lay foundations for sustainable world economic development are of the highest importance. I am happy to say that the relationship between Croatia and the two have always been very open.
and frank and that discussions have been conducted in an atmosphere of mutual understanding and respect.

Croatian Economic Situation

In 2002, the Croatian economy has shown positive developments. The expected GDP growth of 3.5 percent for this year represents a continuation of the buoyant trend from 2001 and a clear departure from the recession period of late 1998 and 1999. Unfortunately, growth has not yet proven strong enough to significantly reduce unemployment. The intensive restructuring of the economy has led to substantial job losses, but also to growing job creation. Such combinations of job losses and gains are inevitable consequences of structural reforms, and they indicate that the reforms are indeed having the desired effects.

Wage growth has been moderate. In addition, the government’s achievement in containing the wage bill in the public sector bodes well for further wage restraint. Also, strong productivity growth in industry indicates limited cost pressures.

This year inflation is not strongly affected by demand pressures, and we expect the headline inflation to be around 3 percent. Even with recent energy prices increases, the inflation outlook has not worsened. The fact that core inflation remains substantially below actual inflation suggests that many of the factors causing inflation in recent months have been of a one-time or temporary nature and are not likely to become ingrained in the future.

Exchange rate developments provide a further indication that the inflationary outlook will not worsen. Exchange rate trends followed the normal seasonal patterns. Last year’s increased volatility due to capital account liberalization has not been repeated.

The overall current account deficit in 2001 of 3.2 percent of GDP was the second lowest since 1995. Strong services revenues driven mainly by tourism and substantial inflows on the transfers account have contributed to keeping the deficit low. The overall balance of payments outlook this year seems likely to remain within the boundaries set out in the government’s economic plan.

Monetary developments indicate a continuation of the strong but noninflationary growth of monetary aggregates, along with a continued increase in bank lending. Strong growth in bank lending suggests that the “credit crunch” that has characterized the lending market since the banking crisis of 1998–99 has indeed ended. Strong lending growth is consistent with, and of course contributes to, the strong growth of the
The central bank’s focus has now switched from inducing credit growth to the prudential limits of rapid credit expansion.

Interest rates generally continued to fall during the year. Interbank trading decreased in volume, and rates moved somewhat lower. Both lending and deposit rates fell, as did measures of the difference between loan and deposit rates. The central bank’s gross foreign exchange reserves stand above US$5.7 billion, well above the level of M1.

**Relations with the Fund and the World Bank**

We are happy to say that in May of this year, Croatia successfully concluded a Stand-By Arrangement (SBA) with the International Monetary Fund for the period 2001–02. The SBA was intended to support the implementation of structural reforms; Croatia never intended to draw on the funds available under the arrangement. Signing and implementing the accord has helped the credit rating of the Republic of Croatia and has assured investors that we do not intend to depart from the projected program. The centerpiece of the program was the reduction of government spending and a reduction of tax revenue and expenditure ratios in GDP, while preserving wage discipline and promoting structural reforms in the context of continued exchange rate stability.

Resolved to negotiate another precautionary SBA with the IMF, the authorities intend to continue to pursue a broad spectrum of reforms, all consistent with the commitment to reduce the share of government spending in GDP. We are convinced that these new reforms, together with those already in place, will have important positive effects on the economy.

We have never regarded and we will never regard the IMF arrangement criteria and the accompanying measures as external to us. These are in all aspects our own policies that we have developed with the help of Bank and Fund experts, and responsibility for implementing the policies is our own.

The active support of the International Monetary Fund and the World Bank Group is vital in sustaining the momentum of reforms in emerging economies. Both institutions have played that role in Croatia, and it is our hope that they will continue to do so.

We wish to thank them for their engagement in our economy and wish them all the best in their future undertakings.
It is an honor to address these Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group.

Much has happened in the two years since the Prague meetings in terms of the world economic situation and economic policies pursued by the Cyprus authorities. Since early 2001 the growth of world output and trade has recorded a marked slowdown. The September 11, 2001, terrorist attacks in the United States and their aftermath contributed to the deceleration in growth of real economic activity, though in varying degrees in different economies. In countries that rely heavily on the activities and services hardest hit by the September 11 events and their repercussions—namely, air transportation, tourism, and insurance—growth has been curtailed severely over the past 12 months.

Indeed, Cyprus has experienced a sharp fall in the number of tourist arrivals over the last four quarters, although tourist revenue has not suffered to the same extent because of a higher average expenditure per tourist that in turn reflect efforts to promote quality tourism.

However, what is of major concern at present is that the robust economic recovery expected in the current half-year for the advanced economies is not materializing. There appears to be increasingly the prospect that there will be a prolonged global slowdown or a double-dip recession. Moreover, the fragile global prospects at present are being clouded by the threat of military hostilities in Iraq and uncertainty over their economic consequences.

The response of the authorities in the G-7 economies and in the major international financial institutions, including the IMF and the European Central Bank (ECB), to the fading prospects of a global recovery seems to be to a “wait and see” balancing of the need for further economic adjustment against the risks of output contraction, deflationary tendencies, or both.

While the process of adjustment will need to be associated with a deepening of structural reforms in Europe and Japan, policymakers have to guard against subdued demand that may lead to too much unemployment and to excess capacity, deflation, or both. The ECB and the Federal Reserve must stand ready to relax monetary policies, and greater
flexibility in the conduct of fiscal policy in Europe and North America may be required.

Although a number of developing countries have withstood the effects of the global downturn relatively successfully, their efforts at pursuing export-led growth strategies should not be derailed by protectionist measures in the developed countries. The commitment to global free trade made in Doha in November 2001 must be renewed. Advanced countries have to keep their markets open to access for, and services of, developing countries.

In terms of policies of the international community to assist with significant poverty reduction in the poorest countries, Cyprus supports the Monterrey Consensus, and in particular is behind the Commonwealth action plan recently adopted in London that aims to ensure the effective delivery of the Monterrey Consensus. Indeed, the net transfer of resources from the developing countries to the rest of the world in recent years represents a disturbing development, and it is hoped that the expeditious implementation of the Monterrey Consensus will reverse this flow.

In Cyprus, the last two years have witnessed the implementation of major economic policy reforms that have been directed at harmonizing the economy with the European Union. At the beginning of 2001 the system of determination of interest rates was completely liberalized with the removal of the ceiling of 9 percent per annum on interest rates. Simultaneously, restrictions on borrowing from abroad by domestic entities were lifted, and a further phased liberalization of the external capital account was effected over the following 18 months.

In mid-2002 Cyprus instituted a watershed taxation reform that included eliminating harmful tax practices (as committed to the Organization for Economic Cooperation and Development (OECD) in 2000); harmonizing our tax laws and practices with those of the EU; embracing transparency, exchange of information, and tax competition; and increasing indirect tax rates toward minimum EU levels. These and other reforms directed at phasing out state aid and increasing competition in domestic industry and in the public utilities sectors have greatly enhanced the ability of Cyprus to compete successfully and withstand the market pressures of entry into the European Union.

One lesson drawn from our experience is that taking measures to reform the economy, despite an adverse external environment, provides a country with an enhanced ability to compete in this harsher environment as well as the flexibility to shift resources into areas of greater demand. Moreover, we would underline that the trade liberalization policies advocated in the IMF’s latest World Economic Outlook (WEO) report will benefit both developed and developing countries. Developing countries
that have integrated strongly into the world economy with the liberalization of their external trade and capital accounts are proving that they can export their way out of a downturn and raise sufficient funds to meet their temporary financing needs.

Cyprus backs strongly the international fight against money laundering and against the financing of terrorism. We support the efforts of the IMF and the World Bank in contributing to this fight through their surveillance activities and technical assistance. Indeed, Cyprus has benefited from the favorable assessment and constructive comments contained in the IMF's report, *Cyprus—Offshore Financial Sector (April 2001)*, following a staff mission to Cyprus in the context of the work of the Financial Stability Forum.

STATEMENT BY THE GOVERNOR OF THE FUND FOR DENMARK

Thor Pedersen

I submit this statement in my capacity as Chairman of the EU Council of Economic and Finance Ministers. It focuses on recent economic developments and policies, in particular in the EU; corporate and financial sector issues raised by recent events; crisis prevention and resolution; poverty reduction and financing for development; and the fight against the abuses of the international financial system.

These meetings are held at a time of major fluctuations in financial markets, which have increased downside risks to the world economic outlook. These episodes of increased financial volatility, following already significant corrections of financial asset prices, and compounded by certain high-profile cases, have highlighted the importance of improved corporate governance, accounting, and auditing practices. It is important to restore confidence in the economic and financial system worldwide, and to ensure that financial volatility and its impact on the real economy are minimized.

In this context, it is important to pay particular attention to the possible impact of recent macroeconomic and financial shocks on developing countries. Action should follow the commitments taken in Monterrey and Johannesburg. This is especially necessary for the poorest countries in sub-Saharan Africa, where the Millennium Development Goals are most at risk of not being met. The IMF and the World Bank
should make special efforts to take this commitment forward. We reiterate the call made at Monterrey for a Global Development Compact between developed and developing countries based on mutual accountability for results.

These meetings are also the last before the European Council concludes the enlargement negotiations with up to 10 new member countries next December in Copenhagen. A successful conclusion of these negotiations will mark another major step for the EU and will contribute to the creation of one whole and undivided Europe.

**Economic Developments and Outlook**

The recovery of the global economy, which started at the beginning of this year, particularly in the United States, the EU, and Asian emerging market economies, is underpinned by a number of forces such as the reversal of inventory cycles and the substantial easing of macroeconomic policies in the advanced economies over the past year. However, the outlook, while on balance positive, is clouded by uncertainty and significant downside risks.

**Risks and uncertainties**

The global economic outlook is being clouded, first, by concerns related to financial stability. Most indicators suggest that the recent sharp series of falls in major stock markets are the result of the unwinding of past over-investment that built up during 1999–2000. Following recent high-profile cases, the level of uncertainty regarding companies’ earnings expectations and stock market valuations has also increased. Weaknesses in corporate governance and in accounting and auditing practices have been revealed, which have further lowered investors’ confidence in equity investments in general and have compounded the already significant correction in stock prices. A further weakening of the real economy could lower investors’ confidence even more.

Second, imbalances between and within the major economic areas of the world have not been corrected, although the current level of the euro, following its strengthening, better reflects the economic fundamentals of the euro area. Recent trade disputes raise the risks of a new cycle of protectionist measures and countermeasures, which could endanger growth prospects worldwide.

Third, the current high levels of oil prices could also weigh on the prospects of recovery. Furthermore, the high volatility of the market
remains a source of risk for the confidence of both households and corporations.

The EU and the euro area

The EU economy was in 2001 marked by a sharp and unexpected slowdown in economic activity. However, since the beginning of the year, the economy has stabilized and is gradually picking up. The response of economic policy, sound and stable fundamentals, and an improvement in external demand have provided the platform for the recovery to consolidate during the next months. The available information on economic activity suggests that the EU economy will remain modest in the second half of 2002 and gather strength in 2003. Headline inflation declined from an exceptional peak in the first months of the year stemming from temporary factors. As a whole, the decreasing impact of past price shocks and the recent appreciation of the euro should enable HICP inflation to stabilize at levels around 2 percent in the course of 2002, though monetary and wage developments will continue to be closely monitored.

Macroeconomic policies in the EU and the euro area are designed to meet the challenge of restoring noninflationary economic growth in a context of less supportive global economic conditions. The progress made in former years on fiscal consolidation in the framework of the Stability and Growth Pact (SGP) has allowed the EU and the euro area economy to be in a better shape to deal with cyclical fluctuations. Budgetary policies will be geared to maintaining or achieving public finances close to balance or in surplus in the medium run, while supporting growth by letting the automatic stabilizers work symmetrically, as envisaged in the SGP. In addition to providing leeway for the free and symmetric play of automatic stabilizers, medium-term budgetary positions that are close to balance or in surplus allow for a steady decline in government debt and enhance the capacity to address budgetary challenges stemming from ageing populations. Over the last few years, substantial progress has been made in implementing structural reforms.

The international environment

Following last year's recession in the United States, evidence of recovery emerged in the first half of this year. However, recent developments suggest that the future course of this recovery might be more muted than initially expected and is subject to a high degree of
uncertainty. High-profile cases in the corporate sector have revealed possible structural weaknesses, which in turn have affected investors’ confidence in equity investments. Consumption has remained relatively robust during the slowdown and continues to be the key variable to the U.S. short-term economic outlook, but may not be able to continue to fuel the recovery. On the corporate side, the reduction of inventories and its negative effects on production and employment seem to have come to an end, but business expectations of large firms have been deteriorating over the last few months, capacity utilization is relatively low, and the cost of capital has increased. The utmost priority is to restore investor confidence, and to address shortcomings in corporate governance and financial reporting. The recent legislative initiative adopted by the U.S. authorities that penalizes corporate mismanagement provides a first step in this direction, although the compatibility of new legislation and reforms with other worldwide regimes needs to be checked. Macroeconomic policy should continue to support the recovery. However, on the fiscal side, it is essential that public finances are brought back on a prudent medium-term course once the recovery is established in light of the desirability of reducing external and internal imbalances. Finally, we call on the U.S. administration to remain committed to free trade principles and practices, as well as to the rules of the WTO.

In Japan, despite a modest recovery fuelled by strong exports, domestic demand remains weak and deflationary pressures persist. This situation is aggravated by long-term structural difficulties, historically high unemployment, decreasing real incomes, and the constant decline of financial assets and real estate prices. The functioning of monetary policy transmission mechanisms remains deficient. Depressed stock prices have a negative impact on banks’ and insurance companies’ balance sheets and on the fund-raising ability of corporations. Finally, the sharp increase of public debt over the last decade, particularly given the effects of a fast-ageing society, is also a matter of concern. Therefore, we encourage the Japanese authorities to press forward and implement a clear and coherent framework of structural reforms in the financial and corporate sectors. Action should focus on the removal of bad loans from balance sheets without further delay. The macroeconomic policy stance should remain as supportive as possible to domestic demand, taking account of the need for medium-term fiscal consolidation. In the medium run, the general strategy of the government to achieve a fiscal primary surplus while improving the efficiency of the public sector is welcome.

Several emerging market and transition economies have been confronted with additional challenges stemming from recent macroeconomic and financial shocks.
The EU accession countries have on balance continued to perform well and should continue to do so despite the recent natural catastrophes in Central and Eastern Europe. The EU also expresses its support for Turkey's efforts to reform its economy and to ensure macroeconomic stability under the IMF program.

Macroeconomic developments in Russia have been favorable, and growth prospects for this year remain stable. The EU welcomes the progress in the reform agenda and encourages the government to proceed further.

In emerging Asia, after the economic deceleration triggered by the sharp drop in exports, particularly in the technology sector, signs point to a progressive recovery. Significant progress in reducing vulnerabilities needs to be pursued.

The economic situation in Latin America has become increasingly fragile on the back of global uncertainties, but also specific factors related to local political contexts and debt dynamics. We welcome the efforts of the IMF to help the affected countries in the region, including the US$30 billion package for Brazil. This assistance should help those countries to re-establish a sustainable economic and financial situation as a way to restore market confidence by implementing prudent fiscal and monetary programs and accelerating structural reforms that lay the basis for strong economic growth. The EU strongly encourages the Argentine authorities to finalize the negotiations with the IMF on a new program to build a credible and sustainable economic recovery.

Addressing the Corporate and Financial Issues Raised by Recent Corporate Failures

Recent turbulence on financial markets is a response to past imbalances in asset prices, but recent events have emphasized the need for consolidating corporate and financial rules and practices. Beyond self-correction by the market, public authorities, including those at the international level, should address the underlying structural deficiencies and establish, where necessary, new standards. In order to restore investor confidence and strengthen financial markets, progress is especially needed in priority areas such as accounting, auditing, and corporate governance and disclosure standards:

- First, the focus on transparency and accurate information needs to be increased to enable investors and financial markets to gain access to fair company accounts. Those accounts should provide
accurate information on the wealth and health of companies to enable investors to make appropriate short- and medium-term investment decisions;

- Second, strict standards should be developed and implemented to guarantee the independence of auditors and financial and legal advisors. This means, inter alia, that auditing and consulting functions should be clearly separated, and that revenues stemming from auditing should be made more transparent; and

- Third, achieving transparent and healthy corporate governance has implications for the design of incentives for managers, to more closely align their interests with those of shareholders. In particular, managers' remuneration packages, including stock options, and their responsibility in the preparation of financial information need to be reviewed.

The EU has been working for several years to improve the integration, efficiency, and resilience of its financial markets in the context of the Financial Services Action Plan. Many measures in the plan already tackle the problems raised above, but recent experience has also led the EU to focus more heavily on some specific issues:

- The mandate of the EU High-Level group of company law experts has been expanded to include specific issues raised in the recent months, including issues related to best practices in corporate governance and auditing, in particular those practices concerning the role of nonexecutive directors and supervisory boards, management remuneration, management responsibility for financial information, and auditing practices.

- Listed EU companies will be required to use International Accounting Standards (IAS) by 2005. We invite other countries to follow suit, and in particular call for full convergence between U.S. Generally Accepted Accounting Principles and IAS.

- We have adopted also a principles-based approach to auditor independence by targeting potential conflict of interest.

At the international level, the EU supports the efforts of the Financial Stability Forum (FSF) toward the coordination of the work already done by international standard setters.
The Reform of the International Financial Architecture

Surveillance and crisis prevention

We welcome the improvements in the IMF's work on crisis prevention and we take note of the completion of the recent biennial review of the implementation of the Fund's surveillance. Crisis prevention, primarily through multilateral and bilateral surveillance, remains at the heart of the IMF's mission. We welcome the opportunity to continue discussions over the coming year on further measures to strengthen surveillance, including consideration of its institutional framework.

Experience shows that most crises arise from vulnerabilities that have not been detected or corrected in time. Increased attention should thus be paid to potential vulnerabilities in the monetary, fiscal, exchange rate, and financial policy areas, notably in Article IV consultations and in the context of further refinements in early warning systems. To be fully effective in bringing about early and preemptive policy action, IMF surveillance needs to be transparent, objective, accountable and independent from judgments concerning IMF lending programs. In particular, we would like to see more countries move toward publication of Article IV reports. We call on IMF management to pursue, in a close dialogue with the Board, its current efforts to enhance IMF surveillance in line with these key objectives.

Crisis resolution and private sector involvement

We welcome the Fund's work program to strengthen the Prague framework for crisis resolution. We agree that more work needs to be done in several areas, including on access policy and on the contractual and statutory approaches that we consider complementary to sovereign debt restructuring.

IMF access policy

The overall policy framework for access policy is by and large appropriate as regards the access limits associated with the SBA and the Extended Fund Facility (EFF). However, its implementation remains unsatisfactory. In particular, there are insufficient safeguards to ensure that access above statutory limits is granted only in genuinely exceptional cases.
Access decisions should be based on a robust external debt sustainability analysis. The Fund’s analysis should start with a forward-looking assessment of countries’ external financial positions under different scenarios (including stress tests), and should be based on transparent and realistic macroeconomic and financial assumptions. Access to Fund credits should in any case be subject to clear, country-specific access limits in order to provide the right incentives to markets and to help maintain good relations between the debtor country and private creditors.

Access limits could be made more credible and transparent by reviewing whether current limits remain economically significant under the changed global economy, considering whether access beyond a particular level should be permitted under well-defined circumstances and new procedural rules, and specifying strict rules and procedures for a combination of several facilities to finance individual programs. In particular, there should be close scrutiny of the use of the Supplemental Reserve Facility (SRF) in order to avoid circumvention of access limits.

If exceptional access is granted, which is only possible in cases in which external debt appears to be sustainable given an appropriate policy response and realistic medium-term macroeconomic and financial assumptions, more extensive justification by staff and more stringent conditionality are required. In particular there needs to be a higher burden of proof that truly exceptional circumstances exist and that the debtor country has undertaken its best efforts to secure private sector involvement (PSI), which implies in turn an exhaustive monitoring of PSI. Whenever a decision to grant exceptional access is taken, the burden of proof should be put on the IMF, which should provide specific detailed documents to the Board, including debt sustainability analyses, including stress-tests; an explicit assessment of the timing and probability of a return to market access; and a clear and transparent description of risks of contagion and potential systemic threats. The procedural rules for decisions on exceptional access could be strengthened by requiring a formal assessment of whether the criteria for exceptional access have been met and a special Board meeting and a separate Board decision, as well as an ex post evaluation of their impact and effectiveness. We welcome the agreement in the IMFC to define more clearly criteria to justify exceptional access and strengthened procedures for early consultation and decision making.

**Sovereign debt restructuring**

We reiterate our support for the parallel consideration of both statutory and contractual approaches to improve the process of sovereign debt
restructuring, which are complementary. The assessment of a Sovereign Debt Restructuring Mechanism should be considered part of a coherent and wide-ranging strategy for dealing with financial crises, and should therefore be developed in parallel with the operational improvement and further implementation of the PSI approach established in Prague. We welcome the agreement in the IMFC to consider a concrete proposal next spring.

We call on the IMF to work further on statutory approaches to sovereign debt restructuring that may require new international treaties, changes in national legislation, or amendments of the IMF’s Articles of Agreement. As regards the contractual approach, steps should be taken to promote the inclusion of CACs in international bond contracts. It will be important that all member countries, both advanced and developing ones, play their part in helping to promote the establishment of appropriate tools to facilitate the inclusion of CACs in international bonds. This means, inter alia, designing standard model contractual provisions to be used, CACs-friendly legislation, and incentives to promote the actual inclusion of CACs. In this respect the EU member states will coordinate effectively in order to lead by example in including majority-action clauses and collective representation clauses in government bonds issued under a foreign jurisdiction. We call on others to follow this lead, with a view to establishing new market practices and procedures.

Because both the contractual and the statutory approaches will take time to be assessed and implemented, work should continue in order to implement expeditiously the Prague framework on other main issues at stake, including standstills and the IMF’s policy of lending into arrears (LIA). Specifically, we urge the IMF to further clarify rules and modalities for implementing the LIA strategy in the context of contractually or statutorily based approaches.

**Conditionality**

We welcome the work under way to streamline conditionality and look forward to the discussion on the revised guidelines. A major issue in this context is the improvement of cooperation between the IMF and the World Bank.

With respect to low-income countries, cooperation is already intense but can be further enhanced within the existing PRSP framework. In all countries, including in particular middle-income ones, international financial institutions’ (IFI) programs should be based on a truly country-owned reform strategy. A common unified framework for the two institutions aimed at identifying underlying problems and subsequent
proposals for reforms could also help in middle-income countries to build a more effective and consistent cooperation between the two institutions. Strengthening collaboration requires consultation and information sharing, especially during the design phase of the program. Early and continuous consultation is absolutely indispensable for those countries where both institutions provide medium-term support.

A number of possible practical ways to reinforce information sharing and consultation, in addition to the existing cooperation at various levels, includes the following avenues: First, participation in PRSP processes “on the ground,” staff attendance at one another’s Board meetings, and cross-participation in one another’s country missions and joint missions (including participation of resident staff) could be increased. Second, a structural policy matrix could provide a comprehensive overview of structural reforms, their purpose, timing, and the institution primarily responsible for their monitoring. This instrument could, inter alia, give effect to the lead-agency concept and help to streamline and manage the totality of conditionality. Third, the IMF and the World Bank could consider new ways of further enhancing their cooperation in areas of common interest, including through new institutional arrangements where necessary, drawing on the experience with the Financial Sector Liaison Committee and the Joint Committee on HIPC/PRSPs.

**IMF quotas**

The IMF has launched the Twelfth General Review of Quotas. In this context, we look forward to the work of the Fund to assess the need for an overall increase of quotas considering developments in the world economy. Work on IMF quota formulas should continue to be conducted in line with the three main guiding principles supporting the central role of the IMF in the international financial system, namely, legitimacy, cooperation, and transparency. In addition, quota shares should reflect a country’s relative position in the world economy and in the international financial system. A position in which a country’s quota is substantially below its calculated quota should be avoided. We also call on the Fund to continue to assess the usefulness, in the light of recent discussions, of an increase in basic votes of IMF member countries.

**The Role of the IMF in Poor Countries**

The EU reaffirms that the Monterrey Consensus and the financial commitments made in connection with the Monterrey Conference...
provide the broad framework for achieving the Millenium Development Goals, and it welcomes the recent confirmation of this approach in Johannesburg.

The IMF is the key institution to promote macroeconomic and financial stability, and it fulfills in this respect a fundamental role in its low-income country member states.

The IMF should, in close collaboration with the World Bank, continue to streamline PRGF structural conditionality, concentrating on areas critical to the success of PRGF programs; consider alternative policy choices and the related trade-offs in programs; and build on the progress already made to promote pro-poor spending and pro-growth policy undertakings in PRGF programs.

Of the 42 countries classified as HIPCs, four are currently expected to have a sustainable burden of debt after traditional debt relief, and one has so far not opted to apply for debt relief. Hence, 37 HIPCs are expected to eventually benefit from debt reduction under the initiative. However, three factors may prevent some HIPCs from receiving sufficient debt reduction to achieve a sustainable debt position at completion point: first, not all creditors have agreed to provide debt reduction; second, the financing needs of the initiative as estimated at Cologne in 1999 have not been fully met; and third, growth could be weaker and export commodity prices could be lower than assumed under the initiative. Genuine debt sustainability should be ensured for all eligible HIPCs. It will therefore be necessary to take action in a number of areas, such as assessing those cases in which a fundamental change in a country’s economic circumstances due to an exogenous development leads to an unsustainable debt at completion point, and paying renewed attention to the implementation of sound policies in HIPCs during and following the interim period, including strict avoidance by the countries concerned of new borrowing on non-concessional terms. The IMF should also work with other stakeholders to secure the compliance of all creditors, official and private, and take the necessary actions to tackle noncompliance, including through reporting in Article IV surveillance. In addition, the IMF should work with other stakeholders to ensure full financing of the HIPC Initiative through appropriate bilateral debt relief and donors’ contributions to the World Bank HIPC and the IMF PRGF-HIPC Trust Funds, in line with reasonable burden-sharing. Going forward, the IMF and the World Bank need to ensure that forecasts of debt sustainability are made on the basis of prudent and cautious assumptions about growth and exports.

Good public expenditure management and effective Poverty and Social Impact Assessments are essential for effective poverty reduction. These are areas where the World Bank is the lead agency, but
collaboration between the IMF and the World Bank needs to be strengthened.

**Combating Abuses of the International Financial System**

The EU reiterates its commitment to fight against abuses of the financial system, including money laundering, terrorism financing, harmful tax practices, and insufficient regulatory frameworks and practices in the financial area.

**The fight against money laundering**

Money laundering distorts markets and economic decisions, can lead to financial instability, and is one of the tools for terrorism financing. We reaffirm our strong support of the Financial Action Task Force, whose 40 recommendations constitute the anti-money laundering international financial standards. We welcome the fact that a great number of countries worldwide have chosen to endorse the FATF special recommendations and join the self-assessment process. This includes the participating states of the OSCE (Organization for Security and Cooperation in Europe), the ASEM (Asia-Europe Meeting) countries, and several others. We call on countries and territories listed by the FATF as noncooperative to make all necessary effort to implement these recommendations. We will continue to implement the coordinated countermeasures recommended by the FATF against the jurisdictions in which no progress has been made. We also welcome the ongoing process launched by the FATF to revise and upgrade its standard in the fight against money laundering.

**The fight against terrorism financing**

In the fight against terrorism financing, the EU is committed to implementing rapid and coordinated initiatives. We strongly support the special recommendations laid down by the FATF at its extraordinary plenary session, in October 2001, related to the fight against the financing of terrorism, and we are taking the necessary steps to comply with the special recommendations. We call on all countries to follow suit. To encourage the broadest possible participation in this fight, we call on the FATF to identify countries for follow-up assessment and technical assistance, by the IMF, the World Bank, and the United Nations within their respective mandates.

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The IMF and the World Bank have a key role to play in ensuring the integrity of financial markets, in particular by fostering compliance with the international standard in the fight against money laundering and terrorism financing. We welcome in this respect the progress in the joint effort by the Bretton Woods institutions and the FATF to finalize a comprehensive AML/CFT methodology. We support an integrated and comprehensive ROSC module, incorporating all aspects of 40+8 FATF Recommendations. We therefore welcome the decision of the IMF and the World Bank to start a 12-month pilot program of AML/CFT assessments and accompanying Reports on the Observance of Standards and Codes that would involve participation of the Financial Action Task Force, and FATF-Style Regional Bodies. We look forward to a comprehensive review of experiences at the time of the next Annual Meetings. We also urge the Fund and the World Bank, in cooperation with other international organizations and donor countries, to identify and respond to needs for technical assistance.

Other issues

Administration and enforcement of tax laws depend increasingly on transparency and effective international cooperation. Exchange of information in relation to taxation of savings, on as wide a basis as possible, is to be the ultimate objective of the European Union in line with international developments. We invite OECD countries to lead by example.

We continue to support the work of the FSF, in particular on recent corporate failures, reinsurance, offshore centres, credit derivatives, and highly leveraged institutions.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR DENMARK

Bodil Nyboe Andersen

I am pleased to address the joint 2002 Annual Meetings on behalf of the Nordic-Baltic constituency in the Fund.
First, I would like to welcome the representatives of the Democratic Republic of Timor-Leste, which has just joined the IMF as its 184th member.

To make globalization work for all presents a challenge, and the Fund has taken on this challenge. The Fund has also adapted to the new financial environment that is characterized by liberalized capital flows. More emphasis is now given to make conditionality more effective and simple as well as to financial stability issues. The Fund is a much more active participant in the fight against poverty in member countries. Similarly, the Fund has responded well to the need to make its policies more transparent.

These Annual Meetings take place against the background of a series of financial crises—this year in Latin America and Turkey—that have necessitated very large IMF loans. The crises demonstrate once again the importance of sound economic policies in order to reduce vulnerabilities from globalization and the need for strengthening Fund surveillance.

The Changing Role of the Fund

Traditionally, our constituency has emphasized the importance of keeping the Fund focused on its core functions, such as macroeconomic policy advice and catalytic balance of payments financing. However, the Fund must also respond to the challenges of the changing international environment, as it has done, but within its mandate.

The need for the Fund to collaborate with other international financial institutions has also increased in order to avoid duplication of work and to ensure that Fund programs properly reflect each country’s own strategy and the programs of other international financial institutions.

It is important to keep in mind that the Fund’s main source of financing is member states’ quota subscriptions. The revolving character of the Fund’s resources must be preserved. Careful examination is therefore required where the Fund considers stepping into new territory.

The Fund’s Role in the Fight Against Money Laundering and the Financing of Terrorist Activities

The Nordic-Baltic constituency very much supports the launching of an anti-money laundering pilot project where the Fund and the Bank, in collaboration with the Financial Action Task Force, will survey how member countries seek to combat money laundering and the financing of
terrorism. The Nordic-Baltic countries have implemented the measures to combat money laundering and the financing of terrorism as recommended by the UN, the international financial institutions, and the Financial Action Task Force.

**Achieving the Millennium Development Goals**

The Fund has been an important participant in the two conferences arranged this year by the UN to discuss policies to achieve the Millennium Development Goals: the Financing for Development Conference held in March in Monterrey and the World Summit on Sustainable Development just held in Johannesburg. We in the Nordic-Baltic constituency find it important that the Fund—within its mandate and expertise—be part of these global efforts.

**Fund Quotas**

My constituency finds it important that the Fund remain well capitalized. The Fund should only rely on its various borrowing arrangements in truly exceptional circumstances. The Fund’s liquidity position is at a satisfactory level so far, but we need constantly to assess developments to ensure that the Fund is capable of meeting future demands for its resources.

Fund quotas need to be regularly reviewed through a transparent and simple procedure with a view to reflecting changes in the world economy, the international financial system, and the ability to contribute. Efforts must also be made to bring better alignment between members’ actual and calculated quota.

**Changing the Fund’s Surveillance Role: Crisis Prevention**

We welcome the recent review of the Fund’s surveillance practices and, in particular, the emphasis on improving the effectiveness of such surveillance by strengthening the coverage of the authorities’ response to past policy advice. We agree that Fund policies on surveillance must be under constant review, but we are not in favor of recent proposals to introduce new formal arrangements for separating the surveillance function from that of program monitoring. Nevertheless, a certain independence between these two functions may well be useful.
Many countries have already agreed to accept publication of staff documents that describe the developments in their economies and the Fund's assessment of their policies. We encourage all countries to follow suit. There should be a presumption—but no obligation—in favor of publication of such reports. Publication will enhance the quality of the policy debate, not only in the country itself, but also globally.

The experience of the financial crises in the 1990s has clearly demonstrated the need to reduce vulnerabilities in the financial sectors and has highlighted the importance of good governance, accounting, and auditing practices. The Financial Sector Assessment Program is an effective framework for expanding the international institutions' increased surveillance role in this area.

In view of the considerable resources needed to prepare FSAP reports, it is important that the Fund's work be well targeted. The Fund's principal role in the financial field is not to develop codes and standards outside its core mandate, but rather to use its broad surveillance mandate to monitor how internationally agreed codes and standards are implemented in member countries.

The Fund's surveillance of industrial countries' trade policies, and its effect on developing countries, should be strengthened. Further opening up of industrial countries' markets should be even more explicitly encouraged than today, and the impact that subsidies have on prices, production, and market access should be analyzed. The benefits of increased trade between developing countries themselves should also be analyzed further. In these endeavors the Fund should work closely with the WTO.

Crisis Resolution and Private Sector Involvement

Large financing packages for member countries were again put together in 2002. For Brazil, Turkey, and Uruguay programs have been approved implying drawings on the Fund at levels exceeding normal access limits by large margins. Argentina has outstanding drawings that far exceed normal access limits.

We welcome the work to clarify the Fund's policy on access to its resources. More work has to be done to improve debt sustainability analysis and to establish clearer guidelines for the Fund's exposure to individual countries. In Prague, we agreed on a framework that relies on a combination of domestic adjustment, official financing, and private sector involvement. Making this framework operational has been difficult due to the lack of adequate clarity and predictability. Although market-oriented solutions and voluntary approaches are preferable to
ensure the participation of the private sector, experience suggests that a more predictable framework needs to be developed. This will establish greater discipline, clarity, and transparency about the level of official financing and exert additional pressure on private investors. Such a framework should ensure that Fund credit beyond normal access limits would be provided only in exceptional cases and subject to special criteria and procedures, including debt sustainability analyses and assessment of prospects for a return to market access.

Including collective action clauses in sovereign bond contracts would facilitate debt restructuring. In this respect, we welcome the initiative by the EU to lead by example in including majority action clauses and collective representation clauses in government bonds issued under a foreign jurisdiction. We welcome the work on wider use of these clauses in tandem with continued work regarding the proposal on a Sovereign Debt Restructuring Mechanism. The SDRM should be seen as a part of a more comprehensive framework for dealing with financial crises and should, therefore, be developed not as an alternative to, but in parallel with, other initiatives to clarify and strengthen private sector involvement.

We also welcome the work on establishing clearer rules for IMF lending to countries in arrears to their private creditors. A code of conduct, even in such extreme circumstances, can provide a more predictable framework and a sounder climate for collaborative solutions. The debtor countries must be prepared to inform creditors about their economic problems and the financial circumstances that justify a debt restructuring, including a comprehensive picture of the treatment of claims held against the country. We will also stress the importance of debtors observing the principle of securing equity in the treatment of different creditor claims.

The Fund's Role in Low-Income Countries: The HIPC Initiative and PRGF Programs

The Fund has an important role in assisting the low-income countries, assuring macroeconomic stability, and achieving long-term debt sustainability. Poverty reduction has been given increased priority in development policy, both among donors and receivers of aid. Achieving macroeconomic stability is essential for poverty reduction strategies to be successful. But it is also important that the population at large understands the reason for Fund programs, and that these programs be made integral parts of the country's own poverty reduction strategy. The Fund has a limited mandate, and its role in development policy is primarily
concentrated on assisting countries in achieving macroeconomic stability. We welcome the continued efforts to enhance cooperation with the World Bank, whose mandate lies much closer to these important targets.

We in the Nordic-Baltic constituency strongly support the enhanced HIPC Initiative. Long-term debt sustainability is the key to ensuring poverty reduction in the countries eligible for support under the HIPC Initiative. We welcome that 26 countries have reached their decision point. The HIPC Initiative was conceived as the most comprehensive and ambitious program to foster long-term debt sustainability for developing countries. It is important that all parties to this agreement be able to fulfill the role assigned to them, and that the countries that benefit from support also maintain their stabilization efforts when the debt reduction has become effective. Policies must not revert to the old pattern with bad governance, unstable economic policies, and debt accumulation. For certain countries, where adverse external factors have eroded the debt sustainability target agreed on, there will be a need for additional finance after they have reached their completion point. Additional bilateral contributions will be needed. We call on all stakeholders, including the Fund and the Bank, to initiate at an early stage a discussion on securing the necessary financing through equitable burden sharing.

Concluding Remarks

For some years, the Fund has been engaged in a comprehensive adjustment process with a view to adapting its handling of international economic and financial challenges to changing circumstances, rendering it more open and accountable. The Fund has taken important steps to adapt its organizational setup, and measures have been taken to increase transparency. I find it appropriate to take this opportunity to commend the exceptional dedication and high quality of IMF management and staff.

However, further work is needed to make the Fund a more efficient institution. Recent events have clearly demonstrated the need for the Fund to improve its surveillance of debt dynamics. Better debt sustainability analysis will be instrumental in crisis prevention and crisis resolution in the future.
I am pleased to address the 2002 Annual Meetings on behalf of Estonia, Latvia, and Lithuania.

I would like to concentrate upon an issue that is particularly relevant for us. What I have in mind is the new dimension of cooperation between the Baltic countries and the World Bank.

As a result of September 11, 2001, we have seen a continuing slowdown of global economic growth and reduced investor confidence in 2002. However, the annual rate of growth in the three Baltic states has remained around 5 percent. That gives us confidence in the stability of our economies. The adoption of European Union legislation, and the introduction of best practices in general, have provided us with a strong foothold for sustained growth, and our liberal economic policies have been delivered from that base. We believe that this stability of growth indicates, as also the European Commission has indicated in its regular reports, that the Baltic states have fully functioning market economies and that the transition period is over. This assumption is also supported by a World Bank study on transition.

Our position regarding the international financial institutions is changing respectively with our economic development. The recent graduation from IMF-approved policy programs and the expected graduation from World Bank lending eligibility indicate that our role as contributors in these institutions is increasing as our role as recipients is diminishing.

We highly appreciate the Framework for World Bank Group Support to European Union Accession Candidate Countries of Central and Eastern Europe, which the Bank has worked out to design specific assistance strategies for the EU candidate countries. The Framework establishes the practice of drawing on the EU candidate countries’ empirical lessons of transition and development for the benefit of the transition economies, hence supporting the new dimension of EU accession countries as equal partners of the Bank. We support the Bank’s view that the future configuration of lending and advisory services in these countries should be determined by reference to the World Bank’s graduation policy. At the same time, the Bank’s activities in these countries should be based on close cooperation with the European
Commission, remain highly selective, and focus on each country's political realities and economic needs.

An issue on the Bank agenda that we would like to emphasize briefly is the Bank's strategy toward middle-income countries. We find addressing the specific attributes of middle-income countries especially necessary, considering that the majority of the poor lives in middle-income countries and the particular vulnerability of emerging economies as demonstrated by recent developments in Latin America. To avoid the recurrence of similar crises, we believe it is particularly important to focus on preventive measures in the implementation of the strategy.

Finally, I would like to express our appreciation for the present fruitful cooperation with the World Bank and the International Monetary Fund, and hope for the continuation of mutually rewarding efforts in the future.

STATEMENT BY THE GOVERNOR OF THE BANK FOR FIJI

Jone Yavala Kubuabola

It is indeed a great honor to address the 2002 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group. First of all, let me welcome Timor-Leste to the membership of the Bank and the Fund. Also, allow me to congratulate H. E. Ahmed Bin Abdulnabi Macki, Governor of the Bank and the Fund for Oman, on his election as Chairman.

We have just passed the first anniversary of the very tragic events that occurred in the United States. The doomsday scenarios for the global economy that many economists and analysts had predicted did not occur, largely owing to the decisive and concerted policy actions of industrial countries. Now world economic growth has resumed, with much of the strength of global growth riding on the performance of the U.S. economy. We are hopeful that world growth will continue, as it will have favorable flow-on effects on the economic fortunes of developing countries.

I would now like to touch on the issue of financial crises. The intensity and frequency of these crises are increasing. A few years ago, the region affected was Asia, more recently it is Latin America. The severe, adverse impact of financial crises on small developing countries,
either directly or through contagion, highlights the need to avoid such occurrences and for their quick resolution when they do occur. In this respect, I urge the Bank and the Fund to continue to search for ways to strengthen surveillance and prevent crises. In our efforts to resolve crises we must avoid applying universal solutions but, instead, search for strategies that suit specific countries. The Bank-Fund Financial Sector Assessment Program and Reports on Observance of Standards and Codes have established a valuable framework for helping countries strengthen their financial and economic systems.

Fiji reaffirms its support for international and national efforts to combat money laundering and terrorist financing. The Fund and the Bank should help our efforts on this front by building capacity and identifying the policy and institutional foundations necessary to reduce risks of financial abuse.

I would like to highlight three topical challenges from the perspective of developing countries, in general, and small island states, in particular.

First, on poverty reduction, I commend the Bank’s and the Fund’s efforts to work with countries to analyze the poverty and social impact of programs and to help them build their own capacity. Partnership facilities and initiatives, such as the Poverty Reduction Strategy Paper process and the Poverty Reduction and Growth Facility enable countries to better address the needs of the poor and to uplift their living standards.

I also applaud the efforts put in place to achieve the Millennium Development Goals; more specifically, the targets of halving world poverty and providing universal primary education by 2015. We urge the Fund and the Bank to continue to assist countries in meeting the MDGs by supporting the PRSP approach and providing concessional financing under the PRGF and IDA. Continuing efforts need to be made by the Fund and the Bank to explore sources of growth in developing countries and deepen the systematic analysis of the economic and social impact of major policy choices.

Second, on the issue of globalization, I would like to reaffirm the importance of trade as a source of growth and poverty reduction. In order to create a favorable environment for development, I ask the Bank and the Fund to help developing countries improve market access, especially in products and services where developing countries have a comparative advantage. The effective participation by developing countries in the new round of multilateral trade negotiations is essential to ensure that the benefits of globalization reach all countries. In this regard, the Fund and the Bank can again play an active role in capacity building and in coordinating trade-related technical assistance.
Third, we all acknowledge that structural reforms are necessary to simultaneously eliminate obstacles to growth and strengthen the resilience of our economies. It is also well known that the implementation of reforms is easier said than done. Let me add, that Fiji is committed to implementing reforms but needs assistance in capacity building and the mitigation of social costs.

Allow me to now provide a brief update on political and economic developments in Fiji. I am pleased to say Fiji has returned to democratic rule, and the elections were pronounced fair and free by international observers of the United Nations and the Commonwealth. Confidence is returning, and our tourism industry, which is the backbone of our economy, is expected to post a new peak this year. We thank the IMF for its Article IV report on Fiji. I am happy to say that the report endorsed our assessment that the Fiji economy has bounced back strongly after the decline in 2000. We grew by 4.3 percent last year. All sectors of the economy are growing, with the exception of sugar. Economic growth for this year is forecast at well over 4 percent and is expected to rise to close to 6 percent next year. Inflation remains low, currently below 1 percent, and our foreign reserves position is healthy. At the same time, we acknowledge the concerns raised in the Article IV report and are addressing these areas, particularly the issue of land leases and the restructuring of the sugar industry.

Mr. Chairman, I would like to comment on the approach of the World Bank to the small Pacific island member countries. Despite the establishment of the Sydney office, I am of the view that the Bank still needs to enhance its presence in the region. I therefore strongly encourage the Bank to reassess its Pacific island strategy. Its future strategy should adopt a more proactive role and be tailored to address the specific vulnerabilities of small island economies like Fiji. Our priorities are building capacity through technical assistance, and policy advice.

On money laundering, I am happy to say that a review, recently completed by the Asia Pacific Group, concluded that Fiji’s existing laws and systems are generally adequate. In addition, the government is developing an action plan on Fiji’s compliance with the IMF’s Code of Fiscal Transparency following a review by a Fund mission. Fiji has also agreed with the Fund on a Financial Sector Assessment Program later next year.

I would like to compliment the Fund for its assistance to Fiji. Technical assistance has been provided in the areas of insurance supervision, the payments system, exchange rates, and a review of our monetary policy framework.

Let me conclude by thanking the Fund and the World Bank for their continuing advice, support, and assistance to Fiji. We appreciate and
value the assistance in human resource development, infrastructure, institutional strengthening, and economic and financial policy advice. We commend the services provided by the Pacific Financial Technical Assistance Centre (PFTAC) and thank the Fund and other donors for their continued support in this and other areas. I wish the Fund and the World Bank well in their future endeavors.

STATEMENT BY THE GOVERNOR OF THE BANK FOR FINLAND

Sauli Niinisto

I am pleased to have this opportunity to address the Joint Annual Discussion on behalf of the Nordic countries in the World Bank. Let me also welcome the Democratic Republic of Timor-Leste as the latest member country of the Bank.

In my remarks, I will briefly discuss the implications of the global economic environment for the financing of developing countries and for the finances of the Bank, comment on the role of the Bank in implementing the Monterrey Consensus, and offer some remarks on the very timely question of debt sustainability.

The Global Economy and Its Implications for the Bank

The global economic situation is marked by considerable uncertainty. Several factors in the United States, the Euro area, and Japan indicate that prospects for global recovery do not seem very promising. Moreover, Latin America is facing problems with potential repercussions for the global financial market. These developments in Latin America are an important new example of the need to maintain credibility, especially in cases of high indebtedness.

There are indications that financial flows to developing countries have been affected by Argentina's debt default and increased political uncertainty in some major developing country markets. However, while net debt flows have been particularly affected, equity investments such as foreign direct investment (FDI) have fared markedly better. The declining trend in foreign borrowing by developing countries is not all bad; in the current circumstances, there is a need to focus more on preventing
excess indebtedness early enough, particularly in developing countries, because over-indebtedness clearly reduces possibilities for active poverty reduction programs.

Current unrest has implications for the financial situation of the World Bank. Demand for official sector loans will increase as market supply for loans to emerging market countries and developing countries diminishes. At the same time, the Bank is facing a deteriorating credit portfolio as a result of the global economic environment. We must emphasize the need for prudent risk management in these circumstances, which means adequate reserves and loan loss provisioning. We should also consider the need to rethink lending policy and link it to policies ensuring debt sustainability in debtor countries.

*The Role of the World Bank in Implementing the Monterrey Consensus*

Conferences in Doha, Monterrey, and Johannesburg have advanced common understanding and rooted common commitments to accelerate the implementation of the Millennium Declaration. This process has been an important expression of increased multilateralism in the economic and political relations of countries.

We now have a commonly agreed framework for measuring development results embodied in the Millennium Development Goals. Although there are obvious advantages from explicit policy targets, we should note that implementation, monitoring, and data reliability issues require close collaboration among the Bretton Woods institutions, the United Nations, and the World Trade Organization.

There is an emerging consensus on development process and policy requirements. Allocation of responsibilities is important: sound policies and good governance form the basis for all countries, and developing countries implementing them should be rewarded with increased and more effective development assistance and market access. Liberalization of trade and increased market access opportunities are key elements that can significantly help the development process. The Bretton Woods institutions should support the process within their mandates, although the multilateral Doha round will be of vital importance. However, steps can be taken quite quickly if political will exists, as the “everything but arms” initiative demonstrates.

The role of the Bank in implementing the Monterrey Consensus is crucial. The Bank should work in partnership and in cooperation with international financial institutions, the UN, and the WTO. Division of labor could be strengthened based on the comparative advantage of these institutions. Intensified cooperation requires the harmonization and
simplification of procedures to facilitate effective aid. Indeed, the effectiveness of aid and measurement of progress are key questions.

We should also note that incentives created by aid are important. Aid should be targeted primarily to countries that succeed in achieving domestic preconditions for sustained financing of growth. In this respect, we welcome the IDA performance-based allocation. Data show that the best performers receive considerably more IDA loans than the worst performers. But naturally, the Bank should also devote attention to countries willing, but so far unable, to do what it takes to be among the best performers.

The Bank should follow a country-led approach. There is a consensus that ownership is a crucial precondition for successful programs. Ownership can be enhanced by effective use of the PRSP approach, with the aim of developing stronger institutions and policies in recipient countries. Policies against corruption should be emphasized as a major determinant of the investment climate. We already have positive experiences from the PRSP approach, and the next step is effective implementation.

**Debt Sustainability**

Debt relief has become a key part of the current development policy because over-indebtedness has caused financial crisis or generally impaired growth and poverty reduction. The HIPC Initiative and models for sovereign debt restructuring are examples of methods to tackle this problem. But a word of caution is needed: these approaches all have a potential weakness, if they are implemented as one-time solutions without a change in policies.

What is needed is lasting results from debt relief and restructuring arrangements. PRSP programs, debt relief, and lending from international financial institutions should be based on a careful analysis of debt sustainability, which is based on realistic assessment of future growth of production and exports. The role of sound policies must be emphasized. Recipient countries should borrow new net debt only if capacity to carry debt increases.

In some HIPC cases, the question of “topping up” arises when debt levels are still unsustainable because of exogenous reasons, even after receiving full relief at the completion point. While flexibility in implementing topping up is needed, it should be noted that significant long- to medium-term shocks should be considered in this regard. Also, the principle of fair burden sharing should be applied for topping up. We should avoid using the IDA grant component to bail out lenders who do
not contribute under the existing framework. Generally, it is important that the Bank clarifies policies related to the use of IDA grants in respect to HIPC's.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR FRANCE

Jean-Claude Trichet

We are gathering today in the context of a very challenging situation for the world economy and the Bretton Woods institutions. Policymakers are committed to restore confidence against the background of a weaker than expected recovery, unresolved financial and external imbalances, and difficulties in some emerging market economies. In spite of this difficult context, advanced economies should not step back from their commitment to reduce poverty and to support the Bretton Woods institutions in their endeavor to foster a sustainable development strategy.

The expected recovery is under way but uncertainties remain and serious issues need to be addressed

Since last April, growth prospects are less bright than previously expected, in spite of accommodative fiscal and monetary policies. In addition, the prospect for recovery is hampered by the persistence of imbalances and the lack of structural reforms. Confidence has also been affected by the situation on financial markets and the uncertainties surrounding the quality of financial reporting, accounting practices, and corporate governance. Action is under way to address these weaknesses and to restore confidence.

The indebtedness of nonfinancial agents is rising in the United States, and, to a lesser extent, in the euro area. The significant increase in housing prices has contributed to partially offset the negative wealth effects entailed by falling stock prices, but appropriate attention must be paid to avoid the formation of a real estate bubble.

Widening financial imbalances have contributed to the deterioration of external current accounts. In this respect, the situation in the industrial countries, considered together, remains a serious issue. According to
IMF data, industrial countries as a whole have been running an increasing current account deficit since 1998, which would remain at a very high level over the 2002–03 period. This means that investment growth in more advanced economies continues to be significantly financed by the savings of the rest of the world, which should not be a permanent feature of the global economy.

Finally, in the industrial world, as well as in emerging and transition countries, structural reforms are of the essence in order to raise the level of growth potential, and contribute to sound and sustainably higher activity.

*Our current initiatives on preventing and resolving financial crises are promising*

Our action in preventing and resolving crises is being strengthened in three areas.

First, we have collectively reaffirmed that a precondition for orderly crisis management relies upon more predictable decision-making processes regarding the use of Fund resources. In that regard, the presumption of clear access limits to Fund resources is key. Recent discussions are positive steps in this direction.

Second, mounting concerns about debt sustainability in emerging countries press us to design and develop instruments to address debt restructuring problems. In this regard, I welcome the prospect of concrete progress on the contractual approach achieved through the work of the G-10 on models for collective action clauses in sovereign bond contracts. We expect strong involvement by market participants and issuers in this project in order to promote a wider use of such clauses. European Union countries have committed themselves to this process by pledging to include such clauses in their bonds issued under foreign jurisdictions. Progress has also been made on the proposals put forward by IMF management for a new mechanism for restructuring sovereign debt, and we should be in a position to consider a concrete proposal at the next spring meeting. To contribute to reaching this objective, we should without delay build upon work already done to write down a code of appropriate conduct for concerted and informal debt restructuring. Indeed, it has been our constant experience that agreed common principles have always been beneficial to global financial stability.

Third, increased transparency and governance in the international financial system is needed. In particular, it is important to support the efforts made by the FSF and IMF to enhance transparency in offshore financial centers and the work within the OECD on harmful tax
competition. The decisions by the Executive Boards of the IMF and the World Bank to enhance their mobilization in the fight against money laundering and terrorist financing, in conjunction with FATF, are very much welcome, and we are looking forward to reaping the benefits of their implementation.

Reaching a sustainable development for all calls for a new momentum

In Doha, Monterrey, and Johannesburg, the international community intensified its action to reduce poverty and promote sustainable development.

The European Union has made considerable efforts to promote developing countries’ exports. More than 40 percent of the EU’s imports now come from developing countries, and it buys two-thirds of Africa’s exports. Its generalized system of preferences is one of the most generous in the world, and its “Everything but Arms” initiative adopted last year is a key contribution to the poorest countries. If all industrial countries were to adopt this initiative, it would create a powerful leverage effect for poor countries’ exports.

The IMF and the World Bank should encompass their trade approach in a broader and comprehensive trade and development agenda. The IMF should also make proposals for concrete support, more specifically for managing the transitory negative effects of opening up markets. The Poverty Reduction and Growth Facility has to play a strong role, which means it is critical to ensure that the facility is maintained.

At a time when certain emerging markets are once again coming under inflationary pressure, it may not be amiss to remember the dent made by excessive inflation in the purchasing power and living standards of the poorest households. Price stability must remain one of the priority objectives of economic policy in order to ensure sustainable growth. This naturally calls for a sound monetary policy, as well as a tight budgetary discipline. We should not forget that inflation acts like a tax, but it is a tempting solution for the least demanding governments, since its consequences seem painless.

Among the several instruments and initiatives that aim at achieving progress toward sustainable development, I would like to focus on four of them.

The first is obviously official development assistance. It needs to be increased, as we agreed in Monterrey, while not losing sight of the quality of assistance. This is not only necessary if we want these large flows to be managed efficiently, but it is also what developing countries want. President Chirac announced in Johannesburg that French ODA will
rise to 0.39 percent of GDP in 2003, 0.5 percent by 2007, and 0.7 percent within 10 years. According to the 2003 budget request, France will devote 0.39 percent of its GDP to ODA, which confirms that we are already progressing toward this goal. France expects to achieve this aim with newly developed bilateral cooperation instruments, particularly “debt reduction and development” contracts.

Second, sustainable development also requires a strengthened real economy in the poor countries, in particular small and medium-size businesses and infrastructures. The initiative launched in Johannesburg by President Chirac and Prime Minister Blair will generate new investments of at least €1 billion, leveraged by the €100 million to be made available by both countries. We call on other donors to join this initiative.

Another significant step toward sustainable development is the NEPAD initiative proposed by African nations. When implemented, it will provide a framework for political and economic governance geared to effective large-scale assistance for a continent with enormous needs.

Finally, the HIPC Initiative should be fully implemented. The HIPC Initiative provides substantial support in terms of debt reduction and increased social expenditure. I note that the initiative is being implemented more slowly than we would like. However, speeding up implementation should not result in undermining the quality of the economic programs agreed within this framework. France will take its full share of a new replenishment of the HIPC Trust Fund.

In a context of doubts regarding the strength of the global recovery and political uncertainties in several emerging economies, the Annual Meetings of the Bretton Woods institutions provide a new opportunity to reaffirm the key role of these institutions, under the leadership of Horst Köhler and James Wolfensohn, in preserving global financial stability.

STATEMENT BY THE GOVERNOR OF THE FUND FOR GERMANY

Ernst Welteke

I am delighted that, following the exceptional circumstances last year, we are now able to hold the Annual Meetings in Washington again. Although the security situation has forced a shortening of the meetings this time as well, I am confident that we shall get back into the normal
swing of things. In my view, it is extremely important that we have enough time to talk to each other, so that we can find a joint solution to the problems at hand.

More than ever before, the IMF and the World Bank are institutions with a universal membership. I welcome the Governor of Timor-Leste, the accession of whose country has increased the membership of both institutions to 184.

In its recent analyses, the IMF has been drawing a cautiously optimistic picture of the world economic situation. Even so, the risks have increased: there appears to be excess capacity and major pressure to adjust in important sectors, such as TMT; many structural issues are still unresolved, not only in the developing and emerging-market economies but also in many industrial countries; dubious accounting practices in some areas have eroded confidence; there continue to be severe balance of payments disequilibria owing to inflationary tendencies in financial assets, which harbor the risk of abrupt adjustment processes; symptoms of crisis may still be observed in a number of emerging markets; there are geopolitical uncertainties; and, sharp adjustments on the stock markets have dented consumer and investor confidence.

But we should not overlook positive aspects. For the world as a whole, growth in 2002 and 2003 is also pointing upwards; the slump in growth is likely to have bottomed out; adjustments on the stock markets seem to be well advanced; and, price stability appears to be largely ensured.

We should take temporary weaknesses as warning signs and as an opportunity. We have to recognize the causes and remedy them. As we see it, the crucial factors are the following:

- Further work has to be done on consolidating government budgets so that we then have enough leeway to take countermeasures when times are bad.
- Monetary policy has to be medium- and long-term in its orientation and geared as a priority to stable prices; in that way, volatile exchange rates also will be avoided.
- Furthermore, structural policy should not be determined by short-term expedience; it should look forward and promote new opportunities for growth.

Sound fundamentals are essential not only for the advanced economies but also for the emerging markets and developing countries. Financial crises do not occur by coincidence but are due to flawed economic policies. Affected countries should seek to reduce their vulnerability by taking corrective measures and by creating more prudent
financial safety margins. Precautionary measures may be inconvenient and, sometimes, have some short-term costs. But financial crises are the clearly inferior alternative.

We therefore welcome the continuing work of the IMF on improving surveillance and crisis prevention. I think we have made progress in those areas during the past few years. Standards and codes have undoubtedly played a part in that and seem to be meeting with increasing acceptance. In my view, however, that, on its own, is not enough:

- In many countries, good governance could help to improve the economic situation.
- In other countries, more effective banking supervision could help to prevent financial crises.
- Greater transparency in yet other countries might contribute to improved economic policy.

Crisis resolution is always a last resort. For that reason, we need a strategy in which crisis prevention is a key element.

From the German point of view, a credible access policy confined to normal access limits is absolutely essential. Investors have to reorient themselves more strongly to the real risks and must not rely on assistance from the public sector. They have to be fully aware that, in the event of a financial crisis, they could also be directly affected themselves.

Even so, there may be exceptional circumstances under which exceptional access to IMF resources might be justified. Any decision on exceptions of this kind would have to be based on well defined criteria, however, and should also entail special formal approval procedures within the IMF. The sustainability of a country's debt situation is a necessary precondition for both access to Fund resources above normal limits and the restoration of access to private markets. In such cases of exceptional access, particular consideration should also be given to the extent to which balance of payments problems could, by their character or size, threaten the stability of the international monetary system.

All things considered, it should be clear that no amount of precautionary measures can stop individual countries from becoming insolvent and having to restructure their debt in the future. Germany therefore fully supports the current work being done on developing orderly rescheduling procedures. Reliable, orderly, and rapid procedures are needed to create sustainable solutions and to provide opportunities for a new start.

In the ongoing general review of quotas, the right incentives have to be put in place. A sharp increase at the present juncture would send out the wrong signals. The IMF possesses adequate liquidity. Providing the IMF with overabundant resources might give rise to the expectation of
large-scale financing packages and thus run counter to our efforts to involve the private sector. Also, quotas should remain the primary source of Fund liquidity and more closely reflect the member country's relative position in the world economy.

As far as the developing countries are concerned, we fully endorse the Monterrey proposals on the financing of international development objectives. That also goes for the Johannesburg resolutions on sustainable development.

In that light, we continue to support the implementation of the HIPC Initiative. Those HIPC countries that have not been able to make use of the initiative thus far should put in place the conditions to do so. Also, as many creditors as possible should take part in the initiative.

Ultimately, poverty can be alleviated only by means of higher growth. The IMF can play a part in creating the macroeconomic conditions to make that possible. The World Bank should help to implement the necessary microeconomic reforms. And the industrial countries, as well as the developing countries themselves, should continue to reduce their import restrictions; by doing so, they would play a significant and effective part in aiding development.

STATEMENT BY THE MINISTER OF ECONOMY AND FINANCE FOR GREECE

Nikolaos Christodoulakis

It is a great pleasure and a privilege to address the 2002 Annual Meetings of the Governors of the Bretton Woods institutions.

Let me first join previous speakers in welcoming the Democratic Republic of Timor-Leste as a new member of the Fund and the Bank, and of our constituency. I also wish to express my appreciation to Mr. Köhler and Mr. Wolfensohn for their continued dedicated service to our institutions and, in particular, for their efforts to ensure that globalization works for the benefit of all.

It is customary in these meetings to outline economic developments in each country. I am pleased to inform you that the Greek economy continues to do well. Despite the international economic slowdown, real GDP in Greece is expected to grow this year by about 3.8 percent, and the prospects for 2003 are quite positive. The fiscal policies followed over the last few years succeeded in stabilizing public finances and
broadly balancing the general government budget. Inflation is still higher than the euro area average, and this will continue to be of concern.

Structural reforms focus on liberalizing and improving the functioning of markets by, inter alia, containing the role of the state and putting in place a clear and transparent legal and regulatory framework within which market agents operate. To this end, our telecommunications sector has been fully liberalized since 2001, and progress has also been made in increasing competition in electricity generation, maritime transport, banking, tourism, and other sectors. Proceeds from privatization will exceed 1.5 percent of GDP this year, one of the highest levels in recent years in the European Union. This year, we have also introduced legislation for a major reform of our tax system and have taken steps, in cooperation with social partners, to improve the funding of future pension liabilities. To raise productivity further, we have placed increased importance on the reorganization of the public sector and on improving the public health services, education, and work practices.

Structural reforms, fiscal discipline, and high public investment in infrastructure and for the Olympic games of 2004, along with robust private investment, are expected to contribute to a sustained high rate of economic growth in the coming years and a rapid convergence of the standard of living with the average of the European Union.

In the spirit of the Lisbon agenda for structural reforms, we have already taken steps to exploit fully the opportunities offered by information and communication technologies to raise output and provide a longer-term boost to productivity growth. In this effort, we are channeling the resources of the Community Support Framework to their best use. At the same time, we are also assuming an increasingly important role in the reconstruction of the Balkans.

The recovery of the global economy, which started at the beginning of this year, seems to be less robust than initially expected. The outlook, although on balance positive, is clouded by significant downside risks. These stem in part from the persistence of imbalances between and within the major economic areas of the world, but they are compounded by the collapse of equity prices and the erosion of confidence in corporate governance, the current high level of oil prices, and the unsettled security situation in the Middle East.

To counter these risks and preserve the stability of the international monetary system, we need to reinforce our commitment to international cooperation. We need to focus attention on restoring confidence in the stability and integrity of market institutions, while also working together to resolve macroeconomic imbalances. At the same time, we need to further enhance our capacity to prevent and resolve crises.
Over the past year, the Fund has made considerable progress in strengthening the effectiveness of its surveillance policies, which is essential for the prevention of crises. I welcome, in particular, the new instruments that the Fund has developed to facilitate the timely detection and correction of vulnerabilities in national financial systems and global capital markets and the growing attention it has been paying to debt sustainability analysis. Nevertheless, financial crises continue to occur with disquieting frequency. At the same time, we need to strengthen further the framework for the resolution of sovereign liquidity and solvency crises. In this context, I welcome the emphasis on streamlining program conditionality and on improving its focus, while also reinforcing its collaboration with the Bank and other IFIs. I look forward to clarifying the criteria for exceptional access to the Fund's financial resources and to developing both the contractual and statutory approaches to sovereign debt restructuring.

The weakening of global macroeconomic prospects has particularly adverse implications for developing countries. We urgently need to translate into concrete actions the consensus reached in Monterrey and Johannesburg. In this connection, it is important to monitor progress toward the attainment of the Millennium Development Goals in the global effort to reduce poverty and promote development.

The World Bank, working closely with the Fund and the donor community, must intensify its efforts in developing operational tools to deal with particular problems in low-income countries. Special emphasis must be paid to finance and knowledge instruments while exploring new avenues to address directly the problems of the large proportion of poor people residing in these countries. In order to assist low-income countries to meet the 2015 MDGs, a focus on sound macroeconomic management, institutional capacity building, and basic social service delivery to the poor must be emphasized. Measures to improve policy performance must be embedded in the PRSP process. Close monitoring and evaluation of agreed outcomes on the basis of results-oriented indicators are also essential in measuring the effectiveness of assistance.

I would also like to acknowledge the continued progress made to date under the enhanced HIPC Initiative. The enhanced HIPC framework continues to provide a sound basis for debt reduction in HIPCs. In this context, we urge the Bank and the Fund to focus on long-term debt sustainability in HIPCs that will, inter alia, require a broader set of actions by the HIPCs and the international community alike. The HIPCs must continue to make progress on their economic and social policies. For their part, industrial nations must respond by opening their markets—as gains from increased trade would far exceed even the most ambitious debt relief scheme—and by ensuring that financing on appropriately
concessional terms remains additional to debt relief. Removing barriers to trade will also assist in generating opportunities and in reducing aid dependency, while empowering people and countries with additional development means. We need to stress the importance of paying renewed attention to the sources of sustainable growth, poverty, and social impact.

Effective policies to combat money laundering and the financing of terrorism are necessary in order to safeguard the stability and integrity of the global financial system. I am pleased to note the considerable progress achieved so far in implementing major aspects of the AML/CFT action plan. I am, nonetheless, mindful that strengthening the AML/CFT regimes worldwide will involve capacity building, strengthening of financial sectors, and supervisory reforms in the medium to long run. We encourage the Fund and the Bank to continue developing comprehensive AML/CFT assessment methodologies and to step up the implementation of technical assistance, and we look forward to the final report at the 2004 Annual Meetings, following the 12-month pilot program in 2003 of AML/CFT assessments and accompanying ROSCs.

Monterrey, Johannesburg, and Doha give us important opportunities to fight marginalization and underdevelopment. Let us learn from our experiences, and share the vision for a world free of poverty. Let us make globalization not a terrain for new inequalities, but an all-inclusive process that works for the benefit of all.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR GRENADA

Anthony Boatswain

I have the honor to speak on behalf of the Member States of the Caribbean Community (CARICOM). I express appreciation to the management and staff of the Bank and Fund for the excellent arrangements that have been made for these meetings. I also wish to convey our deep appreciation to our host, the United States of America, for the unprecedented effort to provide security for the meetings.

Our meetings take place against a particularly challenging global environment with heightened risks to the pace and sustainability of the weak world recovery now under way. Developing countries need to guard against the risks and vulnerabilities posed by tightened financing
conditions, a sustained decline in non-oil commodity prices, the recent increases in oil prices, and the unequal application of the rules governing international trade and investment. Within this context, we support the call for the international community to move from words to action to implement the Doha, Monterrey, and Johannesburg Agreements in order to improve our collective efforts to achieve the Millennium Development Goals. We strongly urge the international community, especially the IMF and the World Bank, to provide more timely, stronger, and comprehensive support to these efforts.

The CARICOM economies are in a most difficult and precarious situation. Small and highly open, they are extremely vulnerable to international economic developments, such as WTO liberalization programs and the loss of preferential markets; reduced net inflows of foreign capital, especially official development assistance; and unanticipated increases in expenditures for international security. Seven of our 11 most important commodity exports in 1995 experienced price declines and lost market share in 2000. Tourism, vitally important for foreign exchange and employment, declined dramatically as a result of the events of September 11, 2001.

Our economies are also vulnerable to natural phenomena, such as hurricanes and tropical storms, which annually destroy production and economic and social infrastructure, forcing capital replacement rather than capital accumulation. Even as I speak, Jamaica, St. Lucia, Grenada, Barbados, and St. Vincent and the Grenadines are suffering from the effects of tropical storm Lili and hurricane Isidore.

In response to our current economic challenges, many of our countries have undertaken a wide range of reforms to stabilize our economies and stimulate growth. In addition, CARICOM Heads of Government convened a special summit in St. Lucia last August and agreed on a regional framework geared toward stabilizing and transforming the Caribbean economies. Central to this framework is the establishment of a Regional Stabilization Fund.

We recognize our responsibilities and are committed to developing solutions that would improve the quality of life of our people. We are convinced, however, that our development partners, particularly the Bretton Woods institutions, must play an important complimentary role. In this regard, we register our appreciation for the timely response by the Bank in the aftermath of September 11, 2001; support in the fight against HIV/AIDS, including the special dispensation to Barbados; and the capacity-building efforts through CARTAC (Caribbean Technical Assistance Center). However, we are also mindful that there is need for significant expansion in their assistance. Toward this end, we see the need for the Bank and the Fund to work with us to address the critical
issues of resource mobilization, private sector development, and the treatment of small states, among others.

Resource Mobilization

Even as the needs of the Caribbean increase, net transfers are moving in the opposite direction for many economies in the region. These times call for moving to a higher trajectory for financing the region's development. Therefore, the international financial institutions should resume their role as a major source of development finance to the region—assisting with the immediate stabilization needs, but more fundamentally with structural transformation and reengineering of the economies. They must become more innovative as they seek new mechanisms for the delivery of assistance both to the public and private sectors. Growth and development are predicated on peace, security, and stability. Many countries in the region face significant security challenges, including coping with the problems associated with the transshipment of drugs and the deportation of hardened criminals. These problems continue to stretch our limited budgetary resources.

Private Sector Development

During the past decades, many of our countries have undertaken significant reforms to improve the investment climate and encourage greater private sector development. However, the anticipated increases in foreign direct investment flows have not materialized. We welcome the World Bank Group's Private Sector Development Strategy, which seeks to generate enhanced private sector development in client countries. Within the Caribbean, we urge the International Finance Corporation (IFC) to aggressively pursue innovative mechanisms to respond to the special needs of the private sector particularly in small island states. We urge the IFC to partner with indigenous financing institutions in support of the private sector.

Money Laundering

The region has developed competitive international financial centers as part of its economic diversification strategy. We have strengthened our regulatory and supervisory systems consistent with international requirements and standards. In this regard, we note the work of the Bank and the
Fund over the past year in supporting global efforts against money laundering and the financing of terrorism. As the institutions forge partnerships with others in the global fight against money laundering, it is imperative that their work does not indirectly or directly support policies that seek to restrict international competition in financial services.

Small States

The international community has often been unsympathetic to the special needs and circumstances of small states, citing the impressive per capita data. You may recall, however, that in 2000 the Bank endorsed the task force study on small states that confirmed that small states face special development challenges, and called for focused attention by international institutions. In this regard, the Bank and the Fund must move resolutely to implement the recommendations within their mandate. We expect that this issue will be advanced at the Small States Forum tomorrow.

We recognize the challenges ahead and are prepared to continue to make the necessary adjustments. But we cannot do it without our development partners. We urge you to support our efforts to achieve rapid progress to realize the aspirations of the citizens of the region.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR INDIA

Jaswant Singh

Mr. Chairman, my congratulations on your assuming the chairmanship of these Annual Meetings. We hope that under your leadership this gathering will arrive at a consensus on how the Bank and the Fund can facilitate a quick implementation of the global compact arrived at in Doha, Monterrey, and Johannesburg.

The past decade has been characterized by low growth rates and considerable economic difficulties in most regions of the developing world. Except for Asia, per capita incomes have either declined or remained stationary, and the poverty situation has worsened considerably. After the declining growth rates in global output and trade witnessed over the past year, the outlook ahead remains uncertain. An
excessive volatility of global oil prices threatens to undermine the tentative recovery currently under way. Non-oil commodity prices are now expected to decline in real terms over the next decade. The outlook for the flow of official development assistance, including multilateral loans and credits, continues to remain unfavorable. Although the flow of private capital has expanded impressively in recent years, it has remained highly volatile, expensive, and concentrated among a few countries. It cannot offset the impact of declining ODA in low-income countries.

We welcome the Monterrey consensus on the importance of improved market access for developing country exports. This is perhaps the most important requirement for accelerating growth and removing poverty. Most developing countries today are liberalizing their trade regimes and seeking greater global integration as part of their economic reforms. The benefits of these reforms are critically dependent on the removal of trade barriers on items of interest to them. We must be mindful that these changes are carefully sequenced so as to minimize the cost of adjustment for the poor. Developing countries have large infrastructure gaps that need to be bridged if they are to take advantage of improved market access. This will require suitable policies and investment climate to attract private investment as a supplement to increased public investment. This process of reform in developing countries is thwarted unless fully supported by enhanced access to markets for their products, especially agriculture, textiles, clothing, and footwear, an elimination of trade-distorting subsidies in the industrial countries, and adequate access to financial resources so that investment needs are met and possible balance of payments pressure lessened.

The current risks to global recovery have assumed new dimensions and pose formidable challenges to both the Bank and the Fund. Three important features characterize recent global economic developments. First, on the positive side, the impact of the recent slowdown has been somewhat milder than earlier similar instances, primarily on account of timely and strong corrective policies. Second is the disturbing synchronicity of the global downturn. The third and final observation pertains to apprehensions regarding the growth of contagions caused by volatile movements in capital flows threatening even some of the more well-managed economies. All these pose serious challenges to the international community. A clear understanding of the multiple causes of capital account crises, including noneconomic factors and risks of rapid global integration, are critical for first designing and then ensuring the much needed cooperation among national policy makers and multilateral institutions.

In light of the above, and for ensuring greater global financial stability in future, it is necessary to identify the major sources of

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vulnerabilities and the underlying reasons responsible for their convergence and subsequent mutual reinforcement. First among these is the considerably reduced prospects for immediate economic recovery in industrial countries, due to a variety of factors including the recent behavior of financial markets. Vulnerability still troubles global capital markets. The continued probability of abrupt and disruptive corrections in exchange rates of major currencies is another cause for concern. The somewhat discordant behavior of equity and bond markets vis-à-vis real sector developments, arising from widespread corporate defaults and accounting shortcuts is another cause for concern. Emerging market financing conditions continue to suffer from constraints, particularly in the troubled continent of Latin America, which could weaken growth prospects and increase vulnerabilities in a number of countries. And finally, global energy prices are once again displaying troubling volatility, which would impact oil exporting and consuming countries differently. If oil prices were to turn adverse, the crisis could become heavily detrimental for global growth and welfare, apart from affecting the growth prospects in emerging Asia. In the current scenario, maintaining a fair degree of stability in oil prices would demand remarkable statesmanship on the part of leaders in major countries.

The variety of policy responses in industrial countries, appropriately accommodative to supporting growth, is encouraging. In this regard, fiscal stimulus and stabilizers have an important role to play in the industrial countries within prudential constraints. Swift policy action is required, however, to restore investor confidence for clearing the doubts created by reports of unfair accounting and financial reporting. In the eventuality of disorderly adjustments in major currency values, coordinated policy interventions would be called for from major countries. Finally, the emerging market economies should continue to persevere with prudent macroeconomic policies and also pursue structural reforms.

Besides providing an assessment of short-term vulnerabilities and risks, the twin publications, the World Economic Outlook and Global Financial Stability Report, throw up issues for medium-term consideration. It would be useful to take up for further examination the issue of corporate governance and integrity and the need for placing accounting and auditing standards on a sound footing. The dollarization and associated systemic risks in Latin America also raise issues for the medium term in regard to the evolution of exchange rate regimes.

As part of both multilateral and bilateral surveillance, development of financial standards and codes as a parallel effort to strengthen individual country practices and improve adherence to best practices is welcome. But, first, it must be recognized that the relationship between adherence to codes and stability and soundness is rather weak and not
well founded. Second, the standards themselves should be seen as evolving, and weaknesses in standards themselves are not uncommon as was evident in the recent cases relating to accounting and auditing and governance matters. The approach of FSAP and ROSC should continue to remain voluntary, and publication of reports should be left to member countries. The application should take into account individual country experience, context and stage of development, and legal and other institutional structures. I would like to take this opportunity to indicate that in India, we have completed a full round of self-assessments of standards and codes.

We welcome the Fund’s efforts in carrying forward the examination of the contractual and statutory approaches to improve the process of sovereign debt restructuring. We would like to reiterate that while a generalized and broad framework for the SDRM may be feasible, the SDRM should be viewed on a case-by-case approach and necessarily has to take into account the individual country and institutional environment. Second, the SDRM should be treated as complementary to the Fund’s emergency funding and not as a substitute. The Fund’s experience with exceptional financing has proved to be positive and, overall, has resulted in successfully meeting the objectives of programs. The post-crises environment in the countries covered by Fund programs has generally shown improvement in several respects. There is a need to continue with the policy of designing programs and to provide exceptional financing in deserving cases. We encourage the ongoing work on streamlining access policy and strengthening the framework for exceptional access policy.

We commend Bank and Fund efforts in reviewing and streamlining conditionality. The modified guidelines provide room for considerable flexibility and take into account country-specific circumstances, including the political economy of program implementation. The floating tranche-based prescriptions for structural conditionality will help countries in phasing their program implementation on the basis of domestic institutional and legal infrastructure. We need to assiduously avoid a gap-filling approach to conditionality in which the conditions excluded by one institution are taken up by the other. The final outcome of the streamlining exercise must be a clear and visible reduction in the number and range of conditionalities applied by both the Bank and the Fund.

We note with satisfaction the progress in the HIPC Initiative. The substantial debt relief delivered to a large number of countries has had a positive impact on their poverty-reducing social sector expenditures. However, the pace of implementation of the initiative has been relatively modest. Some HIPC’s have experienced delays in reaching decision points, notably, those going through a post-conflict phase, which are in
urgent need of rebuilding their core infrastructure and stepping up social sector spending to reverse the deterioration in human development indices. The PRSP approach also has now taken hold, with a number of countries producing high quality PRSPs through a broad consultative process and significantly improved country ownership. The focus now has to shift to meeting the challenges in implementation. It is important to take into consideration governments’ need to calibrate the pace of policy changes so as to minimize likely social disruptions and facilitate progress toward poverty reduction. Enhanced aid effectiveness and more predictable aid flows are equally important. We look forward to tangible progress in improving donor alignment and harmonization of procedures and practices. These are critical to reducing transaction costs and enabling governments to shift their focus from processes to actual implementation.

We fully support the intensification of the global efforts to prevent money laundering and the financing of terrorism, and the involvement of the Fund in this endeavor. The present collaboration between the Fund and the Bank, the FATF, and its affiliate bodies has the potential to enhance the effectiveness of assessments, expand their coverage, and promote more efficient use of resources.

Some recent developments in the international economic environment point to the need to address certain fundamental issues relating to governance structure and policies of the Fund. The financing needs of members now arise more out of capital account imbalances than current account imbalances. The funding need is also for fairly longer periods and larger amounts given the sudden and significant crisis afflictions. The size and distribution of quotas require a thorough review in the current context of emerging common currency areas and increasing strength of emerging and developing economies. Greater credibility of the Fund lies in ensuring orderly international payments.

We greatly appreciate the efforts of Mr. Wolfensohn and his staff, together with IDA donors in reaching an agreement on the Thirteenth Replenishment of IDA. This agreement, along with borrower refloows, will result in broadly maintaining the level of IDA commitments in the next three years at the same level as during the Twelfth Replenishment period. In nominal terms, fresh donor commitments at US$10 billion in IDA-13 are only slightly higher than US$8.64 billion during IDA-12. This should be a matter of serious concern to this august body. I hope the deliberations of this body will provide the necessary momentum to reverse the recent unfavorable trends in flows of concessional finance from bilateral and multilateral sources for poverty alleviation. The availability of adequate resources to IDA also has a bearing on the appropriate strategy for achieving the Millennium Development Goals.
It is now 14 years since the Board of Governors of the Bank approved a General Capital Increase. In the meantime, the world has changed dramatically. In 1988, the Bank did not have the demand for its resources from the entire group of transition economies of Europe and Central Asia. Market volatility and financial risk were then an order of magnitude lower. Monterrey and the Millennium Development Goals provide a unique global consensus on eliminating absolute poverty in our lifetimes. The need for adequate Bank resources has never been greater. There is an urgent need to replenish the Bank’s capital to enable it to meet the financing challenges, keeping in mind the heightened risk of our times. We call on all shareholders of the Bank to agree on a General Capital Increase to be completed before our next meeting in Dubai.

STATEMENT BY THE GOVERNOR OF THE FUND FOR INDONESIA

Syahril Sabirin

I would like to welcome our most immediate neighbor, the Democratic Republic of Timor-Leste, to the membership of the IMF and the Bank.

When the two Bretton Woods institutions were established more than 55 years ago, they carried noble causes to improve the quality of life of the whole world. They have continued to strive to do so ever since, the IMF in establishing monetary and financial stability, and the World Bank in promoting growth and investment. So much has been achieved, and so many innovative ideas have been developed and implemented for the purpose of enhancing their performance. Despite criticism, they deserve to be commended for their achievements, including those since last year.

We fully support the good cause being brought forward by the two institutions. During the period of good economic performance we also participated financially in supporting the good cause, while at the time of economic difficulties we did not retreat from our commitments. Poverty reduction, for example, is a noble cause that should be supported by all. In a world of such plenty, with a highly civilized society in which people are digitally connected, it is indeed shameful to realize that more than one-fifth of the world’s population is still living on less than one dollar per day. But poverty, as discussed in the World Development Report 2000 has three well-being dimensions—namely opportunity, security,
and empowerment—which are relevant not only at the individual level, but also at the country level. Opportunity will hardly emerge in a world where global trade and financial flows are constrained by barriers and other forms of quasi-protectionism. It is in this respect that the successful and just implementation of the mission of the WTO is very much being looked for.

Two important notes of reminder are relevant for the future work of the IMF, the World Bank, and the WTO. First, although good and just standards and rules are important, their meaning is significantly reduced—even to negative values—if they are not properly implemented. Second, these international organizations should totally avoid any bias that unjustly discriminates against some while favoring others. This is true for rules and standards, and even more so for their implementation.

Now, let me say a few words about recent development in Indonesia. Given the very short time I have for this statement, I will summarize these in three points. First, we see the economic crisis that started to hit Indonesia in 1997 from two different angles. From one angle, the crisis did hit us very hard and painfully, with a 13 percent decline in GDP in 1998, a sharp increase in unemployment, and so on. From the other angle, we see the crisis as an opportunity to change for the better. In this respect, we have made extensive reforms in many areas: banking, legal, institutional, and business, just to mention a few. These reforms laid a much stronger foundation for us to grow and develop sustainably.

Second, many parties aside from the executive government are taking part in achieving stability and development. Legislative, judicial, other authorities like the central bank, and last but not least the people at large, are taking part. A strong role being played by one can to some extent compensate the weaker roles played by the others, making a good overall performance. In achieving financial and monetary stability, the independence of the Central Bank granted by the Central Bank Law of 1999 is worth mentioning. This independence has enabled the Central Bank to work hard in a consistent manner to maintain relative monetary stability despite the uneasy political turmoil experienced by the country a few times since the crisis.

Third, we are encouraged by recent developments such as the price and exchange rate stability that have prevailed for an extended period of time. Such stability has made possible a gradual but significant reduction of interest rates on Bank Indonesia's Certificate from approximately 17 percent last year to below 14 percent now. This constitutes a reasonable base for better economic growth in 2003. Although the growth rate will be only between 3 percent and 4 percent this year, we expect that a growth rate of 5 percent can be achieved next year.
With respect to anti-money laundering and the fight against terrorism, we have ratified the UN resolutions on these issues, promulgated an anti-money laundering law, and established the implementing institutions. Before taking these actions, we applied the "Know Your Customer Principles" to the banking sector.

Finally, we would thank the IMF, the World Bank, the members of the Consultative Group on Indonesia, and the international community at large for their invaluable support to us during the crisis as well as in our effort to reform and grow.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE ISLAMIC REPUBLIC OF IRAN

Tahmaseb Mazzaheri-Khorzani

It gives me great pleasure to be here at the 2002 Joint Annual Meetings of the World Bank and the IMF. In view of the limited time, I shall first concentrate on the economy of Iran and its prospects.

Iran is implementing its third Five-Year Development Plan, which serves as a framework for current economic reforms and restructuring, as well as further development of social welfare. It aims at achieving greater transparency in macroeconomic and regulatory frameworks, budget reform, tax reform, and reduction of the government’s role in the economy; as well as promoting competitive structures, encouraging foreign investment, unifying the foreign exchange rate system and achieving a floating rate regime, and removing nontariff barriers.

We have already achieved many of these objectives. A comprehensive tax reform package was approved last February. The new tax code provides changes in the interest of most taxpayers, comprising a reduction in the direct income tax to a flat rate of 25 percent, including corporate and shareholder tax; the introduction of tax incentives to promote private investment in the underdeveloped areas; the creation of a Central Tax Authority; the adoption of value-added tax by the Council of Ministers; the elimination of tax exemption for public enterprises; and, leveling the playing field for the private sector.

Important advances were made in trade reform. Nearly all nontariff barriers on imports have been removed, and the tariff system has been rationalized. Many state-owned enterprises have already been privatized.
through the Tehran Stock Exchange and others are in train. I am pleased to report that last March, after a long period of preparation, we were able to introduce a unified managed-floating exchange rate system.

The Law for Promotion and Protection of Foreign Investment has been promoted and approved, and has laid the foundation for more transparency, in line with international best practices, to attract and protect foreign investment. Additionally, most recent capital market instruments have been introduced, foreign investors’ fields of activity have been broadened, and more incentives and facilities for foreign investment have been created. In addition, all matters related to foreign investors are being organized in a one-stop shop within an investor relations office. These are among the recent developments envisaged in the new law. While we have learned from the experience of other countries, the reforms have been optimally sequenced corresponding to the societal and cultural context of Iranian society. The consequences of these efforts have been analyzed, and policies to minimize the negative impact of reforms have been contemplated.

These reforms have had positive payoffs in terms of achieving high economic growth rates and accelerating the growth of non-oil exports during the last two years. We expect that this performance will continue in the period ahead. The international capital and financial markets have reacted positively to these developments, as the recent oversubscribed euro bond issue demonstrated.

Turning to global economic prospects, there is growing uncertainty regarding recovery of the world economy. We are concerned that, while there has been some improvement in poverty reduction, the number of people living in poverty has increased. The World Bank and the IMF face a great challenge in addressing poverty and its social consequences. We strongly support the focus on the process contained in the Poverty Reduction Strategy Papers. We also continue to support the enhanced HIPC Initiative.

The opening of industrial country markets to developing country exports could allow globalization to ensure positive benefits for all members of the international community. An important issue for the membership of the Bretton Woods institutions is the promotion of transparency and strengthened accountability of these organizations in order to ensure sound decisions and policies based only on economic considerations and in the best interest of their member states. Finally, I stress the role of the international organizations and donor assistance in the reconstruction of Afghanistan to which the Islamic Republic of Iran is contributing significantly.
STATEMENT BY THE GOVERNOR OF THE BANK FOR IRAQ

Issam Rashid Hwaish

I am honored to convey the greetings of the Iraqi delegation to the Managing Director of the IMF, the President of the World Bank, and the distinguished Governors participating in this meeting, along with our hope for the success of the efforts made to achieve the goals sought by the international community as a whole, particularly those aimed at helping the developing countries to overcome their economic difficulties and improve their unfavorable balances of trade.

One year after the tragic events of September 11, I would like to use this forum to express our sincere condolences to the families of the victims. We sympathize with their suffering, because we also have suffered tragedies for more than 12 years in Iraq, as a result of the continued sanctions and aggression carried out against our people. The drastic steps taken against Iraq are beyond the scope of peaceful measures and outside the bounds of international law. They work against achieving the peace and stability needed by the people of the world, who must cooperate based on the principles of friendship, justice, and peace.

For more than 10 years, the Iraqi delegation has affirmed before this respected assembly that the most important objective of the IMF, as stated in paragraph 4 of the Articles of Agreement, is to eliminate barriers to trade and international settlements, and to help achieve stability and economic prosperity. Today I reaffirm that the unjust economic sanctions imposed on Iraq since 1990 are in conflict with basic humanitarian and social principles. It is impossible to accept that an entire population be punished and deprived of life's most basic requirements, for such an attitude conflicts with the moral values of the civilized world. The banking boycott imposed on Iraqi institutions that are vital to the lives of our citizens have deprived over 25 million people of the means for achieving a decent life and all opportunities for advancement. This contradicts the Articles of Agreement of the Fund and the philosophy upon which it was established. The fact that Iraq is a founding member of the IMF gives me the right to ask it to stand firmly against the continuation of economic sanctions, the banking boycott, and the freezing of Iraqi assets. In this way the Fund will defend the principles and objectives it has defined for itself, in keeping with the principles of Bretton Woods, to which we all subscribe.
During the past 10 years, my county has faced great challenges in various areas of economic, social, and health concerns. These challenges have become increasingly serious, as exemplified by the severe shortage of medical supplies and requirements, which has caused a sharp rise in mortality rates among children and the elderly, as noted by all the international health and humanitarian organizations. Iraq's basic infrastructure has also been devastated, including potable water and wastewater networks, which are inadequate throughout the country, and there is a severe lack of electric power and communications facilities. All this because of the obstinacy of one country, a permanent member of the United Nations Security Council: the government of the United States, which has disregarded the rights and interests of all other countries and peoples to serve its own interests, even if they are unjust.

Iraq has also faced great difficulties in obtaining spare parts, raw materials, and other requirements for its domestic civil industries, including the production of consumer goods needed by its citizens. As a result, most factories have stopped production, causing a shortage of goods and an increase in the number of workers who cannot find jobs and whose economic, social, and health situation has suffered accordingly.

The education sector has faced great challenges at all levels, as illustrated by the severe shortage of teaching materials and other requirements of our institutes and universities, as well as the lack of buildings with even the minimal requirements to provide an adequate educational environment.

Despite the passage of nearly six years since the "Oil for Food and Medicine Program" was begun, it has failed completely to ease the suffering of the Iraqi people that I have described, for it has turned into a program of oil for United Nations expenses and compensation, instead of meeting the needs of the Iraqi people with their own funds. Large sums from suspended contracts and other unused funds remain unavailable because of the policy adopted by the United States, which claims to defend human rights but in reality increases the suffering of the Iraqi people and causes the death of ever more of its citizens.

From the time this program began to the present, Iraq has exported oil valued at about $57.3 billion, of which the United Nations has received $24.6 billion. The value of the food and humanitarian goods that Iraq received as of August 31, 2002 was $20.7 billion, or an average of $3.5 billion per year. The average annual per capita share amounts to $144, or $12 per month, for each Iraqi citizen.

Contracts that have been suspended or canceled for insignificant or illogical reasons or without specifying the reasons amounted to $4.4 billion on August 31, 2002. The policy of encumbering these
contracts has resulted in hundreds of thousands of additional deaths and the spread of epidemics, cancer, and other incurable diseases. The only solution for these economic, social, cultural, and health problems is the complete removal of the sanctions imposed on Iraq.

Iraq's recent decision to allow the unconditional return of UN weapons inspectors is an expression of the Iraqi government's desire to complete the implementation of the relevant UN resolutions, and it is a necessary step in the process of confirming that Iraq does not possess weapons of mass destruction. It is equally important as a step leading to a comprehensive solution, including the removal of the sanctions imposed on Iraq, in addition to implementing the other provisions of the relevant Security Council resolutions, including Resolution No. 687 of 1991. The reported skepticism of the American and British administrations concerning the seriousness of Iraq's decision are nothing more than a continuation of the distrustful and poisonous atmosphere which these administrations have sustained for over a decade.

The Iraqi people will remain threatened by disaster unless rapid measures are taken to improve their condition. I believe that the principles of the IMF and the World Bank require them to take a positive stance by actively participating in this endeavor. In this respected international forum, I once again call upon the IMF and the World Bank, in accordance with the principles of their Articles of Agreement, to call for the urgent removal of the sanctions against Iraq and the freeing of its frozen assets, to end the suffering of an entire population. At the same time, I commend the positive efforts of a large number of Governors, and I call upon all Governors to explain the situation to their governments and urge them to end the suffering of the Iraqi people and restore balance to trade relations among the members of the international community.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR IRELAND

Charlie McCreevy

There is a very great deal to be done to create a more prosperous, secure, and equitable world. Eliminating poverty is, most certainly, the greatest challenge facing ministers for finance today. The IMF and the World Bank have a critical role to play in this process.
The focus of the IMF and the World Bank is both on macroeconomic stability and poverty reduction. The IMF’s core responsibility for macroeconomic stability is not just an end in itself, but is essential to creating the basis for sustained growth—growth that has to be shared more widely, raising global prosperity and promoting social development.

The Bretton Woods institutions can also make a huge contribution to managing globalization in more positive ways. The anti-globalization movement is articulate, well organized, and motivated. Working in the supposed interests of global democracy, unaccountable and unelected groups claim unto themselves the right to set the development agenda, on the grounds that globalization has robbed nations of the power to determine their own destiny.

A lack of historical context is in evidence here. Long before the creation of the Bretton Woods institutions, all except the largest nations lacked the exclusive power to shape their own future. Market instability and lack of confidence in the economic and financial system worldwide were more in evidence between the world wars than now.

Crisis prevention has been at the core of the Fund’s activities, and it has carried out substantial work to strengthen the global economic and financial systems and to reduce the incidence and the extent of crises. The Bank and the Fund are successes, not failures, despite some popular skepticism.

However, we need to do more to get across to the public what we are doing, and what we are going to do in the next few years. In recent years, both the Bank and the Fund have made great progress in increasing the transparency of their own operations. This is most beneficial, and I would strongly encourage all Fund members to make their own contribution to transparency by agreeing to the publication of Article IV reports on their economies.

In this context, I fully endorse the efforts of the Fund to enhance the effectiveness of its surveillance and would commend its ongoing work in streamlining conditionality. I also welcome the progress being made in deepening and widening the collaboration between the Fund and the Bank and would urge both institutions to intensify their endeavors in this area, so that their combined actions result in the maximum benefit to their clients.

Our stated aim is to halve the number of people living in extreme poverty by the year 2015. The Millennium Development Goals were agreed by 189 countries at the Millennium Summit in New York, and Johannesburg underlined the need for rapid progress. Over 1 billion people now survive on less than $1 a day. One hundred thirty million children—mostly girls—have never seen the inside of a school. Nearly
900 million adults are illiterate. Poverty and desperation create conditions supportive of conflict and division. With the MDGs now set, we have clear, time defined, and daunting targets for achieving rapid, measurable improvements.

We already know what is effective in reducing poverty, and we know how to identify progress or the lack of it. Above all, we know what not to do, and what does not work. We know too that there are basic conditions that foster successful development. Shared responsibility and political cohesion are preconditions for economic prosperity, as are good governance, an impartial and effective legal system, and a well organized and supervised financial system. Along with democratic values, education, and free trade, they are also critical factors in the fight against poverty.

As Irish experience shows, foreign direct investment can play a vital role in the development process. However, the right domestic conditions are needed to attract FDI. The confidence and trust of international investors has to be built up and earned over a long period of time and should never be taken for granted.

It is within the framework I have described that donor assistance can work to maximum effect. The donor community is coming increasingly to realize the importance of supporting countries' own strategies for reducing poverty, by providing what a country needs, rather than what donors prefer to hand out. Here, I would like to note that the EU area is the world's biggest donor of development aid, providing more than 50 percent of total international aid flows.

The Monterrey Consensus recognized our mutual dependence and addressed the issue of debt. Twenty-six countries have now qualified for debt relief under the HIPC Initiative, and an average of 50 percent of their debts will be written off. Our immediate efforts should be devoted to helping those countries still in the HIPC process to help themselves surmount their debt problems.

We are already seeing evidence that the funds freed up through debt relief are being channeled into increased expenditure on social programs. In this, educating girls may well be the highest return on investment available in the developing world. It leads to reduced infant and maternal mortality, improved family health and nutrition, and improved economic conditions.

I am a strong supporter of EU efforts to combat the spread of communicable diseases, which are endemic in many of the world's poorest regions, and more generally, to increase investment in health. AIDS, malaria, and tuberculosis are the major diseases to be targeted, as well as more common problems caused by unclean water. In these tasks, we in Ireland will endeavor to play our part.
May I conclude by a special word of thanks to the meeting organizers. This year, their task has been unusually difficult, with date and venue changes making their lives impossible. I hope that, in the success of our deliberations today, we can repay them for their efforts.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ISRAEL

Silvan Shalom

Mr. Chairman, distinguished Governors, Mr. Horst Köhler, Managing Director of the International Monetary Fund, Mr. James Wolfensohn, President of the World Bank Group, delegation members, ladies, and gentlemen, I would like to thank you for the opportunity to address this meeting of the World Bank/IMF's Boards of Governors.

International organizations, such as the World Bank and the IMF, perform a vital function in today's complex economy. By promoting prosperity, stability, and sustainable development, these institutions play a pivotal role in shaping the economic developments that impact all nations.

This year's gathering is shadowed by the terrorist events of last year, and the vast economic uncertainty facing us. Stock market movements have led to capital losses, echoed by weak performance in the real economy. We see, perhaps, the beginning of recovery in key industries, but, at the same time, global circumstances can inhibit a quick return to growth and prosperity.

Israel is not immune to these developments. We, like our counterparts around the globe, feel the crunch. Israel has taken its place on the cutting edge of key, high-tech industries and is now feeling the sting of market developments. In addition, we have had to confront the economic burden stemming from the war on terrorism—a war every Israeli faces on a daily basis. We are determined to prevail in this battle, which is being waged by the entire world.

Despite these developments, we are fully confident that our economy will emerge strong. Strategic policies adopted throughout the 1990s have secured structural changes in the Israeli economy. We have internalized international standards of transparency, responsibility, and open access to international investment. As a result, we are now more competitive and more flexible than we ever were in the past. Over the
years, we have adopted international standards and norms with a view toward membership in the OECD. As a result, our economy has demonstrated that it is robust and fully capable of adapting to dynamic conditions:

- We have successfully weathered the multiple global financial crises of the late 1990s.
- We have successfully contained inflation, despite severe price fluctuations in world energy and currency markets.
- We continue to attract foreign direct investment, despite volatility in world markets and ever-shifting regional dynamics.
- We have been thrust to the forefront in the war on terrorism. Yet, we have been able to bear the cost of protracted conflict without inducing shocks or abandoning responsible fiscal and monetary policies.

These accomplishments are not accidental but rather the result of systematic government reforms and policies. Responsible and consistent fiscal and monetary management has been a necessary and important element of the government's efforts. Continuation of these policies reinforces macroeconomic stability, promotes the expansion of the business sector, and sets the stage for enhanced growth performance. Liberalization of trade and foreign currency regimes has also played an important role. This has been recognized recently by the OECD Council's approval of Israel's adherence to its Declaration on International Investment and Multinational Enterprises. Legislation to enhance local capital markets and break down monopolies has improved the competitive structure of Israel's private sector. The government is committed to developing the private sector, opening domestic markets to competition, enhancing capital markets in Israel, and promoting their integration into international financial systems. Over the past year we revamped the tax system in a manner that promises to reduce inequities and distortions, and improve market efficiency by rendering investments tax neutral.

Recently, the Israeli government advanced a program of economic reforms designed to maintain macroeconomic stability and hasten the resumption of growth. Policies that accent the importance of employment and improving the efficiency of both the private and public sectors are being implemented to address both current economic challenges and enhance growth in the long run.

Israel's long-term prospects are good. The strengths that led to rapid growth and increased foreign investment in the past will also propel us forward in the future. Fundamental economic indicators are positive.
However, they reveal only part of Israel’s economic strength. One must look beyond the dry statistics to grasp the full potential of our economy. The “fundamentals behind the fundamentals” are perhaps less tangible, but not less meaningful to our economic future.

The global economy is here to stay and we maintain a large stake in this economy. Despite recent developments, the revolutions sparked by the communications and information technology (IT) industries are irreversible. Israeli companies have carved themselves an important position in global high-tech markets, particularly in upstream activities such as research and product innovation. We will continue to participate vigorously in these global markets and are well poised to play a leading role in key growth industries.

Advances in basic research in life sciences have opened up vast opportunities in these areas. Entire new industries can be created, some integrating bio- and agro-technology with other technology disciplines. Israel has one of the largest per capita pools of scientists in the world. Moreover, we have developed a unique capacity for cross germination, developing products that blend technologies drawn from various fields. With this scientific talent, Israel is well poised to take an active part in innovative industries as they emerge, including biotechnology, medical devices, and security-related industries. The wealth of Israel’s human capital, however, extends beyond the expertise of our scientists. Over the past decade we have developed a highly entrepreneurial culture that values risk taking, as well as excellence and innovation.

These factors, when combined with the economic indicators, contribute immeasurably to Israel’s strength and potential for sustained economic growth. While we continue a close watch on monetary management, fiscal restraint, and structural reform, we are actively cultivating the fundamentals that transcend administrative and legislative policy—that is, investment in human resources and an unrelenting commitment to innovation and entrepreneurship.

In the time remaining, I would like to emphasize Israel’s active support of international initiatives like the World Bank’s IDA programs and the HIPC program for debt reduction. We see these as vital tools for building the future of the global village. Our commitment to these programs is in addition to ongoing, bilateral aid programs and emergency relief assistance given by Israel in various locations throughout the world.

As we look around the globe, we cannot help but feel a growing sense of mutual responsibility for the future. The World Bank and the IMF have assumed leadership in turning this vague sense of responsibility into a plan of positive action. The importance of their activities is even more enhanced during times, like now, in which economic
uncertainty clouds the future. We fully endorse these initiatives and look forward to making our humble contribution to this cause.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ITALY

Giulio Tremonti

At the outset, I would like to welcome the Democratic Republic of Timor-Leste to the Bank and the Fund and to our constituency. When a new member joins the Bretton Woods institutions, it is a particularly relevant event for the world community. We look forward to working together with the Timor-Leste authorities.

A More Challenging Global Environment

Over the past 12 months, new challenges have emerged, involving industrial, emerging, and poor countries.

In industrial countries, fragilities and imbalances put into question the sustainability of recovery. To stimulate growth and gradually correct international imbalances, maximum effort should be exerted by all major industrial economies. In the United States, regaining a budget balance in the medium term would be desirable. In the European Union, policymakers should step up the process of structural reforms to increase the potential for growth in the long run, while in Japan deep-rooted structural difficulties in the banking and corporate sector need to be effectively addressed.

In the face of slower growth and a substantial decrease in private financing flows, many emerging markets are finding it increasingly difficult to maintain debt sustainability. Poor countries with limited or no access to private financing are also suffering from lower global growth as well as from a decline in commodity prices.

Enhanced trade openness is a key element for stronger and sustainable growth. We are encouraged by the progress made within the Doha process. The European Union has already made significant contributions in this respect with the “Everything but Arns” and other initiatives. We urge other industrial countries, and the United States in particular, to remain committed to free trade principles and practice.
To cope with global challenges, the Bank and the Fund are adapting their policies, strengthening their collaboration, and expanding their interaction with other international institutions. In this perspective an important step forward was made in Monterrey and Johannesburg.

Implementing the Monterrey Consensus and the Johannesburg Recommendations

At conferences in Monterrey and Johannesburg, a consensus was reached on the mutual responsibilities of donor and recipient countries and on complementary policy actions to be undertaken in pursuit of the Millennium Development Goals.

In order to meet the expectations that have now been generated, there is a need for a “quantum leap” in terms of commitments of developing countries, efforts of donors, as well as innovative thinking and approaches by development agencies. The additional bilateral aid pledged by the EU and the United States and the recent replenishment of IDA and the Global Environment Facility (GEF) represent concrete responses from the international community to these expectations.

Italy is committed to additional aid flows and to contributing to the process of enhancing development effectiveness. It is crucial that different agencies and donors better coordinate their activities and harmonize their procedures. The high-level Forum on Aid Harmonization that Italy will host next February in Rome will provide an opportunity to enhance aid effectiveness.

Poor Countries

The PRSP approach has proved to be an effective vehicle to fight poverty and to foster a constructive dialogue between authorities and civil society. However, much more needs to be done to alleviate poverty, especially in terms of increasing institutional capacity. Better coordination among the PRSP process, the PRGF programs, and the Poverty Reduction Support Credits by the World Bank is needed. In particular, PRGF programs should be more closely aligned with the priorities put forward in the PRSP, while the Fund and the Bank should set conditionality requirements more strictly related with the PRSP objectives. We are aware that the PRGF funding is being put to a severe test and that, starting from 2006, it will shift to a self-sustained regime that will limit the ability to support poor countries unless additional bilateral resources
are provided. Italy has contributed SDR 550 million, in addition to 250 million that had been previously committed.

We welcome the progress already made under the enhanced HIPC Initiative. However, the effectiveness of the initiative seems to have weakened somewhat recently because of two factors. First, the global slowdown and the fall in commodity prices have negatively affected growth and debt sustainability in a number of HIPC, including countries reaching the completion point. In taking this issue into consideration, we must avoid generating wrong incentives that would undermine the credibility of the initiative. In this respect, topping up at the completion point must remain an exceptional event linked to exogenous factors beyond the country's control. It cannot compensate for other shortcomings. Furthermore, more realistic debt sustainability analysis must be a key element. Second, all creditors must provide the share of debt relief to which they committed. Italy is writing off 100 percent of its debt and cannot accept that its additional voluntary bilateral relief will be diverted to repay other creditors instead of being channeled to provide supplementary resources to stimulate growth and reduce poverty. Finally, the commitment to provide new financing to HIPC only through grants or highly concessional credits must be reaffirmed. The IFIs should watch closely that commercial loans do not begin to flow again to the HIPC.

**Conditionality**

We welcome the results of the recent review of conditionality and the new guidelines aimed at streamlining and focusing conditionality on those areas that fall more squarely within the institutional responsibility of the Fund. We note progress in national ownership of programs, consideration of country-specific circumstances (including administrative capacity), and openness to domestic policy preferences.

A key component of the new conditionality is the intensified cooperation between the Fund and the World Bank. This should result in better design and monitoring of conditionality and should allow each institution to specialize in its own core areas of business, thus improving the quality of program design. A sharper division of labor, especially in those areas where responsibilities are shared, is essential. Also, full information to the Boards of the two institutions is crucial in order for Directors to monitor developments.
Anti-Money Laundering and Combating Financing of Terrorism

In the last few months the fight against money laundering and the financing of terrorism has received new impetus, and we commend the IMF and the World Bank for their extensive work in this area.

The impressive results already achieved have been made possible also by the decision of a large number of countries to endorse the FATF recommendations and to join the self-assessment process.

We welcome the collaboration with the FATF that has resulted in the inclusion of the 40+8 recommendations in the Fund/Bank list of standards and codes: we are confident that the high degree of convergence on the comprehensive AML/CFT methodology will allow for its finalization by October 2002, so that the ROSC process can get started. We are looking forward to a comprehensive review of the experience at the next Annual Meetings.

We also commend efforts in providing and coordinating technical assistance. Several initiatives are in place but, to be fully operational, they will require further efforts by bilateral donors. Italy has contributed by establishing a Trust Fund to provide technical assistance. A portion of these resources are earmarked for technical assistance in AML/CFT. We urge other donors to do the same.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND AND THE BANK FOR JAPAN

Masaru Hayami

I am very pleased to have this opportunity today to address the IMF-World Bank Annual Meetings as Alternate Governor for Japan. First of all, I would like to welcome the Democratic Republic of Timor-Leste as a member of the IMF and the World Bank as of July 23.

This year commemorates the fiftieth anniversary of Japan’s membership in these institutions. At the time of its accession, Japan was still in a postwar reconstruction period and was receiving a good deal of assistance from the World Bank and the IMF. This assistance contributed greatly to Japan’s economic recovery. Once recovery was complete, Japan became a major financial contributor to the World Bank and the
IMF. We hope to continue to maintain our close relationship with both institutions and contribute to them as much as possible.

The World Economic Outlook

World economy

Although the overall recovery trend of the world economy is expected to continue, the recent sharp fall in global equity markets, together with high oil prices, has caused some uncertainties, and we must be vigilant about what lies ahead. The recent sharp fall in global equity markets reflects changes in investor sentiment in response to a recent series of corporate accounting scandals. Such a market environment poses a risk to the world economy. In order to restore market confidence, stricter accounting and auditing systems and better corporate governance are called for.

Amid heightened uncertainties in the world economy, the situation in Latin American countries is a source of particular concern. For this reason, we welcome and support the timely decision made by the IMF and the World Bank to provide financial assistance to Uruguay, Brazil, and other countries. To make this assistance effective, however, it will be essential for these countries to practice sound economic policy management. We hope that these efforts will lead to an early restoration of market confidence and that their economies will return to a path of sustainable growth.

Japanese economy

Although the Japanese economy remains in a difficult situation, there are signs of recovery, such as an increase in exports and the recovery of production. Although we cannot rule out the possibility that the uncertain prospects of the world economy could adversely affect final demand in Japan, we will decisively and expeditiously pursue fiscal expenditure reform, tax reform, the disposal of nonperforming loans, and other structural reforms, with a view toward achieving sustainable growth led by domestic demand.

Specifically, we will pursue the following three policies in an integrated manner: an “economic revitalization strategy” to restore competitiveness; “tax reform” to reinvigorate society; and accelerated fiscal expenditure reform, including enhancing the efficiency of fiscal expenditures, with the aim of achieving a “small government worthy of
bearing the costs.” Under the economic revitalization strategy, in order to achieve a vibrant society, we will actively implement deregulation while outsourcing the operations of public corporations to the private sector and promoting privatization wherever possible, thereby widening the scope of the private sector’s activities. With regard to tax reform, we will frontload tax reductions in order to revitalize the economy. In fleshing out the details of tax reform, we will maintain revenue neutrality on a multiyear basis so as to maintain fiscal discipline. We will intensify tax incentives for research and development as well as for investment. We will also reform the inheritance and gift taxes to promote the transfer of assets to future generations. In the area of fiscal expenditure reform, we will make every effort to reexamine all types of fiscal expenditure, prioritizing and streamlining public investments and establishing a sustainable social security system through public pension reform. In addition, in reallocating the budget, we will place more emphasis on the “Four New Priority Areas,” aimed at achieving a more vibrant society.

In addition to these structural reform efforts, resolution of the nonperforming loan problem will be essential for establishing a vigorous and stable financial system. We will accelerate the disposal of nonperforming loans based on a strict evaluation of assets, taking into account the outcome of the special inspections of major banks conducted by the Financial Services Agency. At the same time, after lifting the current blanket deposit protection system, we will take measures such as providing a type of deposit (“payment and settlement deposit”) that will be fully protected in the event of failure of a financial institution, in order to ensure the stability of financial payment and settlement functions.

The Bank of Japan has recently embarked on studying a measure that would reduce the volatility risk stemming from financial institutions’ shareholdings. It is expected that this measure will contribute to the stability of the financial system.

**Strengthening the International Financial System**

*Crisis prevention*

Based on the experience of the Asian financial crisis, discussions have taken place in the IMF and other fora on how to strengthen the international financial system. Within the IMF, the progress made includes the quota increase under the Eleventh General Review of Quotas in 1998, the establishment of the New Agreements to Borrow and reform of lending facilities, including the introduction of the Supplemental Reserve Facility. However, since last year, there have been a
number of cases that have required large-scale international financial assistance—Argentina, Brazil, and other Latin American countries. These crises point to the need for enhanced measures for crisis prevention and resolution.

Regarding crisis prevention, the strengthening of IMF surveillance is a matter of central focus. We expect that surveillance will be strengthened, focusing on the IMF’s core areas of macroeconomic policy, capital movements, and the financial sector. Recently, the Financial Sector Assessment Program was introduced by the IMF to evaluate the soundness of countries’ financial sectors. Japan announced last fall its intention to accept the FSAP, and the assessment process began in June. At the same time, the IMF’s work on implementing international codes and standards is making progress, and a Report on Observance of Standards and Codes on Fiscal Transparency for Japan was published last year. We hope that many countries will follow us in accepting such international efforts with a view toward contributing to crisis prevention.

**Crisis resolution**

In formulating lending programs, it is essential for the IMF to set necessary and appropriate conditionality in extending assistance to policy adjustments of borrowing countries. We welcome the recent adoption by the IMF’s Executive Board of the new guidelines on conditionality, which emphasize the importance of borrowing countries’ ownership and of keeping conditionality to a minimum. The IMF should continue to analyze how much this change in its conditionality policy contributes to improvements in program design and performance and, if necessary, continue to study the possibility of further improvements in the guidelines.

In resolving crises, private sector involvement, including sovereign debt restructuring, has sometimes been called for. In order to secure an orderly debt restructuring process, some legal frameworks have been proposed to clarify the debt restructuring procedures. For example, Ms. Krueger, the IMF’s First Deputy Managing Director, proposed in November 2001 a majority-based decision-making process based on a statutory framework such as a treaty. This proposal is now being discussed at the IMF and in other fora. Such a statutory approach is ambitious and requires further continuous examination. Also being studied is a contractual approach, which calls for majority-rule provisions. We hope that both bond-issuing countries and market participants will recognize the importance of such provisions and that they will be introduced widely. It is particularly important that such market practices
should be commonly used in markets like New York, where a large amount of international sovereign debt is issued.

Recently, access to IMF resources beyond the normal limits has been granted frequently as part of the response to the financial crises in Argentina, Uruguay, Brazil, and other countries. But given the limited availability of the IMF’s resources, we need to adopt appropriate lending rules to restrict lending beyond normal access limits to truly exceptional cases. Furthermore, in approving exceptional access, the IMF will need to base its policy advice on realistic scenarios under which the economy would return to a sustainable growth path in the medium term, as well as conduct in-depth analyses on debt sustainability.

**Quota review**

Intensive discussion has been taking place under the Twelfth General Review of Quotas before its completion deadline of end-January 2003. Given the significant increase in abrupt movements of capital across borders in the global economy, it is imperative that the IMF maintain a sufficient level of resources to prepare for future crises. Particularly following the recent large-scale financial assistance to Latin American countries, the IMF’s usable resources are at a very low level, and we hope for an immediate decision on a quota increase. As part of the quota review process, the reallocation of quotas also should be examined, in view of the fact that current quota shares do not properly reflect changes in the global economic environment.

**Issues in Development**

Over the past year we have had important discussions on promoting development, growth, and poverty reduction in developing countries at various fora, including the International Conference on Financing for Development held in Monterrey, Mexico, in March and the recent World Summit on Sustainable Development in Johannesburg, South Africa.

We welcome the series of replenishment agreements reached over the last three months, that is, the thirteenth replenishment of the International Development Association, the third replenishment of the Global Environment Facility, and the ninth replenishment of the African Development Fund. We hope the new funds made available by these replenishments will be used in an effective manner to realize sustainable development in developing countries.
Development effectiveness

It is encouraging that discussions held since the Monterrey Conference have yielded substantial progress toward more effective aid. We have learned from past experience that aid can be used efficiently and effectively, and can contribute to growth and poverty reduction when sound policies and institutions, as well as good governance, are ensured in recipient countries. Therefore, in countries unequipped with these preconditions, priority should be given to establishing an effective public sector, characterized by such features as accountable and transparent budget execution and tax collection, as well as fair and impartial public service.

From this point of view, we intend to actively extend our support in these areas through our trust funds at the World Bank. That is, we plan to expand the functions of the Policy and Human Resource Development Fund and the Japan Social Development Fund, to strengthen support for institutional and capacity building in core areas such as public expenditure management and financial auditing. Recognizing the particular need to train middle-class public servants in these areas, Japan, in cooperation with the World Bank and the Asian Development Bank, plans to enhance capacity-building assistance, including support for localized public sector training programs.

Another important way to increase the effectiveness of development assistance is to properly evaluate the results of assistance provided and to heed the lessons learned from these evaluation results. In this regard, we welcome the ongoing efforts of the World Bank and regional development banks toward better measuring, monitoring, and managing for development results. In making further efforts toward giving operational effect to these efforts, it will be necessary to build effective frameworks, including benchmarks that are tailored to country-specific conditions and that are transparent to donors.

Sustainable development

We welcome the successful conclusion of the World Summit on Sustainable Development (WSSD) in Johannesburg. At the WSSD meeting, Prime Minister Koizumi emphasized the importance of human resource development, including in the education and health sectors. Specifically, Japan plans to provide assistance of about $2 billion over the next five years for education in low-income countries. We are also reinforcing our ongoing efforts to combat infectious and parasitic diseases, our aim being to allocate a total of $3 billion over a five-year...
period that began in FY 2000. In addition, we plan to enhance our support in the social development sectors, including education and health, through the Japan Social Development Fund at the World Bank and in close cooperation with the Bank’s CDD-type projects.

It is also encouraging that the importance of the issue of water, which is essential for life, was highly recognized at the WSSD meeting. We are planning to convene the Third World Water Forum and its international ministerial meeting next March. We hope that representatives from many countries will participate in these meetings.

Having said that, I would also like to emphasize that, in addition to the efforts put forth in areas such as education and health, private-led economic growth is essential for sustained poverty reduction. In this regard, we should not underestimate the importance of providing assistance for physical infrastructure that promotes private sector activities. Another important challenge is to assist developing countries so that they can benefit from international trade.

Moreover, we highly appreciate the concept behind the NEPAD, an initiative for sustainable development emerging from developing countries in Africa, in that the initiative has been drawn up by African countries with their ownership and it clearly recognizes the importance of growth. Japan will further strengthen support for Africa through the Third Tokyo International Conference on African Development in October 2003.

Enhanced HIPC Initiative and PRSP Approach

In order for heavily indebted poor countries to advance toward sustainable development, it will be necessary to support them in implementing appropriate policies. For this purpose, effective implementation of the enhanced HIPC Initiative continues to be an important challenge.

Under the framework of the enhanced HIPC Initiative, 26 countries have reached their decision points so far, and six have reached their completion points. Japan has committed $4.8 billion in total, or one-fourth of the G-8 contributions to the enhanced HIPC Initiative, to these 26 countries. Debt relief under the enhanced HIPC Initiative should be regarded as a good opportunity to help the poorest countries attain sustainable development, and this initiative should continue to be implemented steadily.

However, debt relief is not a panacea for poverty reduction or economic development. Poor countries must make policy efforts in order to achieve sustainable growth and diversification of their exports. The
Poverty Reduction Strategy Paper, a development strategy worked out with the ownership of these countries, should be a central vehicle for such efforts. Japan supports countries in preparing and implementing PRSPs, including through our contribution to the multi-donor Poverty Reduction Strategies Trust Fund at the World Bank.

Assistance for reconstruction in Afghanistan

Turning to regional issues, assistance for reconstruction in Afghanistan continues to be an important challenge in the aftermath of the events of September 11, 2001. To achieve stability and reconstruction in a country that has seen conflict for more than two decades, unified support from the international community is essential. In this regard, we hope that the World Bank will continue to play a key role in the international support for reconstruction in Afghanistan, in cooperation with other development partners, including the Asian Development Bank and other international organizations, bilateral donors, and nongovernmental organizations (NGOs). As a responsible member of the international community, Japan will steadily implement support of up to $500 million over a two-and-a-half-year period, including through the Japan Social Development Fund at the World Bank, as pledged at the International Conference for Afghanistan Reconstruction held in Tokyo in January.

Measures Against the Financing of Terrorism

One year has passed since the tragic events of September 11. Various measures to fight against terrorism have been taken by the international community. We welcome the progress made by the IMF and the World Bank toward the inception of the assessments using the comprehensive AML/CFT methodology covering the FATF40+8 recommendations. Once this assessment begins, non-FATF member countries will be encouraged to accept it.

Japan has made far-reaching efforts to freeze the assets of terrorists and those who provide them financial support, reflecting the importance that it attaches to combating the financing of terrorism. To that end, Japan has been taking a series of measures blocking the assets of those who support terrorists, including joint actions on the part of the G-7 countries. By June, a set of laws to combat the financing of terrorism, which was required to domestically implement the International Convention for Suppression of the Financing of Terrorism, was approved by the Japanese Diet, and thus the Government formally accepted the
Convention. In order to fight terrorism, it is essential for all countries and relevant international organizations to continue to cooperate in taking all measures necessary to combat the financing of terrorism.

Conclusion

Lastly, I would like touch upon the modalities of the Annual Meetings. This year's abbreviated Annual Meetings provide a good opportunity to review the modalities of the Annual Meetings and we should consider ways that will enable us to have more substantive discussions. The IMF-World Bank Annual Meetings offer a valuable opportunity for economic policy leaders of member countries to convene in one place. It is therefore important to continue to consider the means to achieve more fruitful outcomes within the limited time available.

STATEMENT BY THE GOVERNOR OF THE FUND FOR JORDAN

Michel Marto

Mr. Chairman, I am honored, as representative of the Hashemite Kingdom of Jordan, to deliver the statement of the Arab Group of Governors at this year's joint annual discussion. Allow me, at the outset, to extend my congratulations on your selection as Chairman of this year's Annual Meetings of the IMF and the World Bank, and to welcome Timor-Leste as the newest member of these institutions.

The past year has been a difficult one for the global economy, as successive shocks contributed to the slowdown in the global growth rate that began in 2000, which, in turn, caused a deterioration of economic conditions in many countries. The increased incidence of crises over the past few years has weakened confidence in the effectiveness of the global economic and financial system. The apprehension of developing countries over globalization has increased, in view of the ease with which financial crises spread across borders, and the apparent ineffectiveness of the economic solutions put forth by the international community to resolve those crises and to minimize their detrimental ramifications. There is a growing concern that these developments will undermine the progress achieved by many developing countries in the context of
difficult reform programs aimed at raising living standards and providing a better future for coming generations. A strengthening of the global financial system is urgently needed.

There is a pressing need to reconsider the architecture of the global economic system. In this context, it is important to reaffirm the role of the International Monetary Fund in its surveillance of the global monetary system and in monitoring and coordinating the economic policies of its members. Recent developments in the global economy have particularly underscored the need to enhance the Fund’s ability to more effectively oversee the economies of the major industrial countries, as well as the need to give developing countries a larger role in global decision making, as their role has been eroding in recent years.

As capital markets are often closed to developing countries when crises erupt, it is also necessary to establish an effective international mechanism that would ensure the continuity of capital flows to countries with sound economic policies. It is also crucial to find ways to encourage more stable capital flows, particularly in the form of foreign direct investments, and to reduce dependence on short-term financing.

The difficulties experienced over the past few years have also underscored the need to strengthen international efforts aimed at establishing a mechanism for private sector participation in resolving financial crises that would provide for an orderly restructuring of sovereign debt to private creditors. Such a mechanism would be beneficial to both the debtor countries and their private creditors, as well as to the international community in general. We therefore welcome the efforts of the IMF over the past year aimed at developing a comprehensive Sovereign Debt Restructuring Mechanism, and encourage the Fund to continue to pursue this important goal in the hope that agreement on the mechanism can be reached in the near future.

The enhanced global awareness of the immense challenge posed by the struggle against poverty in all its forms has been reflected in strengthened efforts at international cooperation in many fora. Here I would like to commend, in particular, the important declaration of the Monterrey Conference on Financing for Development that was held earlier this year, with the objective of enhancing international cooperation in poverty reduction, and the acceleration of economic and social development in developing countries. It is now incumbent upon us, the international community, to translate the recommendations of this important conference into concrete action. On our part, I would note, and reaffirm here, the continuing positive contribution of the donor Arab countries and the Arab development institutions to the goal of poverty reduction through the provision of grants and concessional loans to numerous developing countries.
In this connection, we also applaud the role of the IMF in supporting economic policies aimed at reducing poverty in developing countries, as well as the increased focus of the World Bank Group on strategies for poverty reduction. We call on the World Bank to strengthen its efforts to increase lending and extend greater support to the private sector in developing countries. Increased attention should also be accorded to reducing the costs incurred by the borrowing countries, and to simplifying the Bank’s procedures. This is particularly important given the present circumstances where we witness a large decrease in the flow of private resources from international capital markets, underscoring the need for the World Bank Group and other international financial institutions to enhance their role in the transfer of resources. A cause for optimism in this respect is the agreement reached by the donor countries concerning the thirteenth replenishment of the International Development Association, which is directed at low-income countries in the developing world.

We also applaud the progress that has been made in implementing the HIPC Initiative, which has included 26 countries to date. However, a review of the general framework of the initiative is also warranted to enhance its effectiveness in increasing growth in a sustained manner in these countries and ensuring the achievement of tangible progress in reducing poverty. We also call for the establishment of an appropriate debt relief mechanism for middle-income countries saddled with high levels of indebtedness, where large sectors of the population also suffer from extremely low standards of living.

Still on the subject of poverty reduction and supporting economic growth in developing countries, we must also stress the crucial importance of the role of the industrial countries in opening their markets to exports from developing countries by reducing tariff and nontariff barriers, including import quotas, government subsidies (particularly in the agricultural sector), and excessively high taxes on petroleum products. International reports estimate that the annual losses to developing countries resulting from protective measures taken by the advanced countries are many times larger than the total value of annual official development assistance. The reports refer specifically to the negative effect of the barriers still imposed by the advanced countries on labor-intensive products, such as textiles, clothing, and, particularly, agricultural products. We therefore welcome the recent initiative by the United States, which calls for a reduction in the subsidies provided by advanced countries to their agricultural sectors, particularly given that the United States has recently doubled its agricultural subsidies. We hope that the advanced countries, under the leadership of the United States, will follow up with concrete steps in this direction in a timely manner.
We also reaffirm our support for continuing multilateral trade negotiations within the context of the Doha Round, while emphasizing the importance of first assuring the implementation without delay of the agreements of the Uruguay Round. In this regard, it is essential to facilitate the process of joining the World Trade Organization for developing countries, based on clearly defined rules that would provide adequate transitional periods for the revision of their relevant procedures and systems to ensure compliance with WTO regulations. The IMF must also accord a much higher priority to the removal of trade barriers in advanced countries in the context of its consultations with these countries, especially as it is accepted that this will benefit their own economies. We also urge the World Bank to provide developing countries with increased technical assistance to enhance their capability in trade negotiations and in penetrating and competing in foreign markets, particularly given the high costs they incur in implementing WTO agreements, which many developing countries cannot afford.

At the same time, we urge the advanced countries to increase their official development assistance to developing countries. It is well to note that despite the fact that the ODA provided by many of them is well below the target set by the UN, the ODA of a number of industrial countries has been reduced in recent years. We also reaffirm the importance of stabilizing the prices of basic commodities, including oil, at a fair level that serves the long-term interests of both producing and consuming countries.

The developing countries must also undoubtedly bear the primary responsibility in improving their own economic performance by implementing sound economic policies and reforming their institutions, in order to increase their growth rates and absorb their ever-expanding labor force. International financial organizations, such as the World Bank and the Fund, must also intensify efforts to increase their effectiveness in supporting the development efforts of their member countries. Here we would like, in particular, to welcome the review of conditionality undertaken by the IMF during the past year under the leadership of the Managing Director, aimed at streamlining and focusing conditionality on a limited number of conditions critical for program success. This will help strengthen member countries' ownership of their reform policies and raise the level of economic performance of the countries concerned, while encouraging them to turn to the IMF for advice and support before their problems become overwhelming.

In this connection, we also look forward to the Fund's review of program design to ensure that programs give adequate consideration to the particular circumstances and development goals of the countries concerned. We also stress the importance that technical assistance plays...
in the development efforts of member countries and urge that sufficient resources be allocated for this assistance in the budgets of the IMF and the World Bank.

Turning to developments in our region, the Arab countries have made much progress in economic and social reform during recent years, bringing about an important transformation in their economic structures by reducing the role of government and the public sector in productive activities, improving the investment climate for the private sector, and expanding the scope of its activities. Administrative procedures have been simplified through extensive legal reforms, and supervision of the financial sectors and capital markets has been strengthened. Some of the region's countries have modified their exchange rate regimes, making them more flexible and enhancing their ability to respond to changing external conditions. Nonetheless, the local, regional, and international challenges that continue to confront our countries require vigilance in continuing to strengthen our economies by adopting comprehensive economic policies with a long-term perspective and by upgrading our human resources to significantly increase employment.

The dangerous tensions that have been mounting in our region during the past year, and the serious deterioration of the situation in Palestine, have greatly affected the economic situation in the Arab world, adding to the severity of the slowdown in growth rates caused by current global conditions. Capital flows to the region have dropped sharply, tourism has declined, as have exports, all of which has adversely affected both economic growth and employment in the region.

While there are signs of recovery in tourist activity and exports, particularly among countries in the region, it is clear that a lasting improvement of economic conditions is closely linked to achieving a just and comprehensive peace in the region. We therefore hope that the efforts we are pursuing, in cooperation with the international community, will soon be successful in achieving a peaceful solution to the conflict, so that all peoples of the region may live in peace, security, and prosperity.

We call on the international community to take urgent steps to relieve the suffering of the Palestinian people, particularly in light of the warning issued by the United Nations on the danger of an impending human catastrophe caused by the continued Israeli blockade of Palestinian cities and the tightening of Israeli occupation of the territories, all of which has resulted in the devastation of Palestinian infrastructure and the collapse of Palestinian educational and health institutions, not to mention widespread unemployment.

In this connection, we would be amiss if we did not express our sincere gratitude and appreciation to the officials of the IMF and the World Bank working in the Palestinian autonomous territories, who
continue to carry out their duties under the most difficult and dangerous circumstances.

Given the dangers posed by money laundering and the financing of terrorism, not only to world peace and stability but also to the effectiveness and credibility of financial and banking systems, the Arab countries have supported international efforts in this area. Our countries have developed legislation and taken the necessary measures in accordance with international standards and principles developed for this purpose. In this connection, we reaffirm our support for the participation of the IMF and the World Bank in these efforts within the scope of their mandate and competence.

It is disturbing to note, however, that some Arab countries have been subjected to media attacks and biased propaganda, a development that hinders reform efforts in the region, since it adversely affects our investment climate and diminishes the effectiveness of our countries' efforts to stimulate economic growth. Such negative propaganda has damaging effects on the economy. It discourages the inflow of capital and induces capital flight. The encouragement of unsubstantiated claims and accusations against certain Arab countries, their financial institutions, and charitable organizations is indeed a grave matter. The international community must confront this dangerous development, which has no legal basis and could have serious economic, political, and social ramifications.

Despite these challenges, the countries of our region are determined to move forward to continue their development and reform efforts in all areas. We greatly appreciate the assistance provided by the IMF and the World Bank, and we look forward to further cooperation with both institutions to improve the lives of our people and to help them achieve the prosperity and stability to which they aspire.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR THE REPUBLIC OF KOREA

Yun-Churl Jeon

It is my pleasure and honor to represent the Republic of Korea at the 2002 Annual Meetings of the IMF and the World Bank. The global economy is recovering gradually, but the path ahead is uncertain, and the
risks are predominantly on the downside. On the one hand, against the
delayed U.S. economic recovery, the growth momentum in the EU and
Japan is also likely to wane. On the other hand, stock markets around the
world are still suffering from the burst of the IT bubble and the crisis of
confidence. Geopolitical risks are already putting a "Gulf premium" on
oil prices, and are not likely to help consumer confidence. Considering
these downside risks, we need a concerted effort by the leading econ­
omies to maintain the momentum of growth through a proper policy mix.
The developing economies, for their part, need to widen their sources of
growth to give a better balance between exports and domestic demand.

Let me briefly highlight recent economic developments in Korea.
After years of reform and restructuring, the Korean economy is perform­
ing solidly, with a growth rate of about 6 percent posted in the first half
of this year. Driven both by domestic consumption and exports, this
year’s growth is expected to be in the 6 percent range.

Looking to the future, Korea will maintain its reform drive and
firmly establish a full-fledged market economy system, where corporate
restructuring will be led constantly by market forces. At the same time,
we seek to enhance the economy’s long-term growth potential by fostering
high-tech industries, such as IT and business technology (BT), as
new engines of growth. We also plan to transform Korea into the hub of
northeast Asia in terms of logistics, finance, and other business. To this
end, we are expanding our airports and other infrastructure, including the
reconnection of the railways between South and North Korea, to be
extended to the Trans-Siberian and Chinese Railways.

I would like to discuss the ongoing global efforts to prevent
financial crises. Financial turmoil in some Latin American countries con­
tinues, casting a shadow of crisis contagion throughout the region. On the
positive side, we welcome the timely announcement of the IMF rescue
package for Brazil, warding off the risks of contagion. In the long run,
however, the international financial system will still face the challenges
of a new global environment.

Hence, we must continue our efforts to reform the international
financial architecture, focusing on a comprehensive framework for crisis
prevention and resolution. For this reason, Korea fully supports an
emerging consensus on the issue of private sector involvement. We also
welcome the newly added impetus at yesterday’s IMFC meeting on the
Sovereign Debt Restructuring Mechanism and the use of collective
action clauses.

We welcome the on-going Twelfth General Quota Review as an
opportunity to raise the capacity of the IMF to cope with crises. In the
process, we would like to see quotas adjusted according to the economic
realities of member countries and their enhanced roles in the international economy.

At the regional level, we welcome the progress on regional financial cooperation, including significant progress on the Chiang Mai Initiative. Equally important is the need to strengthen international cooperation to support poverty reduction worldwide. We support the World Bank's expanded role in pursuing the international development agenda. Korea is firmly committed to contributing more to the global partnership for poverty reduction, and I would like to take this opportunity to announce that Korea is planning to contribute to the HIPC Trust Fund.

Since the Inter-Korea Summit meeting of 2000, we have been working to ease the tension on the Korean Peninsula and produce the benefits of economic cooperation. In this connection, we invite the international community to take steps to support and enhance economic cooperation with North Korea. We also call on the IMF and the World Bank to help support North Korea’s smooth transition and integration into the global economy.

Appreciating the importance of international support for its development, Korea commits itself to working closely with the international community, including the Fund and the Bank.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE LAO PEOPLE’S DEMOCRATIC REPUBLIC

Soukanh Mahalath

On behalf of the delegation of the Lao People’s Democratic Republic (Lao PDR), it is my great honor and pleasure to address the 2002 IMF and World Bank Annual Meetings being convened today in Washington, D.C., the beautiful capital city of the United States of America. I would like to express my sincere appreciation to the management and staff of both institutions, and to the host country for the excellent arrangements made for the meetings. I would also like to congratulate the Democratic Republic of Timor-Leste as a new member of the Bank and the Fund, and welcome the Governors for Afghanistan back to the Boards.

This year’s Annual Meetings are particularly important and meaningful because they are being held in the midst of an environment in
which the Bank and the Fund are cooperating with the international community on poverty reduction, based on the spirit of the Millennium Declaration and the Monterrey Consensus. However, the efforts toward achieving the goal of poverty reduction may not bear the expected fruits due to the economic slowdown in the aftermath of September 11, 2001. The recovery of the countries affected by earlier economic and financial crises has been slow. Low consumption in industrial countries has led to deflation. This problem, if not addressed in a timely and appropriate manner, may spill over to other economies, thereby adversely affecting poverty reduction efforts.

With regard to the Lao PDR, the government is currently focusing on creating an environment conducive to high and sustainable economic growth. This in turn will contribute to poverty reduction, thus helping us to attain the strategic goal of exiting from least developed country status by 2020. The government continues to maintain its macroeconomic stabilization policy, while pressing ahead with the structural adjustment program. The legal environment has also been strengthened to be in line with market-oriented economic mechanisms to promote international cooperation and investment.

In conducting monetary policy, prudence has been maintained by limiting credits of the commercial banks to all sectors and credits of the central bank to the government. Sometimes, a loosening of monetary policy was introduced, as warranted by progress in inflation control. On the fiscal front, the emphasis has been on revenue mobilization and strict expenditure management. In the areas of production and trade, we continue to pursue an open door policy to promote the production of goods for domestic consumption and for export, thereby preparing the country for regional and global economic integration in the future.

As a result of our macroeconomic stabilization policy, inflation, which was at the three-digit level in 1998–99 was reduced to a single-digit level at the end of 2000. Since 2001, inflation has continued to remain, on average, at a single-digit level. Concurrently, the exchange rate has been reasonably stable, with seasonal fluctuations due to market movements domestically and internationally.

Macroeconomic stability has been an important factor contributing to high GDP growth of 5.7 percent in 2001, a modest reduction from 5.8 percent in 2000. In 2002, according to the preliminary forecast, the economy will continue to grow at 6 percent, due to an increase in construction and some large and medium-size investment projects. Adding to this more favorable environment for investment was the streamlining of the implementation of regulations for the Foreign and Domestic Investments Promotion Laws. Nevertheless, severe flooding in several
provinces may result in lower agricultural output, and thereby reduce expected GDP growth to, perhaps, the same level as in 2001.

Together with the macroeconomic stabilization policy, the government continues to implement structural reform, particularly in the state-owned enterprise sector and state-owned commercial banks. Tariff adjustments are being made for enterprises in the service and transport sectors in order to gradually achieve financial sustainability in line with commercial principles. With regard to banking reform, we will merge a weak State-Owned Commercial Bank (SCB) with one having a stronger financial position to create a new and viable SCB that can compete in providing banking services to society. In order to improve the quality of banking operations, particularly in the credit area and with the aim of reducing nonperforming loans, foreign advisers will be hired to assist the management of two SCBs. As for the Bank of the Lao PDR, work is ongoing to increase the efficiency of prudential regulations enforcement.

The government’s efforts in maintaining macroeconomic stabilization and structural reform policies have been supported by international financial institutions and the international community. The International Monetary Fund has been supportive with its medium-term Poverty Reduction and Growth Facility. In addition, agreements have been signed with the World Bank for the Financial Management Adjustment Credit and Financial Management Capacity Building Credit. The Asian Development Bank is also preparing to assist with its Banking Sector Reform Program Loan. Other friendly countries and international organizations are also extending their support to the Lao PDR under the Roundtable Process.

To pave the way for the implementation of the poverty reduction strategy, we are in the process of finalizing the National Poverty Eradication Program (NPEP), which will clearly identify spending on poverty reduction priorities, such as education, health, and rural development—particularly the construction of roads to facilitate market access. Sustainable environmental protection is also a top priority.

As a least developed country with several limitations, we are fully aware of the challenges and difficulties facing us in attaining the goal of the NPEP. However, with the strong aspiration of the people, who are the driving force of the development supported by international financial institutions and the international community, we are confident that the challenges will be met and that the difficulties will be overcome.

At this juncture, I would like to congratulate those contributing to the implementation of the Monterrey Consensus on their increased official development assistance and financial resources for the effective implementation of the HIPC Initiative. However, we remain concerned that the poor people of all continents may not be able to enjoy the benefit
of such increased assistance in an appropriate manner. I would like to emphasize that in order to ensure that the least-developed countries to develop in a sustainable manner, the industrial countries are urged to exert efforts toward reestablishing macroeconomic stability and to open their markets to exports from the poor countries. By doing so, reliance on external assistance will decrease, and the sense of ownership in poverty reduction will be enhanced. Above all, maintaining peace in the world is a prerequisite for fully concentrating the available resources toward poverty reduction consistent with the spirit of the Millennium Declaration.

In conclusion, on behalf of the government of the Lao People’s Democratic Republic, I would like to thank the Boards, managements, and staffs of the World Bank and the IMF and other member countries for the support extended to the Lao PDR. I wish all meeting participants great success.

STATEMENT BY THE GOVERNOR OF THE BANK FOR LUXEMBOURG

Luc Frieden

As we gather for these meetings and contemplate the world, we realize that our most important task as political leaders is to ensure that nations can live together in peace and prosperity. Despite substantial progress, children continue to starve in many parts of the world; men and women are killed in wars. Meetings such as these must help us to find solutions to our differences to build a world based on justice, fundamental human rights, and peace.

This requires a determined and cooperative policy. One year ago thousands of innocent people died in terrorist attacks in New York, Washington, and Pennsylvania. These infamous assaults remind us that the values of democracy, freedom, and peace are not to be taken for granted. This is no time for complacency but for decisive actions to make this world a safer place, free of poverty and exclusion.

The World Bank and the IMF play a crucial role in the fight against hunger, corruption and poverty. These institutions need our full support to restore the hope of deprived nations. Personally, I have no doubt that my country can lead by example in promoting good governance, in
fighting against the financing of terrorism and against money laundering, and in actively promoting development policies.

I would like to stress the importance of focusing in each country on establishing or keeping stable institutions that are subject to democratic control. The respect of the rule of law by independent judicial authorities must be ensured in all countries if we want to achieve our objective of peace and prosperity for all.

Luxembourg will continue to strongly advocate multilateral trade liberalization given that it is an essential and effective development tool. To the extent that developing nations are highly dependent on trade as their main source of continued growth and prosperity, we are fully committed to expand the foundation of an open and nondiscriminatory trading system. Against this background we will continue to work with our European partners to reduce subsidies and import restrictions.

With regard to official development aid, there is no excuse for many countries not having reached the long-standing UN target for official development assistance of 0.7 percent of gross national product. Millions of people starve to death every year; many babies are born into poverty and hunger and will die in infancy. Let us join our forces to achieve the international community’s commitment to halve hunger and extreme poverty by 2015. The need for global action is indeed compelling. My country will spend next year 0.84 percent of GNP as ODA. For us, this is not only an act of solidarity; it is also an indispensable element in fighting some of the causes of terrorism and illegal immigration.

But trade liberalization and increased ODA will not suffice to free the developing world from the straightjacket of excessive and completely unsustainable debt. It is a well-known secret that the debt burdens of low-income countries are a major impediment to development, growth, and poverty reduction. Debt relief under the enhanced HIPC Initiative is progressing well, and I continue to adhere strongly to the idea of linking debt relief and comprehensive poverty strategies to deliver manageable levels of debt. Unfortunately, not all HIPCs achieve this goal, be it that underlying growth assumptions have not been met, that some creditors fail to purge their claims, or that sound policies are lacking. Against this background it is crucial that the IMF and the World Bank ensure realistic debt sustainability analyses, that all countries fulfill their financial pledges, and last but not least that HIPCs implement sound macroeconomic and structural policies.

There is no doubt that good governance and accountability pave the way for successful structural reforms and effective implementation of macroeconomic policies. Best practices in the areas of fiscal, monetary, and social policies need to be fully adhered to.
In the light of recent financial crises, I firmly believe that sound and well-regulated banking and financial systems are an essential tool to ensure financial and macroeconomic stability. To the extent that Financial Sector Assessment Programs play a crucial role in promoting sound financial systems, it seems to be worthwhile to consider whether FSAPs should not form part of the IMF's Article IV consultations. At any rate, industrial countries should show the way and sign up for an evaluation under the FSAP. By doing so they could lead by example and support this essential tool of surveillance and crisis prevention. To underline our full commitment to the FSAP exercise, Luxembourg decided to volunteer for an FSAP in 2001. The FSAP concluded that Luxembourg is a solid, efficient, and well-supervised financial center. We will implement the recommendations for improvements made by the IMF team.

The FSAP was also an opportunity for us to further test our anti-money laundering and anti-terrorism financing framework. Luxembourg has always been at the forefront of combating abuses of the international financial system. During the FSAP exercise we agreed to run the Fund and the World Bank's draft methodology for assessing legal, institutional, and supervisory aspects of anti-money laundering and combating the financing of terrorism. I sincerely hope that this pilot experiment will help the Bretton Woods institutions and the FATF to complete a comprehensive AML/CFT methodology. Let me also reiterate that Luxembourg has already agreed to participate in an early assessment of its AML/CFT framework using this new methodology as soon as it becomes available.

In fighting crime and terrorism, prevention, cooperation, and the sharing of information are the key elements of a successful strategy. In a global world, poverty or crime in one place is not without effect on other countries. I strongly believe that dedicated nations, together with the Bretton Woods institutions, can change the world to become a safe and humane place.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR MALAYSIA

Dato' Shafie Mohd. Salleh

Amid a challenging external environment, the ASEAN economies have shown remarkable resilience and have recorded stronger growth in the first half of this year. With sound economic fundamentals in place,
and as a result of the successful implementation of various fiscal stimulus packages, Malaysia has been able to weather the impact of volatility in the external sector. Domestic demand has strengthened, and latest economic indicators show that economic recovery is under way, and conditions have improved in the second quarter of 2002.

Malaysia posted a strong 3.8 percent GDP growth in the second quarter of this year after experiencing modest growth of 1.1 percent in the first quarter. Growth was mainly driven by private consumption with manufacturing and the services sector providing the impetus. The stimulus for growth in private consumption was higher income arising from fiscal expansion, low interest rates, and an improvement in exports of commodities. Over the short to medium term, growth prospects are expected to further improve following measures to boost domestic investments in all sectors as announced in the recent 2003 budget.

Our banking sector continues to strengthen with a risk-weighted capital ratio of 12.8 percent, and nonperforming loans (NPL) of 8.1 percent. The Corporate Debt Restructuring Committee has successfully resolved the debt of 47 cases, or 98 percent of all cases accepted, with total debts amounting to RM43.97 billion. The recovery profile of the resolved cases has shown that 83 percent of the recovery proceeds were in the form of cash, redeemable instruments, and rescheduled debts.

When the IMF and World Bank met five years ago in Hong Kong, the "burning issue" was the Asian financial crisis. During the intervening period, we have seen significant progress in terms of measures on crisis prevention at the country level. In particular, the international community pressed for economic, financial, and corporate sector reforms in the crisis-affected countries to reduce vulnerabilities and strengthen the foundations for sustainable growth. At the height of the crisis, there were also calls for reforms in the international financial architecture to reduce, if not eliminate, the frequency and severity of crises.

Today, as we meet in Washington, it is encouraging that the Asian economies are, by and large, fully on the path to sustained growth. The progress made reflects the success of reform measures by the national authorities as well as closer economic and financial cooperation at the regional level. Policy initiatives by the Asian countries to promote domestic sources of growth and enhance intraregional trade have also helped to sustain domestic growth in an increasingly uncertain and fragile external environment.

Malaysia is well aware of the need to continually adjust its policies to address the challenges of an increasingly uncertain global environment, which has clouded the brighter outlook in Asia. While the global economy has improved since late 2001, many downside risks remain. Recent indicators suggest a weaker and more uncertain outlook, with the
financial markets becoming more volatile in recent months amid concerns over developments in the United States, particularly the weakening of the dollar, as well as developments in the corporate sector. In addition, developments in the Western Hemisphere have also heightened the risk of renewed crises. Volatility in financial markets has become more intense, with adverse implications for capital flows and foreign exchange rates. An increasing concern is also the rising trend toward protectionism in the developed countries, particularly in the United States.

In the circumstances, the international community, notably the major industrial countries, have a moral obligation to individually and collectively pursue policies that contribute to continued global prosperity. We urge the major industrial countries to resist the tide of protectionism and to open their markets to freer trade. Closer coordination of policies among the major industrial countries is also essential to ensure a stable international financial environment that will reduce volatility among the Group of Three (G-3) currencies. In particular, we call upon the G-3 countries to give due cognizance to the widespread impact of their domestic policy actions on the rest of the world.

Need for Fundamental Reform of the International Financial Architecture

The international community's efforts in addressing the problems arising from the Asian crisis have only been partially successful. Asian economies have undergone significant restructuring and reforms to rebuild the foundations for sustained growth. Notwithstanding the efforts at the domestic level, all countries remain vulnerable to abrupt external shocks, as long as there is no real progress in the reform of the international financial architecture (IFA).

To date, progress in real IFA reform remains elusive. In the wake of the tragic events of September 11, 2001, the focus of the international community's efforts on IFA reform has been on combating money laundering and terrorist financing activities.

Malaysia fully appreciates and supports the international efforts on this front. We recognize that terrorism constitutes a threat to international peace and stability. In this regard, we have put in place comprehensive measures to curb any abuse of Malaysia's financial system for terrorist financing and money laundering purposes. We recognize that it is crucial that comprehensive international efforts be put in place to combat money laundering and terrorist financing, as we are a firm believer in preventive and preemptive action in managing potential areas of risk and vulnerability.
While Malaysia fully supports decisive measures to curb money laundering and terrorist financing activities, we consider it equally important that international efforts be redoubled on fundamental reform of the IFA. We need to move beyond measures that merely tinker with the existing system, when a fundamental and complete overhaul is required.

Standards and codes

Progress on IFA reform has been mainly in the efforts by the IMF, among others, to "encourage" countries to adopt international standards and codes, and to be more transparent. Malaysia supports such efforts to provide markets with more timely and accurate data so that they can make more "informed" investment decisions. Malaysia was among the pioneer group of countries to sign up for the IMF's Special Data Dissemination Standard (SDDS). While we appreciate the rationale for international standards and codes, we strongly believe that its implementation must remain voluntary, with due consideration given to differences in country specific circumstances and priorities in terms of the level of economic development, and structure of the economic and financial system. Under no circumstances should countries be pressured into adopting standards and codes, nor should they become part of IMF conditionality.

Transparency

The emphasis of the international community is still skewed toward enhancing transparency of the public sector, with limited progress for the private sector. As recent events in corporate America have revealed, more concerted efforts are required to ensure that the "checks and balances" are in place to make the private sector more accountable for disclosing timely and accurate information.

It should also be recognized that enhanced transparency and disclosure is not an end in itself. Transparency does not guarantee stability, nor does it prevent a crisis. The reality has been that greater transparency and disclosure have led to "information overload," with financial markets misinterpreting and overreacting to the information provided, thereby creating greater instability. Accurate analysis and interpretation of the information disclosed is equally important in ensuring that enhanced transparency and disclosure are effective in promoting stability. At the same time, the IMF's transparency initiative must strike a balance between greater disclosure, while maintaining confidentiality. Here, we have strong reservations on the proposed policy of presumed publication
of all IMF country reports, as this could undermine frank discussions between the IMF and its members.

While we support the IMF’s initiative on transparency, we should caution that this initiative must strike a fine balance between the need for transparency and the need to maintain the confidentiality of the dialogue between the IMF and its member countries. In this connection, we have strong reservations on the merits of the proposed policy of “presumed publication” of all IMF country reports, including the Article IV consultation reports, which contain highly market-sensitive information. Efforts to promote greater transparency of the IMF’s operation and policies should not be at the expense of betraying the trust and confidence of IMF member countries.

Exchange rate issues

The urgency for IMF reform to ensure a safer world for globalization and liberalization is particularly evident in the current environment where the major international currencies are subject to excessive volatility. Concerted efforts are needed to mitigate the risks of a disorderly adjustment in the U.S. dollar exchange rate, as it would have wide-ranging negative implications for the global economy. Closer collaboration among the G-3 currency areas is essential to ensure stability in world currency and financial markets. In this regard, the G-3 countries must give due cognizance to the wider implications of their policy decisions, instead of focusing solely on domestic imperatives. This is particularly urgent in the light of recent assessments that there is little that monetary policy can do to rein in market excesses, without imposing damaging consequences on the real economy.

Reform of the IMF—Governance Issues

Reform of the IMF would not be complete without changes in the way the IMF and other international financial institutions operate. Current efforts at fine tuning the existing institutional framework, for example, the review of IMF conditionality and program design, are grossly inadequate. Fundamental reforms are needed to address governance issues, particularly the IMF quota structure.

The views of developing countries have been marginalized for too long as they are not adequately represented in the IMF’s decision-making process. A comprehensive reform of the distribution of IMF quotas is urgently needed to better reflect changes in the global economy, notably the increased relative position of emerging market economies. The IMF,
as a multilateral institution, must be a representative of all its member nations and not just a privileged few. There should be no room for veto powers in the IMF, and it cannot be seen to be an instrument of foreign policy for any particular member, however large.

Past efforts to improve the quota formulas have not resulted in significant changes in the way the quota structure is determined. While there is merit in considering alternative formulas, it is important that the development and inclusion of new indicators or new methods do not merely represent a change in the technical formulation but represent a step forward in ensuring better governance at the IMF. The Twelfth General Review of Quotas should take this into consideration and ensure that developing countries are adequately represented and that their views are taken into account in the decision-making process of the IMF. While this may be a protracted process, one way to address this issue is to increase the basic vote of each member, which has progressively eroded over the years, back to the Bretton Woods level.

There is no room for complacency in the reform of the IMF, given an increasingly globalized economy and highly integrated financial markets. In the aftermath of the Asian crisis, the international community has urged the Asian countries to set their economies in order by cleaning up the financial and corporate sectors, and strengthening macroeconomic fundamentals. Progress on this has been encouraging and has borne results. The challenge for the international community is to move ahead with real IMF reform to ensure a more efficient and stable international financial system.

World Bank Operations

On the brighter side, we wish to take this opportunity to commend the World Bank Group for achieving an increase in its lending from US$17.3 billion for the year 2001 to US$19.5 billion for the year 2002, taking into consideration the slowdown in the global economy and the worldwide impact of the events of September 11, 2001. We take note of the Bank’s emphasis on extending more than half of its International Development Association funding to the poorest countries in the East Asia Pacific region and the Bank’s continuous efforts to provide policy advice, technical assistance, and analytical services to member countries.

Malaysia is pleased that the Bank has mobilized the resources in its International Finance Corporation to catalyze foreign investment in difficult environments, particularly in emerging markets that are expected to remain depressed and volatile for the foreseeable future. However, Malaysia would like to call upon the IFC to extend its financial

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assistance to regions and sectors underserved by investment from the private sector, especially the infrastructure sector as it lays the foundation for rural development and improves market access for agriculture and farm produce.

On leveraging trade for development, we support this new initiative by the Bank, as trade is a crucial vehicle for developing countries to reap benefits from globalization. Market access in the developed world for products from developing countries will have a direct impact on growth and poverty reduction outcomes and will enhance the Bank’s role in developing the supply and export capacities of low-income countries. Provision of analytics and technical assistance in understanding trade liberalization implications, and necessary skills, knowledge and tools to ensure adequate negotiating capacities in WTO forums should be the Bank’s priority. The Bank’s analytical work can offer insights on how to mitigate possible negative short-term effects of trade liberalization on previously protected sectors of the economy and on fiscal revenues as a result of tariff reduction.

Malaysia takes note of the Bank’s New Water Resources Sector Strategy. This will provide great opportunities for financing the development of much needed water resources and subsequently expedite economic growth and development in poor countries. Furthermore, providing easy access to safe drinking water, particularly to the poor, is one of the Bank’s highest development priorities under the Millennium Development Goals.

Malaysia also welcomes the launching of the Education For All Fast-Track Initiative to help countries that have already made progress toward EFA to accelerate the achievement of Universal Primary Completion. However, our greatest concern is the 29 countries lagging farthest behind in achieving universal primary completion by 2015.

**STATEMENT BY THE GOVERNOR OF THE BANK FOR MALTA**

*John Dalli*

It is indeed a privilege to address once again the Annual Meetings of the International Monetary Fund and the World Bank. I thank the government of the United States for hosting these meetings, and join the other Governors in welcoming the Federal Republic of Yugoslavia as a
new member of the World Bank and the Democratic Republic of Timor-Leste as a new member of the IMF and the World Bank.

It is encouraging to note that after the global slowdown of the past two years, signs of a moderate recovery in international economic conditions are gradually emerging. There is understandable skepticism about the durability of this recovery, and the prevailing uncertainty in financial markets is a cause for concern. The threat of a renewed slowdown is affecting markets at the same time when many countries are struggling to achieve macroeconomic stability and set their economies on a path that will lead to sustainable growth. Furthermore, the situation in Latin America remains precarious, as the negative repercussions of Argentina’s crisis continue to be felt in neighboring countries.

In this regard, it is relevant to highlight the fact that the effects of contagion may be more widespread than anticipated, and this may cause the recovery in many developing countries to stall, as adverse financial conditions in one country impact on the markets of other countries. This may be considered the inevitable effect of the global integration of markets, as recent experience shows that depressed conditions in one financial market are automatically transferred to financial markets in other countries, despite the fact that such countries may be characterized by sound economic fundamentals. Unfortunately, however, instances where asset holders overreact to unfavorable price movements in debt and equity markets are on the increase. While the increasing homogeneity in expectations could itself be the result of the global integration of markets, it clearly adds to the debate on the costs and benefits of globalization.

It is generally recognized that the price mechanism, free trade and capital movements, and contained public spending should be the order of the day. In fact, there is clear evidence that those low-income countries that have experienced the highest growth rates happen to be the ones that have been more open to the rest of the world. Many countries embarked on extensive trade and exchange control liberalization programs following the recommendation of international financial institutions, but there were many others that did so on their own initiative.

Notwithstanding the beneficial effects of more open policies, it is evident that more and more countries have become susceptible to both the positive and negative economic and financial effects of developments in the international environment, despite the robustness of the global financial infrastructure. It is certainly a matter of concern for Malta, as the authorities continue to liberalize the economy through the removal of remaining trade and capital controls. The small size and openness of the Maltese economy make it susceptible to external developments, and this susceptibility will no doubt increase as levies on nonagricultural products
are lifted and the capital account liberalization program that was launched in 2000 approaches its final phase.

It is in recognition of this that we have continued to take further measures to strengthen our financial system. Over the past year we have enhanced the regulatory function in the area of financial services by establishing a single regulator, the Malta Financial Services Authority. At the same time we have broadened the powers of the central bank to enable it carry out a financial stability function besides its monetary policy role. The bank will be responsible for identifying risks in the financial system and for overseeing the payments system. The regulatory framework has also been made more robust through various amendments to financial legislation and the introduction of new laws. The latter included the setting up of a Financial Intelligence Analysis Unit, which is responsible for all matters related to anti-money laundering activities. Amendments to the Central Bank Act will also strengthen the bank’s independence and operational flexibility, while other amendments to financial legislation will bring Malta’s standards and practices further in line with those recommended by the international supervisory bodies.

The authorities in Malta have also completed an initial self-assessment of Malta’s adherence to IMF standards and codes in the financial sector. In fact, an FSAP mission is expected to visit Malta early next month to carry out a first assessment of the financial sector. We recognize the importance of such an assessment not only because it is our objective to establish Malta as a sound and stable financial center, but also because, despite the small size of the country we clearly understand that Malta has a responsibility to cooperate actively with the Fund in its endeavors to enhance its surveillance of the international financial system.

In this regard, we fully support the Sovereign Debt Restructuring Mechanism proposed by the First Deputy Managing Director of the Fund for the use of collective action clauses in sovereign bond contracts. If accepted, this proposal should enable key decisions in the debt restructuring process to be taken when negotiating with the debtor country. It may therefore prevent a financial crisis from getting out of hand by accelerating the arrangements that may be necessary to solve a country’s external debt problem. Indirectly it would also contribute to a resumption of private capital flows to developing countries as private investors would be assured that their investments in such countries would be more secure.

Malta also continues to support the efforts of the Fund and the Bank to combat poverty and notes with satisfaction the recent initiatives taken by these institutions to address this urgent issue. A very positive development in this regard is the World Bank’s proposed action plan for
achieving the Millenium Development Goal of universal primary education by 2015. Other positive steps have been the decision of donors to increase the proportion of International Development Agency assistance that will be given in the form of grants, and also the efforts of the Fund to review quota formulas. It is also important that the commitments undertaken by the international community at the UN Conference on Financing for Development in Monterrey—to improve living standards and reduce poverty through sound policies and more effective aid—be implemented with a minimum of delay.

We also welcome debt relief initiatives taken by the international community, particularly the HIPC Initiative, the IMF’s Africa Capacity Building Initiative, and the CIS-7 Initiative. These will continue to enhance the facilities that are available to eligible countries as they build their poverty reduction capacity.

Finally, I would like to refer briefly to the Plan of Implementation and the various partnerships announced at the Johannesburg World Summit on Sustainable Development earlier this month to reverse the decline in environmental degradation. Malta certainly welcomes these initiatives, and although it has very limited resources, it has pledged to increase its technical assistance to low-income countries and to encourage the participation of Maltese nationals in development projects overseas.

Malta too has benefited greatly from technical assistance provided by international organizations, in particular the UN, the IMF, and the World Bank. It clearly understands that through meaningful technical assistance, a country can implement correct policies that can better the economic and social conditions of its people without resulting in burdensome commitments. In the case of Malta, such assistance has been instrumental in enabling our country to achieve, over the years, a relatively high standard of living, paving the way for accession to the European Union.

I would like to conclude by thanking the management and staff of the Fund and the Bank for their continued support and assistance, and wish them all success in carrying out their challenging tasks in an international environment, which, over the year, has been difficult and uncertain. Finally, I would like to express my country’s appreciation of the assistance and advice that was provided throughout the year by the Executive Directors who represent Malta on the Boards of the Bank and the Fund.
It gives me great honor to address the 2002 Annual Meetings of the International Monetary Fund and the World Bank Group as Governor representing the Union of Myanmar. I would like to take this opportunity to express my thanks and appreciation to these two institutions and the government of the United States of America for successfully convening these meetings at this crucial juncture in this capital city, Washington, D.C.

Myanmar, with a population of 52 million in 2001, has an abundance of natural and human resources. Myanmar has been striving hard to develop its economy without official development assistance from bilateral and multilateral resources, mainly owing to economic sanctions and embargoes against Myanmar that have been imposed by some developed countries based on political considerations. This has hindered the speed of Myanmar's economic development. Although Myanmar is a legitimate and longstanding member of these two institutions—since the 1950s—the Fund and the Bank have suspended their assistance to Myanmar since 1987 without any justification, based mainly on political influence and considerations. Myanmar has been facing these unfair practices, challenges, and adversities with the strength of the nation, relying on its own resources for development of its economy, as we currently live in challenging and changing times in the global situation. On the strength of our own efforts, we have achieved remarkable progress in socioeconomic development across the country.

Myanmar is focusing its socioeconomic development program on narrowing the gap between the economic and social strata. We have been implementing socioeconomic development projects and infrastructure facilities with high momentum to enable the country to meet its development requirements. Thus we are able to build a new, modern developed nation.

Myanmar's first short-term (four-year) plan was successfully implemented from 1992-93 to 1995-96, achieving an average annual growth rate of 7.5 percent. A second short-term (five-year) plan followed from 1996-97 to 2000-2001, achieving an average annual growth rate of 8.4 percent. In its endeavor to develop its economy, Myanmar has emphasized not only sustainable economic growth and infrastructure
development but also the development of the education and health sectors to keep abreast of other developing nations.

We would like to reiterate that stability, peace, and security have been established, and a firm economic and financial foundation has been laid that will help Myanmar achieve high economic growth, a gradual reduction of the budget deficit, and a balanced budget at the end of FY 2005/06.

In conclusion, I would like to thank the IMF and the World Bank Group for their tireless efforts in successfully convening the 2002 Annual Meetings, and I look forward to better global cooperation and moving toward peace, stability, and development all over the world.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEPAL

Bharat Kumar Shah

It is a great honor for me to address the 2002 Annual Meetings of the Bank and the Fund. On behalf of His Majesty's Government of Nepal and on my own, I would like to thank the Bank and the Fund for the excellent arrangements made for this meeting. I would also like to put on record our sincere appreciation to the people and the government of the United States of America for the warm hospitality extended to us. I would also like to join other fellow Governors in welcoming the Democratic Republic of Timor-Leste as the newest member of the Fund and the Bank.

This meeting is very special to all of us since we are gathering here after a gap of one year in the aftermath of September 11, 2001. Although our regular meeting was interrupted by the act of terrorism, we appreciate the fact that the world has been united as never before to fight against terrorism. We therefore urge the Governors of the Bank and the Fund to use this unity and move forward resolutely in matters of economic cooperation as well.

Although the global economy has shown improvements and upturns in 2002, the recovery in poor developing countries has been sluggish due to external and internal shocks. We are also concerned about the downside risks to the small and poor developing countries owing to higher oil prices and regional uncertainties. The prolonged global economic downturn has also led to a sharp deceleration of capital flows in these
countries. Further, the decline of ODA to a mere 0.22 percent of GDP of
developed countries as against the target of 0.7 percent is a matter of a
serious concern to us. Therefore, we join the Bank, the Fund, and the
United Nations in calling on donors to scale up their aid and boost net
resource transfers to these countries to help achieve the Millennium
Development Goals, including halving the poverty level by 2015. In this
regard, the role of the international community toward capacity building
of poor countries is also equally important. We need not elaborate here
on the critical role of development assistance for the poorest countries
like Nepal. As such, we urge advanced economies to honor their commit­
tment toward poor developing countries.

We believe that the Bank and the Fund have important responsibil­
ities in making globalization work better for poor countries. Given the
wider access of these institutions in the international arena, they are in
better position to help poor countries to prepare themselves for the
opportunities and risks posed by globalization. We encourage the Bank
and the Fund to be more proactive in managing globalization to the
benefit of poor countries. In our view, much work still needs to be done,
especially in structural reform and institution building in poor countries
so as not to exclude them from the process of globalization. Improving
market access for greater coherence between aid and trade would
certainly help poor countries to achieve economic growth and alleviate
poverty. In this regard, we urge greater market access for the products of
poor countries along with an enhanced level of development assistance,
debt relief measures, and capacity building of poor developing countries
in line with the Doha Development Agenda of the WTO and the
Monterrey Conference on Financing for Development. I take this
opportunity to request that developed countries assist the least developed
countries to enter into the WTO on a fast track basis without seeking
many concessions from them.

On strengthening the international financial system, we support the
Fund’s role in crisis prevention and resolution within its areas of
expertise and resources. The developing countries should be provided
with technical assistance to enhance their capacity to combat money
laundering and terrorist financing. With regard to lending policies and
conditionality, we encourage the Fund to review regularly the applica­
bility of such conditionality, taking into consideration the mandate of the
Fund and the capacity of countries to implement such conditionality.

We would like to commend the Fund and the Bank for sharpening
their focus on poverty in recent years. However, the time has come to
assess the impact of such efforts on alleviating poverty in poor countries.
In our view, the Fund and the Bank still need to be more country specific
in their approach rather than following a “one size fits all” approach. We
thank the Bank for successfully concluding negotiations on the IDA-13 replenishment. Donors also deserve our appreciation for providing grants to IDA in the range of 18–21 percent to address the special difficulties faced by the poorest and most vulnerable countries. We hope that the portion of grant will be increased even more in the next replenishment of IDA so as to lessen the debt burden of debt-ridden poor countries.

With regard to the HIPC Initiative launched by the Bank and the Fund in 1996, it is discouraging to note that progress has been slow. Although consensus emerged in 1998 for deeper, broader and faster debt relief, most of the heavily indebted countries remain outside of the coverage of this initiative due to rigid debt sustainability criteria. We once again urge the adoption of a comprehensive debt relief package that includes all poor countries such as Nepal as the real solution for a debt free world.

The evolution of the Poverty Reduction Strategic Credit and Poverty Reduction and Growth Facility as innovative instruments for carrying out Bank’s and Fund’s mission for poverty alleviation will be crucial in providing the quick disbursement of external financing and supporting policy and institutional reforms to member countries. However, we feel that conditionality of such lending should be more realistic and have a greater country ownership.

I would like to briefly dwell upon the current economic situation of my own country. Nepal is currently passing through a critical juncture in its economic history due to domestic as well as external factors. In fiscal year 2001/02, our economy grew by less than one percent compared to 4.3 percent last year owing to a decline in manufacturing and a slowdown in the services sector, including trade and tourism. Maintaining fiscal balance was a formidable challenge because of the decline in revenue mobilization due to the slump in our foreign trade, industrial, and service sectors, and the additional funding required for maintaining law and order. The external sector also experienced a setback. Both exports and imports declined, and the balance of payments recorded a deficit. However, foreign exchange reserves remain at comfortable level and are sufficient to cover one year’s merchandise imports.

His Majesty’s Government has initiated several reform measures to overcome the present situation as well as to pave the way for long-term development. First, security measures have been tightened to improve the law and order situation along with the allocation of more resources. Second, the government has been implementing the Immediate Action Plan, which aims at prioritizing public resources and providing immediate relief to the people and reducing poverty as envisaged in the Tenth Plan/Poverty Reduction Strategy Paper. The Immediate Action Plan also aims to improve the quality of public services and enhance transparency.
and accountability. Similarly, with a view to improve governance, the government in collaboration with civil society has formulated a Comprehensive Anti-Corruption Strategy.

Policies have also been adjusted to address the present economic difficulties. Public expenditure management and resource mobilization have been given top priority. The financial sector reform program is progressing with the restructuring of the ailing banks, new directives in implementation, and strengthening of the central bank to make its regulatory and supervisory role more effective. Macroeconomic policies and corporate governance measures are being implemented to create an environment conducive to private sector development. To reinvigorate the sluggish economy, the central bank has adopted a flexible monetary policy by cutting down bank rates and cash reserve ratio requirements of commercial banks with a view to injecting more liquidity into the economy.

The government has recently approved the Foreign Aid Policy, which contains a comprehensive reform package to enhance aid effectiveness. The policy demands behavioral changes, as well as procedural harmonization on both sides—donors and recipients. Also, this policy intends to ensure better utilization of foreign aid by addressing aid-related issues. The government has also adopted the Medium-Term Expenditure Framework under which all projects and programs have been prioritized, and resources have been estimated for the next three years with a view to ensure predictability in the budget processes. For an enhanced level of revenue mobilization, measures have been initiated to broaden the tax base, create an investment friendly environment, and adjust tax rates as necessary. Governance reform measures aimed at making the civil service right-sized, efficient, accountable, and results oriented are progressing. Decentralization is being institutionalized to ensure the effective delivery of public services, empower local bodies, and mobilize local resources for meeting development needs.

Currently, the country is facing political and economic challenges arising from the Maoist insurgency, and the government is determined to resolve the problem. The government is moving ahead with economic reforms. The reform program could be supplemented by the Poverty Reduction and Growth Facility/Poverty Reduction Strategic Credit of the Fund and the Bank. Achieving the goal of poverty reduction, which is also the overarching objective of the Tenth Plan, would not be possible with our resources alone. We need donor support in this process. Thus, Nepal urges the Fund and the Bank to support our endeavor with an additional poverty reduction program and flexible budgetary support.

Finally, I would like to conclude by thanking the Bank and the Fund for their continued support in the development endeavors of my country.
Over the past 50 years, globalization has been the source of unprecedented gains in human welfare. But it has also brought risks and challenges, such as disruptive volatility in international capital and trade flows. Both the IMF and the World Bank play a crucial role in guiding and shaping the process of globalization. In particular, over the last five years, both institutions have clearly shown that they have learned to adapt their policies to the needs of a changing global economy. I would like to highlight six areas in which initiatives need to be strengthened and renewed for global stability and growth, and for more inclusive globalization.

**Learning from the Asian crisis—An unfinished agenda**

The IMF and the World Bank have drawn clear lessons from the Asian crisis, which threatened global stability and growth exactly five years ago. First, they have led new initiatives to monitor the complex linkages between a country’s macroeconomic and structural development and the quality of its institutions, notably through the Financial Sector Assessment Programs and the Reports on the Observance of Standards and Codes. Second, along with promoting transparency and adherence to the universally accepted “rules of the game” among their member countries, the World Bank and the IMF themselves have become increasingly open. Third, the Bank and the Fund have taken steps to focus and streamline the conditions of their lending, promote national ownership, and achieve a sound division of labor. Notwithstanding considerable progress, the agenda emerging from the Asian crisis is still unfinished. The Netherlands encourages both institutions to continue these initiatives.

**The crisis in Latin America—Setting a new agenda**

New risks threaten global stability and growth, which—and this is important to emphasize—are not confined to the emerging economies or developing countries. As noted in the *World Economic Outlook*, one of the risks is the widening current account deficit of the United States. The
second risk relates to the sense of uncertainty regarding the "true value" of corporate USA. Apparently, there is a need to pay as much attention to risks and vulnerabilities arising in the so-called advanced economies as we do to problems in emerging markets and developing countries. The third risk to global stability and growth is the crisis in Latin America. This crisis in particular should give birth to at least three new or renewed initiatives. The first is the new framework for debt sustainability as an essential part of the Fund’s work in crisis prevention and crisis resolution. The second initiative is the impetus given to the discussion on ways to smooth debt restructuring processes. The Netherlands welcomes efforts by the IMF to make progress on the design of the Sovereign Debt Restructuring Mechanism proposal as well as the promising first results of the work by the G-10 on collective action clauses. This two-track approach also demonstrates the clear intention to move away from bailouts toward workouts.

Solving the crises—It takes three to tango

Third, the crisis in Latin America has nourished the discussion on the financing role of the IMF in managing financial crises. We support the intention to make the policy on access to IMF resources clearer and more predictable. Exceptional access should be truly exceptional. Otherwise IMF support might provide incentives for private lenders to underestimate risks and for national authorities to refrain from adopting sound policies. The Fund’s interventions are necessary, but not sufficient to promote global stability. In this case, it takes three to tango: the Fund, the country, and private creditors. Against this background, a general quota increase does not seem needed at this juncture. We also urge the Fund to be cautious in its review of the quota formulas. It requires utmost care to ensure that changes to the system do indeed constitute improvements, and do not weaken its logic and robustness. We particularly believe that quotas should adequately represent countries’ openness in both trade and financial terms. The current quota system performs its complex task relatively well.

Intensifying the fight against terrorism financing

Spurred by the dramatic events of September 2001, the IMF and the World Bank have intensified their efforts to ensure the integrity of financial markets, in particular by fostering compliance with the international standard in the fight against money laundering and terrorism
financing. We strongly support the Bretton Woods institutions in contributing to this fight through their surveillance activities, notably the ROSC process and technical assistance. We urge both institutions to collaborate with the FATF and FATF-style regional bodies. As agreed last year, the IMF will coordinate efforts to identify and respond to the need for technical assistance. In order to allow the IMF to perform this role in an optimal way, the Netherlands stands ready to support technical assistance activities with a financial contribution of €400,000.

The Monterrey Consensus—Put your money where your mouth is

Globalization should work for all. In Monterrey and Johannesburg, we have done the talking; let us now do the walking. Among other actions, this task implies not only increasing the quantity but also the quality of ODA by focusing more clearly on results. The way in which we practically deliver aid is crucial to improved development effectiveness, which is required to achieve the Millennium Development Goals. Aid effectiveness is not only a matter of shifting to performance-based aid allocations. We believe that partnership, coordination, and respect for the country-driven nature of policies and systems are of equal importance. Many countries have devised national development plans and are trying to mobilize the necessary resources. At the same time, however, they have to manage a multiplicity of individual donor projects and international initiatives. Strategic alignment, harmonization, and coordination among donors are therefore major challenges in enhancing aid effectiveness. This is clearly shown by the case studies on Education for All, water and sanitation, and HIV/AIDS.

HIPC—Paying your bills

One of the greatest initiatives of the last few years, the HIPC Initiative, risks losing its glamor. The Netherlands urges the World Bank and the IMF to place more emphasis on the significant problem of the current financing gap, estimated at nearly US$1 billion. Several of us have already fulfilled our HIPC commitments, on top of which we have cancelled additional debts of several HIPCs bilaterally. It is now time for pledges already made by other donors and institutions to be honored and new commitments to be made to fill the financing gap. But also the results of the HIPC Initiative are at risk. Ultimately, each HIPC should be able to stand on its own feet and attract financing and investments without constantly facing the specter of unbearable debts. There are three
ways to render the initiative more effective. First, the World Bank and the IMF should engage in a closer monitoring of the balance of payments of HIPCs. The impact of exogenous shocks on the manageability of the debt will then become visible sooner. Second, it should become standard practice to offer HIPCs capacity-building assistance in the sphere of fiscal and debt management, as part of the debt relief package. Third, economic growth and productive employment should be promoted by better market access, export diversification, and an improved investment climate to provide a more solid basis to withstand future shocks. Fourth, we should expand to all HIPCs the OECD agreement on untying ODA to the least developed countries. The HIPC Initiative needs to be put on a stable footing. We hope the World Bank and the IMF, as well as the larger development community, will take up these new challenges.

We trust that under the excellent leadership of Messrs. Wolfensohn and Köhler both institutions will keep on learning and applying lessons learned in the areas I have mentioned: continuing the initiatives that emerged from the Asian crisis, taking up the new challenges from the crisis in Latin America, implementing the Monterrey Consensus, and keeping the HIPC Initiative “alive and kicking”—not for their own sake, but in order to better promote global stability and growth and to make globalization more inclusive. Rest assured of the continued support of the Netherlands in doing so.

**STATEMENT BY THE GOVERNOR OF THE FUND FOR NEW ZEALAND**

*Michael Cullen*

Fellow Governors and delegates, I am delighted to be able to participate in this meeting.

*The international development cooperation architecture*

We have seen a remarkable year in discussions on global development issues. At the Financing for Development Conference in Monterrey, developed and developing countries reached an unprecedented agreement on the direction of our joint efforts to reduce poverty in line with the Millennium Development Goals. Ministers and leaders agreed that development financing encompasses domestic and international
finance, private funds and ODA, and trade and investment, and that sound policy settings and good governance largely determine effectiveness.

Policy coherence is also vital, not only for developing countries so that efforts in one sector are not undone by conflicting policies elsewhere, but also for donors: rich countries that maintain billion-dollar agricultural subsidies and support undermine their assertions of commitment to developing country interests through aid and loans.

We look forward to rapid and thorough agricultural liberalization for a true WTO "Development Round." New Zealand is committed to the developmental aspects of the round. We wish to see that special and differential treatment provisions are used in the interests of growth and poverty elimination in developing countries. We will also continue to support trade-related capacity building for our developing country partners, through the Global Trust Fund and through regional and bilateral assistance.

Taken together, Financing for Development, the Doha Development Agenda, and the recent World Summit for Sustainable Development outcomes set us on the path toward a new era in development, and one in which the Bank and the Fund will have a key role to play.

We have, however, learned from experience and analysis, and agreed recently in Monterrey, that common principles characterize effective development: strong country ownership, partnerships of mutual respect, good policy environments and governance, and assistance targeted to priorities that have the best chance of making progress toward the Millennium Development Goals.

Nga Hoe Tuputupu-mai-tawhiti

I am pleased to announce that my Government established a new development agency in New Zealand on July 1, 2002, with a central focus on poverty elimination, to work with our key partners in the Pacific region and on the global stage to reach the ambitious targets that the global community has set for 2015. The new agency will face challenges, as will we all. Let me cite two as examples:

- Good practice suggests concentrating development assistance on what is effective, with a focus on results, and on the policy and institutional changes that need to be made to achieve these results. But what if your key development partnerships are with states that may lack capacity, sometimes lack commitment to reform, or both, and are beset by conflict, corruption,
and vulnerability to natural disasters? A responsible partnership surely would provide assistance in overcoming these challenges, in the interest of helping these states to achieve the MDGs, rather than ignore their condition and instead support better performers elsewhere. We need to keep this firmly in mind in discussing effectiveness questions.

- Also, the development bargain struck at Monterrey and reinforced at Johannesburg involves improved governance and performance on the understanding that increases in ODA financing will follow. Is the donor community prepared to deliver? Are the performance indicators appropriate and realistic for measuring improved governance? We are, I suspect, some way from concluding positively on either count.

**Debt relief**

In 1999, we committed ourselves to "deeper, broader, and faster" debt relief to every eligible country that could translate the resources into better prospects for its poor. By the end of July 2002, agreements were in place—with relief flowing—to 26 countries, for debt service relief amounting to some US$27 billion.

Many factors contribute to poverty in developing countries: economic and political history, poor economic management, weak governance, armed conflict, and external factors such as deteriorating terms of trade and climatic problems. In about half of the 80 poorest countries, particularly the 41 HIPC countries, but in others too, such as in the Pacific, unsustainably high external debt has also become a key constraint on development.

We need to follow through on a comprehensive strategy to support achievement of the MDGs and reduce poverty. We need to do so based on the twin pillars of home-grown efforts by all HIPCs to create the basis for sustained pro-poor growth, and more decisive support from the international community.

The HIPC Initiative should be seen as part of this comprehensive approach. It is removing debt as a constraint to poor countries' struggle against poverty. It sets the stage for determined countries, supported by the international community, to overcome other constraints to exiting from poverty. Relief is delivered only to those countries that have demonstrated the commitment and capacity to use the resources effectively. In a world of scarce development resources, it is crucial to ensure that debt relief will actually make a difference in the lives of the poor.
As could be expected, the 12 countries yet to enter the HIPC Initiative face some of the biggest challenges to establishing a satisfactory track record, with many affected by conflict. It is therefore important that the international community press forward with the HIPC Initiative with pragmatism and common sense, utilizing the flexibility in the initiative to enable these 12 countries to progress to decision point quickly, where there is sufficient assurance that the additional resources will be used effectively to pursue poverty reduction. New Zealand also wishes to see countries make a robust exit from the initiative, and so welcomes the use of realistic debt sustainability scenarios to assess post-HIPC debt sustainability.

Full creditor participation is also critical to the success of the initiative. We strongly encourage all creditors yet to do so to confirm their commitment to the initiative. We also encourage all shareholders of multilateral creditor institutions to play their part and ensure that their institutions are able to participate fully.

Important as debt relief is, however, the gains to developing countries from trade liberalization and from effective mobilization of private capital flows would swamp those that accrue from debt relief. Further agricultural trade liberalization is of particular importance to developing countries.

Global official development assistance in recent years has totaled US$50-60 billion a year. Debt relief under the HIPC Initiative was US$1.4 billion in 2001. At the same time, the current trade policies of some industrial countries directly neutralize the effectiveness of aid.

Greater coherence between aid and trade policies is essential. A coherent approach requires trade policies to create market opportunities for developing countries, and development policies enable them to respond to these opportunities. The trade and development communities must work together more closely than they have in the past. This is the essence of the Doha Development Agenda of the WTO, the Financing for Development Conference in Monterrey, and the WSSD. This is a significant challenge, and one that will require donor countries, development banks, the IMF, the OECD, the WTO, and the UN system to engage each other, as never before, and with their development partners. Achievement of the Millennium Development Goals rests on success in this.

Small states

New Zealand welcomes the growing commitment by the Bank and the Fund to addressing the unique challenges facing small states. Many
challenges face our small state development partners in the Pacific—including vulnerability, isolation from markets, post-conflict trauma, and diverse social and cultural settings. We look forward to increasing dialogue with the Bank, the Fund, and our development partners on donor coordination and harmonization in small states in the Pacific region.

As in any region, the Pacific has witnessed poor governance constrain development, as well as lead to conflict and breaches of fundamental rights of citizens. Small states face additional challenges of small populations and limited capacity in government—its functioning and basic machinery. One example of poor governance and systems failure is the emergence of gaps in banking supervision and regulation, tax evasion, and corruption. Pacific countries face redoubled challenges to meet international standards and participate in initiatives to eliminate money laundering and the financing of terrorism, harmful taxes, bribery and corruption, and to improve financial and corporate governance. New Zealand, through its specialist agencies, Ministries, and NZAID, stands ready to assist our neighbors to overcome these challenges.

**Effectiveness of the IMF**

The purpose of the IMF is to help ensure the orderly and stable growth of the world economy. New Zealand commends the reforms to date aimed at focusing the work of the Fund more sharply on core responsibilities and expertise. These reforms have included revisions to the IMF’s financing facilities, a reassessment of the conditions attached to its loans, closer collaboration with the World Bank in areas such as financial sector assessment programs and debt and poverty reduction, a prioritization of its technical assistance programs, and a firm commitment to transparency and accountability. At the same time, the effectiveness of the Fund will continue to be judged by its success in preventing and resolving crises.

Surveillance is the main avenue to the Fund to identify an impending crisis early on. But crisis prediction will always be imperfect because crises are heterogeneous; they occur for different reasons in different settings and at different times. However, rather than being inevitable and preordained, crises generally afflict countries that have entered a danger zone where the government lacks the political and economic capacity to fend off financial pressure.

New Zealand considers that it remains possible to identify steps to limit both the incidence and severity of crises, such as strengthening the supervision and regulation of financial institutions, rationalizing exchange rate regimes, and reforming fiscal and monetary institutions.
Strengthening the focus and persuasiveness of Fund surveillance in these key areas is a priority.

A renewed bout of crises in emerging markets over the past two years should spur efforts to improve our framework for crisis resolution. Fund support in the wrong circumstances may encourage governments to cling to unsustainable policies. This permits financial vulnerabilities to build up, in turn leading to more severe fallout in crises. Repeated rescues also weaken market discipline, encourage more risky lending, and lead to an increase in vulnerability to future crises. At the same time, the costs of unsuccessful crisis resolution are high. Poverty increased much more in countries where crises led to defaults and financial collapse—Indonesia, Russia, and Argentina—than in countries where international rescues helped restore financial confidence—including Mexico, Thailand, South Korea, and Brazil in 1999.

The ultimate aim of IMF assistance is to create breathing room for a country to put its house in order. New Zealand welcomes the increasing recognition that IMF assistance is effective in reducing uncertainty and restoring investor confidence where there is a strong domestic constituency for reform. We strongly support the policies put in place to strengthen the basis for decisions in cases of exceptional access, including a more rigorous framework to ensure debt sustainability, and strengthening the procedures and criteria surrounding exceptional access. However, the judgments in individual cases will remain very difficult, and the ultimate test of these frameworks is whether our exceptional access programs are successful.

Where debt is not sustainable under a credible set of policies, the international community should recognize that restructuring a country’s debt burden is the only option to restore sustainability and growth. However, the option of restructuring debts is usually considered to be too messy, disruptive, and painful, and too threatening to the international system.

New Zealand welcomes the recent proposals to make sovereign debt restructuring less costly. A more orderly process could help to reduce the large economic dislocation associated with large-scale debt restructuring. While we are willing to listen to proposals for reform, we must be realistic about the legal, political, and bureaucratic challenges ahead.

No one should be under any illusion that the proposal for a Sovereign Debt Restructuring Mechanism would be easy to implement. First, proposals for a formal international mechanism for sovereign debt restructuring would imply a dramatic increase in the level of trust in international law and international institutions. Second, the criteria governing when a country’s debts are unsustainable remain very uncertain. Third, a key impediment to proposals for reform of the framework
for sovereign debt is the implications for the incentive for opportunistic sovereign defaults. A strengthened mechanism to ensure that debtor countries pursue sensible economic policies during the payment standstill would have to be developed.

The contractual approach offers a less intrusive solution to the problems of holdout creditors disrupting a restructuring agreed between a sovereign and a majority of creditors. We welcome the fact that the contractual alternative is being pursued in tandem with the work on the SDRM. Some have raised the possibility that contractual provisions will not work because they do not currently allow for voting across different bond issues. However, the key is not to make creditor litigation impossible but to make it sufficiently difficult so that restructuring is the most palatable alternative.

We look forward to further work on the appropriate design of contractual clauses. In terms of implementation, changes in listing requirements in key financial centers offers the quickest route to a contractual solution.

The Twelfth Quota Review

New Zealand acknowledges that a plausible case can be made either for or against a quota increase. We support addressing the large under-representation of several members of the Fund. Some say that perhaps the only way of addressing this under-representation would be through a general quota increase, although our preference would be that the issue is dealt with immediately by other means. We must also acknowledge that there does not seem to be sufficient support for a quota increase, although there is always the option to bring forward the Thirteenth Review should sufficient support develop.

Terrorist financing and anti-money laundering

New Zealand is committed to the fight against money laundering and against terrorism and its associated activities. We are well placed to meet the various obligations arising from international agreements and standards (including UNSCR 1373 and 1390 and the FATF 40+8 recommendations), and we will be in full compliance with our international obligations with the enactment of existing or planned legislation.

It is important, however, for the international community to be fully aware of the need for realistic expectations of, and assistance to, the
various micro-states of the Pacific region and elsewhere if they are to play their part effectively. We should endeavor to avoid excessively prescriptive and complex approaches in the case of these micro-states, given their lack of infrastructure and limited resources.

Summary

Both the Fund and the Bank have made progress over the past year in making themselves more effective international institutions. A well-functioning Fund and Bank are important cogs in the global financial and development assistance architectures.

New Zealand commends the work of the leadership and staff of each institution in promoting global financial stability and reducing poverty in developing countries.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

Shaukat Aziz

It is a great honor and privilege to address the 2002 Annual Meetings of the World Bank Group and the IMF. I also join my other colleagues in appreciating the excellent arrangements and the hospitality extended to us.

We live in times that pose unprecedented challenges and also opportunities. Despite the ample progress made, a large part of the world’s population continues to be deprived of the means of the most basic sustenance. Even larger numbers exist on the margins of subsistence. Illiteracy, ill health, and poor nutrition continue to condemn large segments of humanity to perpetual poverty.

Yet, there is a great opportunity within our collective grasp; an opportunity that is indeed historical and presents itself only rarely during a lifetime. Today, we have the vision of a world where poverty, disease, and want are banished, where the poor not only once more dare to hope and dream but also to see, feel, and appreciate the positive changes in their lives. All that we may espouse, theorize, or achieve in macroeconomic stability and reform will come to naught, if it does not translate into a better life for the countless millions who have known nothing more
than the squalor, despair, and humiliation that only the poor know and understand.

Today we have a global partnership of mutual responsibility, accountability, and, above all, trust, forged at Monterrey and reaffirmed at Johannesburg. The world perhaps has rarely, if ever, seen such a unanimity of views on issues affecting the global community. This is indeed the challenge before us—to translate this vision into reality. Can we walk the talk? Mr. Chairman, we cannot afford to lose any more time.

The primary responsibility for development rests with the developing countries themselves. They have to provide the vision, the spark, and the commitment to restructure and deliver reform within a stable macroeconomic framework. The developed world must help us to help ourselves. This is the bottom line. We do not look for permanent crutches. We look for partnerships that provide not only concessional financing flows, but also knowledge and, above all, access to markets— for trade is really the least-cost solution for the world at large. What is the point of enhancing capital flows if capacity to repay them continues to be constrained by restrictive trade practices? We therefore very much welcome that the Bank and the Fund are playing the lead role in both advocacy and coordination with other development partners in focusing on access to markets, as these lead to sustainable development. We feel that trade must be placed even higher on the agenda of the development dialogue. We urge industrial countries to reduce tariffs and nontariff barriers ahead of the development round, as a gesture of the partnership that binds us together.

We welcome the several initiatives that are being taken by the international community. We deeply appreciate the conclusion of IDA-13 not only for the resources made available, but also for the participatory nature of the process. We also welcome the provision for grants but emphasize that this should not hurt IDA’s financial structure or impair its ability to extend concessional assistance. We also welcome the several bilateral commitments to enhance ODA. We urge that these pledges be fulfilled with some urgency to augment financial flows to developing countries as a countercyclical offset to the current fall in private capital flows and the downturn in the global economy. The promise of harmonization of donor policies and procedures is yet another welcome step that will reduce the transaction costs of aid and enhance its effectiveness. We therefore look forward to the outcome of the Rome Conference in February 2003. In the development partnership between us, donors sometimes tend to micromanage. This we caution against, since micromanagement dilutes both capacity and ownership.

The enhanced HIPC Initiative has played a critical role in the path to debt sustainability within a stable macroeconomic framework. We
venture to point out, however, that the issue of debt sustainability is far larger than what is being covered under this initiative. We urge the development of an effective mechanism for managing the debt overhang of non-HIPCs which are undertaking credible reform programs and need fiscal space in order to invest more in human development. We note the work under way on developing a framework for sovereign debt restructuring and only caution that whatever measures are proposed should not impair developing country access to financial markets.

Developing countries must continue to strengthen their programs for structural reform, good governance, and sustainable poverty reduction. The fight against corruption must be intensified, since this corrodes the vitality of state and society and is the single most serious impediment to progress that most hurts the poor and weak. Developing countries must own their programs jealously and implement them vigorously. It is in this context that we support the implementation of anti-money laundering measures and combating the financing of terrorism.

The PRSP/PRGF provides an excellent framework for comprehensive development. We note the progress that has been made. We must, however, sound a note of caution. These country programs must be underpinned by realistic targets, time frames, and policy packages. This is imperative if the credibility of the reform process is to be ensured.

A few words on economic performance and structural reform in Pakistan: we have come a long way in the past three years. The journey has been difficult and painful, but we have not wavered. Macroeconomic stability has been restored. A wide-ranging, home grown, structural reform program continues to be implemented despite a difficult environment and exogenous shocks. Our programs with the Fund and the Bank are on track. We now look to the continuity and consistency of the reform agenda for which the basis has been firmly and soundly laid. We are now poised to accelerate our war against poverty through a much stronger growth rate. Our basic premise is that the benefit of economic reform must reach the people if it is to be useful and sustainable. We urge our development partners to continue to provide Pakistan with the concessional assistance that it needs, and enhanced access to markets that must form the basis for vigorous economic growth and sustainable poverty reduction.

Mr. Chairman, our vision is a Pakistan that is democratic, progressive, prosperous, and where its people lead lives in peace and justice, consistent with our Islamic heritage.
STATEMENT BY THE GOVERNOR OF THE BANK FOR PAPUA NEW GUINEA

Bart Philemon

I am pleased to be at my first joint Annual Meeting of the World Bank Group and the IMF. These meetings provide an important forum for engagement with these institutions and our bilateral partners and friends from around the world.

Let me first join other Governors in thanking the government and the people of the United States of America for their hospitality. Let me also extend a warm welcome to Timor-Leste as the newest member of the International Monetary Fund and the World Bank Group and assure them of Papua New Guinea's support as they build their nation.

Our country has a comparatively small and open economy, which continues to be affected by, and has had to respond to, events and developments in the global economic and political arena. While there are potential benefits to our country from the expected recovery in the world economy and especially from our major trading partners, there are noticeable downside risks.

Papua New Guinea also joins other member countries in commending the initiatives taken to reduce poverty and hunger, and increase empowerment through education, health and gender equality. These are worthy goals, and all efforts to achieve them by 2015 are supported.

Trade liberalization can serve as a vehicle for economic growth and poverty alleviation. In this respect, advancing the Doha agenda must be a key priority for all economies. We encourage the advanced economies to grant increased market access to developing economies.

Our economy has experienced negative real growth for the past three years, and we are striving to break free from this path and move toward achieving long-term sustainable real growth.

In August this year a new government was elected to lead the country for the next five years. The introduction of the landmark Integrity of Political Parties and Candidates Act earlier in 2002 has meant that there will be far greater political stability in Papua New Guinea over the next five years. This gives the new government the opportunity to focus on the social and economic development of our country over the medium term.

One of the first moves of our new government was the introduction of a supplementary budget for 2002. This was necessary as the previous government had handed over a fiscal situation for 2002 that was no
longer sustainable. The adjustment undertaken was significant, comprising a reduction in expenditure equivalent to 4.5 percent of GDP. This adjustment, though painful, was necessary in order to stabilize the fiscal and macroeconomic situation, and also set the base for the development of a sound and realistic fiscal framework to cover the next five years.

Although the new government inherited a difficult fiscal position for 2002, substantial work was undertaken by the previous government with regards to the institutional strengthening and structural reform required for macroeconomic stability and economic growth. The implementation of the reform program benefited from the support of the World Bank and the IMF, and other multilateral and bilateral partners. This included a Stand-By Arrangement of SDR 85.5 million from the IMF for balance of payments support and a US$90.0 million Governance Promotion Adjustment Loan with the World Bank.

The new government is committed to continuing this process of reform, which is necessary for the promotion of good governance, strengthening economic management, improving public sector performance, and removing barriers to investment and economic growth.

Our focus is to tightly manage the 2002 supplementary budget to ensure a satisfactory result and to develop a responsible budget for 2003. Achieving success in these two areas will be critical to restoring confidence and resurrecting economic growth over the medium term. In line with this, one key new area of reform will be the development and finalization of our Medium-Term Development and Fiscal Strategies for the period 2003-07. The Medium-Term Fiscal Strategy and its accompanying Fiscal Framework will represent an important break from the past practice of single year budgeting. The development of the strategy will afford the government the opportunity to be proactive and to respond in a measured way to changes in projected revenue flows and expenditure requirements.

The Medium-Term Fiscal Strategy will set the framework within which our Medium-Term Development Strategy will be implemented. As the government’s overarching development strategy, the Medium-Term Development Strategy will provide the guiding policy and strategic framework to ensure that all levels of government expenditure have the greatest impact on sustainable growth, rural development and poverty alleviation.

The Medium-Term Development Strategy will be based on three core principles of effective public expenditure management—fiscal discipline, strategic prioritization of available resources, and efficiency of program implementation. The principle of fiscal discipline will be incorporated into the Medium-Term Development Strategy through the Medium-Term Fiscal Strategy.
The Medium-Term Fiscal Strategy will impose the discipline of a genuinely hard budget constraint that will be adhered to by our government at both the political and bureaucratic levels. A realistic hard budget constraint will be essential for ongoing macroeconomic stability. Further, it will insure against the disruptive through-the-year cuts to spending arising from unsustainably high expenditure levels set during budget formulation. The expenditure priorities that are likely to be highlighted in our new Medium-Term Development Strategy include basic education, primary and preventative health care, transport infrastructure maintenance, law and order, and generating income earning opportunities for Papua New Guineans, especially in the rural areas, where 85 percent of the population still resides.

In the implementation of our medium-term strategies, the support of, and engagement with, our development partners will be crucial. It is envisaged that part of this support will be in the form of a comprehensive Public Expenditure Review, which will define expenditure priorities within our medium-term budget framework.

The end of 2001 saw the successful completion of a Stand-By Arrangement with the International Monetary Fund and the Governance Promotion Adjustment Loan with the World Bank. Unfortunately, and in part due to the global economic downturn, these interventions did not achieve their objectives of generating growth in the nonmining private sector of the economy.

For 2003, and in our medium-term macroeconomic framework, a financing gap currently does exist, despite the government's planned move to target much lower fiscal deficits.

In view of the very difficult external and domestic circumstances confronting Papua New Guinea in recent years, it is important that we continue to work closely with our multilateral and bilateral partners to implement a reform agenda. This will provide a foundation for solid and sustained growth, which will be further enhanced once robust recovery of the world economy sets in.

In conclusion, I extend my thanks to the IMF, the World Bank Group, and other multilateral and bilateral partners for the financial and technical assistance provided to Papua New Guinea both currently and over past years. My government looks forward to continuing this good relationship. You can be assured of the full support and cooperation of our government to your activities in Papua New Guinea in the future.
STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PHILIPPINES

Jose Isidro N. Camacho

We once more come together as member countries of the IBRD to look at how far we have all moved toward the goal of eradicating poverty within our midst. In March in Monterrey, the consensus recognized that development is a complicated process that requires much more than inflows of foreign aid. Growth and development will come with much hard work, along with foreign aid, and will thrive in an environment in which good governance reigns.

The Bank’s approach to poverty reduction is premised on the paramount importance of ownership and a quality consultative process. This is noteworthy and cannot be overemphasized. Poverty reduction strategies, whether for low-income countries, which are more dependent on foreign aid, or for middle-income countries, which have more available financing options, need to be country-driven, not externally imposed; results-oriented with accountability measures; comprehensive and long-term in perspective; and, more important, attuned to unique political realities and cultural sensitivities in the borrowing countries.

Yet there is still so much to be done. Not all our countries have the capacity to formulate their own national poverty strategies. In these countries, the Bank would need to focus strongly on building capacity. This action has to be assessed carefully and focus on what the country needs to develop healthy, sustainable institutions of governance, rather than simply impose an external model that worked elsewhere. We already have learned what has worked and what has not. The more difficult challenge for each country and for the Bank is discerning the mix of policies that will work consistently and over time.

We would like the Bank to review its policies on disbursement procedures, procurement, and consultancy services and to be aware that at the ground level, these policies and procedures cause several constraints and delays that hamper project implementation. With respect to disbursement procedures, we would like the Bank to review its policy on requiring borrowing countries to advance cash disbursements before the Bank provides reimbursement upon the presentation of a Statement of Expenditure. Many poor countries cannot and do not have the financial resources to make cash advances. If we had the financial resources, we would not have to borrow. Procurement procedures for goods and
services should be revisited. Distinction should be made as to the amount and the type of project being funded.

We would like to see a stronger Bank presence in moving forward the agenda for the harmonization of operational policies, procedures, and practices of donor agencies. In April 2001, Ministers of the Development Committee “encouraged development partners to rely increasingly on borrower governments’ own planning and budgetary processes, while maintaining appropriate standards, and to help strengthen these systems and processes where needed.”

We are glad to note that progress has been made on the harmonization agenda. We need to emphasize, however, that the Bank and other development partners should not forget that borrower governments have a stake in pursuing intensified harmonization of policies, operations, and procedures governing development assistance. We look at harmonization with the end objective of eliminating front-loading of financial requirements, reducing transaction costs, and minimizing human resource demands on borrowers. Standardization of development assistance lends itself well to rational planning, to more transparent government systems and procedures, and to improved public finance management.

The Argentine crisis and its resulting adverse effect on other Latin American countries highlight a concern regarding indebtedness of middle-income countries. These countries have more access to market financing options and are also more vulnerable to the fickleness of market perceptions. We would like to see more proactive support from the World Bank and the IMF on debt management in middle-income countries to guard against the onset of a crisis on the scale of that in Argentina.

The Philippines stands staunchly in support of present international actions to combat money laundering and the financing of terrorism. We welcome the role of the IMF and the World Bank in line with their respective mandates and core areas of expertise. However, they should not be involved in law enforcement issues. Furthermore, we would like to see more representation of developing countries in the Financial Action Task Force.

Late last year, the Philippines passed a law on anti-money laundering. The Anti-money Laundering Council has been established and is now giving operational effect to the law. In addition, the Executive Branch has submitted to the Philippine Congress an Anti-Terrorism and Anti-Terrorist Financing Bill. We have also taken a series of strong measures to directly address issues on terrorism. We have signed the UN Convention on Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. The latter has already been ratified by our Senate.
We deeply appreciate the Bank's engagement in areas of development. The World Bank's mission is poverty alleviation, and the myriad ways and strategies by which it tries to achieve its mission leave a lasting imprint on the developing world. The Bank is in an enviable position and has the comparative advantage in pushing the poverty reduction agenda. We encourage the Bank to continue with this daunting task.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF POLAND

Leszek Balcerowicz

I am glad to have the opportunity to participate again in the IMF and World Bank Annual Meetings. At the outset, I would like to join our American hosts in their sorrow at commemorating the first anniversary of the tragic events of September 11.

As a rule, our discussions during the Annual Meetings concentrate on poverty alleviation. This is understandable, as poverty is a very serious problem in today's world. As is often recalled, the gap between the poorest and richest countries has widened over the past 50 years. In 1950, GDP per capita in the poorest country was equivalent to 3.7 percent of GDP per capita in the richest country; in 1998, it was equivalent to only 1.7 percent.

By the end of the 1990's, multilateral development institutions had launched several worldwide programs to combat poverty. Guidelines for poverty reduction have been set out in the Millennium Development Goals to be accomplished by 2015. The Monterrey and Johannesburg conferences have also worked on this issue. The Initiative for Heavily Indebted Poor Countries, Poverty Reduction Support Program, and CIS-7 Initiative are more specific examples. Poland supports these initiatives and is involved in many of them.

All these programs address very important problems, and a crucial and proper feature of them is that they provide conditional help. To be considered for World Bank or IMF assistance, a country has to adopt macroeconomic and structural reforms that create conditions conducive to economic growth. It is a well-known fact that, while international assistance can be helpful in reducing poverty, it is not capable of neutralizing the consequences of a bad domestic policy.
One cannot discuss poverty alleviation without touching on the foundations for economic development. As it is, long-term economic growth, especially of the labor-intensive type, has the greatest impact on living standards in poorer countries. Persistent differences in growth rates between countries have, over time, led to large disparities in income levels. And the social needs, from nutrition to culture, have been better satisfied in countries with a higher income level. That's why, as Robert Lucas has properly noticed, "once one starts to think about [sources of economic growth], it is hard to think about anything else."

Economists have always expected the "convergence" of countries' income levels due to the convergence of productivity levels, as technology may—to some extent—be considered a public good. However, the number of countries that have failed to catch up by far exceeds the number that have succeeded.

What lies behind economic failure and what explains success? There is a huge ongoing debate on these fundamental issues. In searching for a concise answer to the first question, besides persistent wars, a failure to catch up—which is to say to reduce poverty—is to the greatest extent caused by the double failure of the state.

The first failure of the state manifests itself in statism, which takes the form of excessive, chronically ill public finances, protectionism, monopolization, widespread state ownership, overregulation, and related corruption, just to mention the most important elements. All of these create a poor investment climate, while at the same time crippling entrepreneurial energy and market forces. Second, the state fails to supply public goods, such as public order, the rule of law, the protection of property rights, and stable money. These two state failures usually go hand in hand, because the state that tries to be ubiquitous and omnipotent tends to fail in performing its proper tasks.

As shown in many empirical studies, poor countries with an excessive, and at the same time inefficient, state have grown more slowly than rich ones, even when other factors, such as differences in human and physical capital, are taken into account.

Let us now turn to the reasons behind success in sustained catching-up. Economists indicate many different combinations of sources of economic performance. But for all of these, one may find a common denominator in the shape of a rationally limited state, giving rise to an open market economy under the rule of law, with private ownership on the supply side of the economy, moderate and simple taxes, healthy public finances, and a strong financial system. To succeed, the country has to undertake macroeconomic and structural reforms in order to implement such a system.
But the pace of real convergence also depends on external conditions. Protectionist barriers certainly hamper catching-up. Thus, removing the barriers to imports from the poorer countries is an indispensable step to poverty reduction in these countries. This applies especially to barriers present in richer economies, but also concerns protectionism in relations among the less developed countries themselves.

STATEMENT BY THE GOVERNOR OF THE BANK OF PORTUGAL

Vitor Constâncio

I begin by welcoming the Democratic Republic of Timor-Leste as a new member of our institutions. Over the years Portugal has supported the emergence of the Democratic Republic of Timor-Leste as an independent and democratic nation, and we will continue to support its future development.

The world economy is going through a hesitant recovery that is threatened by several additional risks. Nevertheless, it should be pointed out that, in view of last year’s shocks and the correction of equity prices, the world economy has shown considerable flexibility and resilience. This has been particularly true so far of the financial sector. The overall performance benefited from the proper response of macroeconomic policies. In Europe, both monetary and fiscal policies have been used to help stabilize the situation. Interest rates have been reduced since last year and are now at historically low levels in real terms. Fiscal policy has also played its role by allowing automatic stabilizers to operate. Monetary and fiscal policies are therefore not restrictive and stand ready to help economic agents to overcome the effects of a post-bubble economic environment.

In the European Union, several countries allowed the fiscal position to deteriorate beyond what was foreseen in the context of the Stability and Growth Pact. My own country breached the 3 percent limit to the budget deficit. More recently, the date foreseen for several countries to achieve a budgetary position close to balance was postponed to 2006. These developments, regretful as one may consider them, do not put into question the basic objectives of the Stability and Growth Pact. Countries that do not respect the 3 percent limit to the deficit have to quickly
correct the situation. The Portuguese Government is committed to doing so and is applying difficult measures required to reduce the deficit, which only proves that the pact is working. The extension of the timetable to 2006, in order to avoid an excessively procyclical stance of fiscal policy, was accompanied by the adoption of targeted annual deficit reductions that ensure the credible maintenance of the final objective of balanced budgets. It is, of course, unfortunate that countries did not take the opportunity during the years of higher growth to achieve a balanced fiscal position. In fact, it is only after this has been attained that the pact works as initially conceived by allowing the full operation of automatic stabilizers, thus providing adequate flexibility to respond to economic developments without endangering respect for the 3 percent limit to the nominal budget deficit. Nevertheless, it is important to stress that the framework adopted for macroeconomic policy in the European Monetary Union remains in place and stands ready to ensure price stability and an environment favorable to economic recovery.

Short-term economic problems should not lead us to lose sight of the structural reforms required by the world economy: strengthening the international financial system, building a freer and fairer trade system, and achieving a more equitable distribution of the results of globalization.

We welcome the progress made in improving several aspects of crisis prevention. Improved surveillance, transparency, and implementation of codes and standards have shown some progress. Further work on sustainability analysis and early warning systems should be forthcoming. Financial stability reports should stress the need for financial institutions in advanced countries to implement proper risk management systems and build a stronger capital base. Recent years of recurring crisis and surprising shocks indicate the need for more capital. Other developments helpful for crisis prevention have been the change to a more careful consideration of capital account liberalization and the recognition of the advantages of a more flexible exchange rate regime.

Access to limited and conditional IMF financing should always reflect the results of an adequate sustainability analysis while recognizing the quality of the policies adopted by the countries themselves in order to reward merit, as has been the case with the recent Board decision on Brazil, an approach that we welcome. Crisis management requires new ways to deal with debt restructuring to make it a more orderly and timely process. Rules to facilitate negotiations between creditors and debtors are required. Provisions to regulate, in that context, the operation of standstills, incentives to new lending, and lending into arrears also have to be clarified and improved. In addition to the introduction of collective action clauses on a contractual basis, complementary work on a statutory
mechanism has to continue. There is misplaced resistance in some quarters to these reforms, but it should be understood that they are important to avoid overshooting in fluctuations of capital flows with excesses in both directions. Better prevention and management of financial crises will work in the interest of all concerned.

Continued progress toward an open and stable international system depends also on achieving a more equitable sharing of its benefits. Regarding trade this requires the implementation of the promises of the Doha Agenda. To promote a true round for development requires increased access to markets of products from developing and emerging countries instead of increased protection, as recently seen. It is also essential to strengthen our policies aimed at pro-poor growth and poverty reduction.

The World Bank and the IMF deserve praise for the development of the Poverty Reduction Strategy and for the involvement of all stakeholders in its implementation.

This is particularly true in the case of the HIPC Initiative. This initiative has been instrumental to provide some breathing space to the poorest highly indebted countries. It was revised in order to increase its effectiveness in addressing the debt overhang of many countries. It has so far delivered visible results, although more slowly than anticipated. However, some important challenges remain before us in order to make the initiative a success story of international cooperation.

First, we face the obligation to finance the additional costs of the initiative resulting from the modifications that have been agreed. Cancellation of debt directly affects the capacity of many development institutions to continue providing concessional resources to the world’s poorest countries. Therefore, financing of multilateral costs remains critical. Debt relief is an integral part of the concerted effort to remain engaged in supporting those countries that are fully committed to take on the serious challenges of reducing poverty and improving the well-being of their people. In implementing the Monterrey Consensus we have to deliver on our part of the global deal.

Second, several HIPC’s remain vulnerable to excess indebtedness. Achieving and maintaining long-term external debt sustainability remains the critical objective of the HIPC Initiative and the true measure of its success. Several elements are crucial to ensure debt sustainability. Although external financing as well as improved access to markets for developing countries’ exports are essential—and we are committed to them—the efforts of HIPCs to address structural vulnerabilities are even more important. Financial assistance and trade liberalization cannot be a substitute for sound policies and implementation of reforms, including
improved governance and institutions. It is the other side of the global deal in the spirit of the Monterrey Consensus.

With the NEPAD, African leaders have committed themselves to achieve better governance on their continent and to improve institutions and policies essential to development. But in view of the present plight of sub-Saharan Africa, it is clear that official aid will have to be increased if the main Millennium Goals are to be achieved in Africa. Aid beyond debt relief is essential for new programs in education and for preventing the spread of infectious diseases.

A final word about middle-income countries, where any crisis is bound to affect most the poor segments of the population. The Bank and the Fund should enhance their collaboration in programs to strengthen financial, institutional, and corporate structures in these countries alongside policies directed to the poor.

The Fund and the Bank deserve our support in their vital role to promote a more equitable and sustainable growth as a condition for a viable international open system.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE RUSSIAN FEDERATION

Aleksei Kudrin

Global Economy and Financial Markets

Since the second quarter of this year we have seen a slowdown in economic activity in developed countries, which led to a downward revision in the projections of global economic growth. The list of major vulnerabilities in the world economy now includes a synchronized slowdown in growth in the major advanced economies, continuing current account imbalances, financial market volatility, and the possibility of a further rise in oil prices.

It is already clear that there was a bubble in the equity markets of developed countries in the late 1990s, when a large gap emerged between actual stock valuations and their economically justified levels. The build-up of the bubble was triggered by euphoria about the IT revolution that occurred in the 1990s, which led to inflated expectations of corporate profits. In addition, the manipulation of financial statements by major
corporations that have recently come to light also led to an overstatement of companies' profitability, thus contributing to the formation of the bubble.

We welcome the recent measures undertaken in the United States and a number of other countries to strengthen controls on corporate accounting. They have made it possible to stabilize the situation in equity markets somewhat, although there is still a possibility that stock prices will continue to decline even further. At the same time, the way in which financial regulatory authorities should react to the formation of bubbles, which lead to extremely negative consequences for both the financial and real sectors of the economy, is open to question. We are closely following the discussion in this area, and we trust that an appropriate strategy to prevent financial excesses will ultimately be devised.

One of the risks facing the world economy is global current account imbalances, which have reached an unprecedented scale and could lead to significant disruptions in the event of a disorderly adjustment. One of the main factors contributing to the increase in these imbalances was faster growth in investment over savings in deficit countries. To a significant extent, this occurred as a result of overly optimistic expectations about investment returns related to the IT revolution.

Current account imbalances will be adjusted through a depreciation of real exchange rates and, possibly, a fall in output growth in deficit countries. The question is whether this will be a relatively orderly process or one that is accompanied by severe disruptions in trade flows and financial markets. It is impossible to predict in advance how events will unfold. At the same time, as shown in the WEO, some measures can increase the likelihood that the imbalances will subside in a benign fashion. Medium-term fiscal consolidation, which allows for an increase in national savings, is such a measure for deficit countries. Surplus countries should implement structural reforms to boost growth potential and support domestic demand. This would promote a smoother redistribution of global demand between deficit and surplus countries without threatening the growth of the world economy as a whole.

**Economic Developments in Russia**

The slowdown in global economic growth has not yet had a visible negative impact on the situation in Russia. While in the first quarter of this year there was some slowdown in economic growth, in the second and third quarters growth has strengthened, leading to an upward revision in projected growth for 2002, albeit by a slight margin. We currently expect that GDP growth in 2002 will be around 4 percent. The main
factor in economic growth is consumer demand; at the same time, net exports are gradually shrinking. In 2003 we expect growth to continue at the present rate of around 4 percent; this projected rate serves as the basis for the 2003 budget parameters.

In order to sustain economic growth in 2003, we are planning to loosen fiscal policy somewhat, which will be reflected in a small reduction of the federal budget surplus. For a number of years the pursuit of responsible fiscal policy has enabled us to service our external debt, almost without resorting to external borrowing, and to achieve a substantial improvement in debt sustainability indicators. In 2003 external debt payments will reach a peak of approximately US$17 billion. We do not anticipate any major difficulties in servicing this debt, although we intend to borrow in both domestic and foreign markets.

The conduct of monetary policy in Russia is still complicated by large foreign exchange inflows. On the one hand, in 2002 there has been some reduction in the current account surplus, primarily as a result of an increase in imports. On the other hand, this year there has been a significant reduction in net capital outflows from Russia. Under these circumstances, the Central Bank of Russia is continuing to accumulate foreign exchange reserves, which are close to US$45 billion, and to carry out the sterilization of excess liquidity together with the government. We still expect that by the end of 2002 inflation will not exceed 14 percent, which was the assumption for the 2002 budget. Next year, despite the need for a further increase in regulated tariffs, we expect inflation to drop to 10–12 percent.

Deep structural reforms are needed in order to achieve sustainable growth in the medium to long term. This year we managed to make significant progress in this direction. In particular, a new land code has been adopted, which will promote the development of a land market and agriculture as a whole. The Russian government has prepared and sent to Parliament legislative proposals that need to be adopted for the reform of monopolies in electricity and rail transport. The Central Bank of Russia is making considerable efforts to speed up the process of banking sector reform. In addition, the draft budget for 2003 provides for the allocation of significant funding for judicial and military reforms.

*The Fund and the International Financial System in the Process of Reform*

In an environment of increasing trade and financial integration, surveillance of the global economy and developments in financial markets remains one of the main tasks of the IMF and the World Bank.
Over the last several years a great deal of work has been done to strengthen surveillance. Initiatives such as the introduction of the Special Data Dissemination Standard, the preparation of Reports on Observance of Standards and Codes, and the conduct of Financial Sector Assessment Programs play an important role in strengthening surveillance. Ultimately, all this work is aimed at preventing financial crises, because timely identification of weaknesses and vulnerabilities and well-timed provision of technical assistance to correct them are of great significance.

Unfortunately, it is hardly realistic to expect preventive measures to be 100 percent effective—crises will occur. It is interesting to trace the evolution of our understanding of the nature of crises. Initially we noticed that countries with fixed exchange rate regimes turned out to be particularly prone to crises. Today we see that crises may occur even with floating exchange rates, when a sharp devaluation of a national currency resulting from an abrupt capital outflow leads to a significant increase in the debt-to-GDP ratio. As a result, we now witness some countries encountering great difficulties with debt servicing even though just a short time ago their level of external debt was not a cause for particular concern. Given this situation, debt sustainability should be analyzed in more depth.

Inevitably, in some instances, crisis resolution will require sovereign debt restructuring. The Fund is currently working on two complementary approaches—a contractual approach and a statutory one. With regard to the contractual approach, the introduction of collective action clauses into the bulk of sovereign debt contracts will require prolonged effort. In this connection we welcome the intention of the EU countries to make use of collective action clauses a standard practice as part of their sovereign bond issues.

At the same time, the contractual approach does not fully address the problem of creditors’ collective actions insofar as it remains possible for a minority of creditors to block the decision of the majority. In order to eliminate this possibility it is necessary to adopt an international treaty that makes the decision of the majority binding on all creditors in all jurisdictions. Perhaps this could be done on the basis of a corresponding amendment to the IMF Articles of Agreement.

**Implementation of the Monterrey Consensus**

Today, as has been emphasized by the conclusions of numerous post-Monterrey meetings, the major priority is the implementation of the Monterrey Consensus. We believe that it could be useful to agree on a schedule of work with a clear assignment of tasks and responsibilities.
These plans should include the Bretton Woods institutions (BWIs). Of course, their role in implementing the Consensus should reflect their real institutional capacity and comparative advantages.

Of crucial importance for the success of the whole process are BWI activities aimed at improving poor countries' access to developed countries' markets, strengthening the international financial architecture, and preventing and resolving financial crises.

It is important to emphasize that the only way to create conditions for sustainable development and solving social problems is to pursue sound economic and social policies, maintain an adequate institutional capacity at every level of government, ensure proper public expenditures prioritization and control, and involve civil society in setting up development program priorities and monitoring their results.

Furthermore, a key condition for enhancing and scaling-up the effect of individual projects is to fully involve existing administrative structures of recipient countries in their implementation. Although establishing parallel structures to implement individual international aid projects may in some instances help accomplish immediate tasks, in the medium and long term this approach does not contribute to improvement of existing institutional capacities and involves additional costs.

We fully agree that the limited resources allocated for development assistance are not always being spent in the most productive way. Improving the cost-effectiveness of this assistance and getting the maximum possible results from each available dollar is of critical importance. Specifically, a considerable portion of the resources allocated for technical assistance is spent on foreign consultants, whose selection is often outside the control of the recipient country. As a result, the country is unable to monitor the quality of the services it receives. Aid effectiveness could be substantially increased by using local expertise and controlling the cost and quality of services financed with assistance funds.

In order to improve the effectiveness of resources, they should, whenever possible, be allocated directly to the level where they will be used. The actual outcome of aid redistribution, however, depends on the administrative structure and the relationship between the central and local governments in each country. As the consensus correctly points out, any internationally funded program can succeed only when it is consistent with the existing system of governance and takes into account the budgetary linkages among the various levels of public administration. Moreover, one of the most important political priorities in many countries is to increase responsibility for, and oversight of, the expenditure of financial resources at every level. Aid programs should not conflict with these priorities, particularly where loans with sovereign guarantees are involved.
The proposals for more flexible financing arrangements for development programs deserve special attention, particularly the proposal to move away from the rigid linkage of such financing with capital investments. It is worth giving this complex issue careful study and finding an acceptable, balanced solution. We should also seek to enhance predictability in allocation of donors’ resources, for example, by creating insurance mechanisms to cover unexpected costs and bridge temporary interruptions in aid flows.

The enhanced focus on results presupposes a fundamental improvement in the system for measuring, monitoring, and managing the effectiveness of development programs. However, these tasks present substantial methodological and practical challenges. Solutions to these problems are presently a long way off. It is also unclear whether they can be solved at all. It should be emphasized that they are all highly sensitive politically, for donors and recipient countries alike, which may make progress in this direction more difficult.

The ability to collect and disseminate knowledge and information about development, together with a national statistical capacity, are critical for monitoring development outcomes. Progress in these areas will have a positive impact on the quality of governance. This is especially important when it comes to evaluating the effectiveness of government expenditures. In this connection, we fully endorse the relevant international initiatives aimed at developing national statistical systems.

We support initiatives to improve national statistical systems, which should be regarded as an integral and vital part of building national institutional capacity. These efforts can be supported by loans and technical assistance from international financial institutions, as well as bilateral donors’ grants. It should be borne in mind, however, that setting up a modern statistical service requires substantial resources and a considerable amount of time. In any case, high statistical standards cannot be imposed from outside.

A focus on results is entirely feasible at this stage in the World Bank’s activities. The final outcomes of operations can appropriately be added to existing quantitative and qualitative indicators. The only problem here is the danger that an inadequate risk management system may emerge. For example, if quantitative results, which may not be completely reliable, are overemphasized, the incentives of IFIs may be significantly distorted, encouraging the IFIs to engage in opportunistic behavior in order to minimize risks.

It is also important to bear in mind the high cost of shifting to a measurable results-based approach, both in financial terms and in terms of the actual institutional capacity of the participants in the development
process. Investments in measurement and monitoring systems will make sense only when they are recouped through increased investments and improved quality of assistance in the future. In any case, the alleged lack of reliable systems for measuring results must not be an argument for curtailing aid programs and the fight against poverty.

**Implementation of the HIPC Initiative**

We have closely followed the efforts of the international community to provide effective assistance to low-income countries. We welcome the substantial progress achieved within the framework of the HIPC Initiative, including on the issue of its financing. Our own contribution to the implementation of the initiative consists, in part, of debt relief granted to those HIPCs that are our debtors. We continue to believe, however, that debt relief alone will not yield the desired results without the implementation of sound economic policies and the strengthening of governance in the poorest countries themselves. In this connection, we are concerned that many HIPCs are performing poorly under their PRGF programs, especially in the period between the decision and completion points. We believe that creditor countries should adopt a stricter and more coordinated position in relation to those HIPCs that pursue irresponsible economic policies and do not implement their PRGF programs.

For various reasons, many HIPCs may approach the completion point of the HIPC Initiative with deteriorating debt indicators. The enhanced framework of the initiative includes the possibility of additional debt relief at the completion point. We would like to emphasize that this provision should be invoked only in those instances where the deterioration of the country’s economic situation, including its debt indicators, is exclusively the result of exogenous shocks, as the rules of the HIPC Initiative stipulate. Moreover, we think it is essential to resist the temptation to boost the HIPC Initiative by easing the eligibility threshold while expanding the overall number of beneficiaries.

It is along the same lines that we approach the proposed two-year extension of the sunset clause under the HIPC Initiative in order to accommodate potential new entrants. This is the third such proposal, bringing the total extension to six years. In our view, this runs counter to the originally stated intention not to turn the initiative into a permanent debt relief mechanism. The HIPC Initiative’s rigorous time limits were, among other things, intended to encourage potential participants to speedily adopt appropriate structural reforms. Consequently, even though we are prepared to agree to the proposed new two-year extension, we would urge the management of both the Bretton Woods institutions and
donor countries to use this period to devise a future strategy and alternative approaches for those countries that will have failed to meet eligibility criteria by the expiration of the proposed extension.

STATEMENT BY THE GOVERNOR OF THE FUND FOR SAMOA

Misa Telefoni Retzlaff

It is with great pleasure that I address these 2002 Annual Meetings of the International Monetary Fund and the World Bank Group, on behalf of the Pacific Constituency comprised of Kiribati, the Republic of the Marshall Islands, the Federated States of Micronesia, the Republic of Palau, Samoa, the Solomon Islands, and Vanuatu. We join previous speakers in extending a warm welcome to the state of Timor-Leste as the latest member of the Fund and the World Bank Group.

The last two years have seen a contraction in the economies of the members of our Pacific Constituency, with total GDP falling by 12 percent in 2000 and 1.8 percent in 2001. The uncertainty now facing the world economy from the sharp fall in equity prices, weaker-than-expected economic growth in a number of the developed countries, and the severe slowdown in Latin America raises great concern to the members of our constituency. However, with the likely pickup in global activities, the forecast for the period ahead is for a positive but slow growth of 1.8 percent for the region, except for the Solomon Islands.

In our view, the impact on our terms of trade from the delay in the recovery of commodity prices, due to lower-than-expected growth in external demand, and the likely further rise in oil prices that may result from a potential increase in military activities in the Middle East, will be costly. There is also the added uncertainty surrounding the impact of extreme climate changes related to the onset of the El Niño weather pattern. Further deterioration in the security of our sea and air transport links will affect our tourism industry, which is a major foreign exchange earner for our small island countries. These exogenous factors again highlight our vulnerability as small open economies to adverse shifts in the global economy and climatic conditions.

I would like to assure you, however, that over the past five years, most of our member countries have been undertaking substantial reforms to strengthen their economies in order to minimize the impact of external
shocks, while also preparing for greater adaptation to globalization. Admittedly, the pace of reforms has been slow for some of our member countries, reflecting the varying strengths and capacities of our local institutions and the need to ensure strong ownership and support by our people.

The thematic focus on trade by the Bank and the Fund is a crucial one to all of us. We fully agree that there are potential gains to be made from trade, particularly in agriculture. We would propose, however, that special assistance be considered for those countries with trade preferences to minimize the impact on their economies of the change in trade regimes. We are also aware that the liberalization of agricultural trade is most likely to raise the relative prices of goods, with a resulting costly impact on net food-importing countries, including many of the Pacific Island countries. We commend, therefore, the advocacy role played by the Bank and the Fund in trade and globalization matters and in maintaining a focus on trade as a crucial element in development.

The interaction of trade liberalization and tax reform is an important issue in our wider reform process, as we move to minimize the impact of trade diversion on our tariff revenue. For some of us, broad-based tax systems aimed at countering the loss of revenues from tariff reductions have been in place for a number of years, while others continue to assess the best options to suit their own domestic situations.

Public sector reform programs, at mixed stages of implementation, are continuing throughout most countries of our constituency. This reflects wide recognition of the need to introduce best practices, especially strong policies to support good governance. In this regard, ongoing assistance from the Fund and the Bank as well as our other development partners will be invaluable to support the reform process among members of our constituency. In particular, we are grateful for the technical assistance from the Fund, through the Monetary and Exchange Affairs Department as well as from the Pacific Financial Technical Assistance Center (PFTAC) in Fiji, to support reforms of our financial systems, tax policies, and the strengthening of government financial statistics and the economic database for improved surveillance. We would therefore welcome ongoing financial support for PFTAC to enable it to provide the necessary technical support for our reforms.

We note the collaborative work of the Bank and the Fund with member countries of our constituency on assessing the standards for combating money laundering and preventing the financing of terrorism. Given the limited capacity in some of our countries, we would welcome technical assistance where needed. At the same time, the number of questionnaires and reviews being promoted place a great deal of demand and stress on our small establishments. In this regard, we wish to
encourage improved cooperation between international agencies and member countries to optimize the use of the limited available resources.

At this point, let me make special mention of the work done by the World Bank, in collaboration with other international organizations, on the special needs and challenges facing small states. We welcome the many initiatives that have been launched with a view to reducing poverty and achieving sustainable development in small states, such as the Doha process, the Monterrey Consensus, and the recent Johannesburg Plan of Implementation. There is real concern, however, that the implementation of initiatives called for under these international agreements may be diluted or delayed by the lack of adequate capacity and budgetary resources. We must therefore ensure that there are adequate resources available in addition to adopting clear processes and harmonized approaches for successful implementation of these agreements.

We commend the Bank for its commitment to assist HIV/AIDS programs. The increase in HIV/AIDS in some countries in the Pacific and the growing HIV/AIDS epidemic in Asia calls for concerted efforts to address this serious situation. We welcome, therefore, ongoing support for the Global Fund for Fighting Aids, Tuberculosis and Malaria.

The focus on poverty reduction by multilateral development banks and bilateral partners will require appropriate policies and strategies to be put in place and strengthened where necessary. However, there is a need to ensure that the conceptual frameworks for the respective countries are harmonized in order to avoid duplication and high implementation costs. The limited capacity in some of our constituency members will need to be taken into account and urgently addressed to ensure the successful development and implementation of PRSPs. In addition, development of monitoring mechanisms and performance indicators must be simplified to reflect capacity levels.

Our countries strongly support the Global Environment Facility, which has funded capacity building with respect to responsible management of the environment. We welcome most warmly the actions taken recently for the replenishment of the GEF and would urge the early introduction of small grant schemes to promote grassroots initiatives in our countries.

I would like to acknowledge the tireless efforts of the South Pacific Project Facility of the IFC to improve investment in the Pacific and provide assistance to small businesses and the private sector.

We note, with much concern, the low level of commitment of IDA lending to East Asia and the Pacific. We would urge management to consider the limited resources and options available to our small island countries. And, if we are to achieve the Millennium Development Goal
of halving poverty by 2015, lending levels must be increased, especially in key sectors such as education, health, and infrastructure.

We are concerned with the difficulties faced by one of our member countries, the Solomon Islands, in its recovery from the traumatic events that have devastated its economy, and we would strongly urge the Fund and the Bank to assist with the rehabilitation of that country’s economy and development efforts.

Finally, let me express our appreciation to the management and staff of the Bank and the Fund for their ongoing commitment and support of our development objectives. We continue to benefit from the financial and technical assistance that have augmented our limited resources and enhanced our efforts to improve growth and to achieve better outcomes for sustainable development of our small island nations.

STATEMENT BY THE GOVERNOR OF THE BANK FOR SINGAPORE

Hng Kiang Lim

On behalf of the government of Singapore, I would like to convey our appreciation to the Boards of Governors for endorsing Singapore as the venue for the 2006 Annual Meetings of the IMF and the World Bank.

The 2006 Annual Meetings in Singapore would be an opportune time for the international financial community to gather again in Asia. Since the Asian financial crisis of 1997–1998, the crisis-hit countries in the region have undergone major restructuring to strengthen their economies. Asia would thus be an appropriate setting, when the IMF and the World Bank meet in 2006, to reflect on the lessons learned and anticipate the opportunities ahead.

Through their work on global economic and financial sector surveillance, the IMF and the World Bank play key roles in international efforts to promote sustained economic growth, develop sound financial systems, and alleviate poverty. Singapore is honored to host the 2006 Annual Meetings. That we have accepted this undertaking underscores our deep commitment to the IMF and the World Bank. Once again, thank you for your confidence in Singapore. We look forward to welcoming you to Singapore in 2006.
STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR SPAIN

Rodrigo de Rato Figaredo

World economic outlook

Expectations for the world economic outlook have declined. It is now anticipated that recovery will be slower than initially forecast because of macroeconomic and geopolitical uncertainties that could affect growth in the principal world economic zones, if they materialize.

Euro area

As a result, growth forecasts for the euro area have recently been revised downward, while the timid recovery and a strong euro are easing inflationary pressures. Europe is not faced with a stability problem; its main problem is one of growth. In this context, it is essential to increase the growth potential of the euro area by implementing the necessary structural reforms, in particular in the labor market.

In addition, it seems appropriate for monetary policy to remain neutral and consistent with the other components of the policy mix. In the area of fiscal policy, we share the firm commitment of member countries to observe the Stability and Growth Pact, out of the necessity to maintain fiscal discipline with a view to ensuring sustainable medium-term growth.

Spain

The Spanish economy remains more than one percentage point ahead of the euro area in growth forecasts for 2002, while the country maintains a balanced budget and is introducing further structural reforms in the labor market and in the field of education. The fiscal consolidation achieved these past few years provides sufficient leeway for the budget to act as an automatic stabilizer without any departure from the goal of fiscal equilibrium.
International financial stability

The emerging and developing economies are those most affected by financial instability. Fortunately, many emerging countries have been able to preserve growth and a sound economy in the current international context. Two regions stand out in this regard, namely, central and eastern Europe and Asia, and some countries as well, such as Chile and Mexico.

Over the past few years, increasing importance has been attributed to crisis prevention, and to this end the IMF is strengthening its supervision function. We feel that this area should be strengthened even further, by enhancing its technical content and increasing transparency.

Spain supports the work done by the IMF and the G-10 to seek approaches that would facilitate a response to the processes of sovereign debt restructuring.

Latin America

Economic and financial conditions in Latin America have largely worsened over the past few months. Overreaction and contagion have been found to be factors in some cases. Under these circumstances, the region needs more than ever to adopt responsible macroeconomic policies, to implement plans for good governance and social opportunities, and to maintain an adequate legal framework that can help restore investor confidence and once again clear the path to sustained growth.

Spain supports and encourages the IMF’s speedy action in various recent episodes of volatility. These past few years, Brazil has maintained sound economic fundamentals. Brazil has developed a good mix of macroeconomic policies backed by all the social sectors. This course will ensure the sustainability of its external public debt. In the case of Uruguay, multilateral assistance will help ease, in particular, the negative impact of contagion.

As regards Argentina, I am optimistic about the increasing stability of the past few months, which will be greatly enhanced when an agreement is concluded with the IMF. In the meantime, the social cost of the crisis is increasing, and unemployment and poverty have escalated. It is for this reason that Spain last June approved a line of credit for the Argentine Republic valued at €100 million, on concessional terms, for the purpose of meeting basic social needs.
IMF programs

The aim of the Fund’s recent programs has been to engage the private sector more in crisis resolution. However, applications of this criterion have been unequal, so that private sector participation has been greater in some crises than in others. This should not continue to be the case.

Recent experience confirms that it is useful to examine the determination of traditional access limits in the current context of capital account crisis. There is a need for strict definition of the criteria for exceptional access to the Fund’s resources, but flexibility should be maintained in cases that so warrant, including countries that may be the source of contagion as well as those that may be victims.

Following the latest financial assistance packages, there is a need for careful assessment of whether the IMF requires more resources to continue carrying out its functions efficiently. Also, the upcoming quota review is a good time to ensure that the representation of each country matches its current relative position in the world economy.

The World Bank and poverty reduction

Spain’s position in response to the challenge of poverty reduction is one of firm support for the current approach based on domestic commitment to good governance and social balance in developing countries, the development of private initiative, commercial openness, and institutional reform.

We appreciate the measures being adopted by the World Bank in implementation of the Monterrey Consensus, thereby forging a new approach to development assistance that would not only would include direct financing but would also play a catalytic role in raising private financial resources to develop investment and trade and to guide development strategies.

Improving development possibilities for the poorest countries requires continued advances in world trade. This implies meeting the commitments agreed to in Doha. The developed countries should continue to improve access to their markets for products from the developing countries and should make progress in the resolution of trade-related social issues.

On this new path toward meeting the Development Objectives of the Millennium, Spain, in its capacity as President of the EU, spearheaded an initiative to increase the funds earmarked for official development assistance. I should emphasize that in 2001 Spain was the
country that most increased its ODA in relative terms, from 0.22 percent of GDP in 2000 to 0.30 percent in 2001.

Spain remains committed to increasing its participation in the multilateral financial institutions. To this end, in 2002 it ratified its membership in the Andean Development Corporation and as a result of the negotiations for the thirteenth replenishment of the International Development Association, it has increased its contribution from 1.39 percent to 1.8 percent of the capital, the largest relative increment. Spain has also contributed SDR 300 million to the Interim Poverty Reduction and Growth Facility Trust.

Similarly, Spain is participating in the Global Fund to Fight AIDS, Tuberculosis and Malaria. With respect to the HIPC Initiative for debt forgiveness, Spain has been assuming an increasing portion of the total cost of the Initiative, exceeding its share in the IFIs, and will maintain its relative contribution to the HIPC Trust Fund.

Measures against money laundering and to combat the financing of terrorism

Following the events of September 11, 2001, the International Monetary Fund and the World Bank outlined a wide-ranging agenda to establish a coherent system for action against money laundering and the financing of terrorism. It is with pleasure that we can now say that their agenda is proceeding satisfactorily.

Spain fully backs the 40+8 Recommendations of the Financial Action Task Force as an international standard. We now need to finish outlining a single methodology for assessing compliance with that standard. Spain firmly supports this process and feels that action against terrorism in the financial arena is of capital importance, and its success requires broad international cooperation.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR SRI LANKA

Kairshasp Nariman Choksy

I am pleased that we have been able to gather today for this important annual event of the IMF and the World Bank at this critical stage.
when the world economy is experiencing major challenges and in the wake of heightened uncertainty regarding global economic prospects, while solutions are being tested and further options explored to address the problems of the world economy.

**World Economic Outlook**

We are concerned that the near-term outlook for the world economy is not promising and risks are still on the downside. The advanced countries, which lead the growth in the rest of the world by absorbing exports and provide financing, including official development assistance, are unlikely to reach the rates of growth that were experienced in the 1990s.

What is called for in this environment of increased interdependence among countries is credible policy responses from all parties concerned, namely, the Fund, the Bank, other multilateral and regional financial institutions, governments and the private sector to manage globalization for the benefit of all. There is also the need to provide adequate social safety nets to protect the poor and other vulnerable groups.

Many developing countries, including Sri Lanka, have undertaken painful adjustment measures either in the context of a Fund/Bank-supported program or on their own. Country experiences show that there is no alternative to sound fiscal policies and improved governance to effectively face these challenges. For many low-income countries, notwithstanding their own efforts, there are other problems such as capacity limitations; severe resource constraints, including human resources; and market access limitations.

I share the view that the role of the IMF needs to be reassessed in the context of the increased complexities of the global economy. While the size of the IMF needs to be enlarged in terms of its financial base, both the Bank and the Fund need to redouble their efforts to help in the promotion of growth and poverty alleviation in support of the Millennium Development Goals and to strengthen their partnership with the rest of the donor community.

**Sri Lanka**

Finally, I wish to say a few words regarding my own country, Sri Lanka. Economic prospects have improved considerably both with
the peace process moving forward and the strengthening of economic reforms under the United National Front Government. Our government’s revived economic stabilization program started in early 2002, and the final review of the Stand-By Arrangement was successfully completed earlier this month. In 2002 GDP is estimated at 3 percent, up from negative growth of 1.4 percent in 2001. Inflation has been reduced from approximately 12 percent at end-2001 to 10 percent in mid-2002. Interest rates have declined, and the exchange rate remains stable. The budget deficit of 10.8 percent in 2001 is being curtailed to about 9 percent this year. We are planning to enter into a PRGF arrangement by the end of this year.

Economic reforms to free business and industry from excessive bureaucratic control, rationalize taxes and customs tariffs, introduce the value-added tax, and establish a revenue authority with IMF expertise are being further advanced to facilitate private sector-led growth. The privatization of state-controlled business enterprises and the liberalization of the petroleum and power sectors have already commenced. Market borrowing by the government is being limited, and the prevailing ceasefire has enabled a reduction of defense expenditure. State-financed education is being restructured by shifting concentration from academic education to job-oriented technical training. We expect to raise the growth potential of the economy with greater private sector participation and an increased flow of concessional funding and FDI.

Recognizing the need for financial discipline, we are leaning toward zero-based budgeting, and a Fiscal Management Responsibility Law to mandate fiscal discipline in all sectors of the government is now ready for presentation to Parliament. The government has taken certain necessary bold, though politically unpopular, decisions to reduce public dependence on subsidies and to educate the public regarding the medium- and long-term benefits of doing so.

Our government’s own views on reforms tallies with the observations made by the Executive Board of the IMF and Mr. Shigemitsu Sugisaki, Deputy Managing Director, at the conclusion of the Article IV consultation earlier this month. We intend moving toward deeper structural reforms and prudent management of the country’s monetary policy.

Sri Lanka recognizes with appreciation the assistance and guidance given to it by the Fund, the Bank, the AsDB and our many bilateral donors.
The current outlook for the world economy resembles the situation we had one year ago. The deterioration of the global outlook has exacerbated pressures on many economies, in particular emerging market economies and developing countries. New crisis situations have emerged, and others continue to remain unresolved. These crises entail enormous costs for the respective populations. They also require significant amounts of official financial assistance. This demonstrates that we should not slow our efforts to strengthen the international financial architecture. We must also aim to substantially improve our contribution to poverty reduction through increased coherence of policies and enhanced aid effectiveness. Doha, Monterrey, and Johannesburg have all contributed to forge a global consensus on partnership for development that holds great promise. It is now imperative to translate these broad commitments into concrete actions and measurable results. For all countries, one of the most powerful means of protection against crises and structural problems continues to be the implementation of sound and sustainable economic and social policies.

Improving Crisis Resolution

Over the past months, the Fund was again called to assist member countries with large financial packages. This has once again put the spotlight on the Fund’s role in crisis resolution. The absence of a mechanism to deal with sovereign debt crises has been an important void in the financial architecture. It is reassuring that this is increasingly recognized. I therefore warmly welcome the recent progress on creating a better framework for crisis resolution.

First, let me praise the work of the G-10 and of representatives of the private sector on collective action clauses. There is now widespread recognition that CACs can be introduced—to the benefit of both debtors and creditors—in the bond documentation of all major jurisdictions. The public sector’s role in the introduction of CACs is limited. It can play little more than a supportive role in changing market practices. In the end, the success of collective action clauses hinges on the private sector’s
willingness to participate. While I welcome the progress achieved on the contractual approach, I strongly encourage the IMF to pursue its work on the statutory approach and hope that by the time of the next IMFC meeting we will be in a position to endorse very concrete proposals. For me, the Sovereign Debt Restructuring Mechanism is not just a strategic play to advance CACs. We need a mechanism like the SDRM. But an SDRM will work only if there are clear rules for access to IMF resources. The recent discussion on access limits showed that it is currently unreason­able to expect to place a lid on lending. This, however, makes it all the more important that cases of exceptional access remain truly exceptional.

**Strengthening Surveillance**

I would like to commend the Fund for having worked hard over the past several years to strengthen surveillance and crisis prevention. The candor of reports has continuously increased. However, in crucial areas, such as exchange rate issues, debt sustainability analyses, and governance problems, further improvements are necessary. The effectiveness of Fund surveillance, however, also hinges critically on the willingness of members to follow Fund advice and to participate in the voluntary exercises aimed at fulfilling standards and codes.

**Implementing the Monterrey Consensus**

I am aware of the many challenges that developing and transition countries face. I hope that they will be able to live up to their commitments and pursue economic and social policies that will accelerate development. To reduce poverty and increase crisis resilience, countries that have elaborated a poverty reduction strategy will need to follow up with action. Developed countries need to rise to the challenge too. First, we must address problems of policy incoherence and, in particular, move toward more consistency between development and trade policies. Second, we should put more effort into improving the quality and effectiveness of our assistance. I appreciate the Bank’s many efforts to advance the Monterrey agenda, as well as its strong commitment to the Millennium Development Goals. Progress toward these goals, as well as the effectiveness of the Bank’s and the Fund’s lending programs, will ultimately depend on the genuine implementation of coherent poverty reduction strategies and macroeconomic reforms. In the future, I believe that the Bank and the Fund should become engines for improving the quality of aid and its impact—serving as a platform for exchanging “best
practices” from field experience and for exploring new ideas, including coordination.

HIPEC

I am satisfied that 26 countries have already benefited from the HIPC Initiative. In these countries, debt relief makes a real difference: debt service as a share of government revenues has been halved, and the total debt stock will ultimately be reduced by about two thirds. Hence, considerably more resources are available for development expenditures and poverty reduction.

Yet, I am concerned about the long-term debt sustainability of the HIPC Initiative. More than half of the HIPCs have higher than expected debt levels. This is not due to some failure in the implementation of the initiative—it is too early to judge that—but mainly to overoptimistic initial economic projections and the evolving external environment. Beyond the HIPC Initiative, I continue to believe that debt relief is not the optimal instrument to support economic development and ensure debt sustainability. Repeated debt relief will promote moral hazard. Now and after HIPC, the emphasis must be on poverty-reducing and growth-enhancing policy reforms.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Suchart Jaovisidha

It is indeed an honor and a great pleasure for me to address the 2002 Annual Meetings of the International Monetary Fund and the World Bank Group. On behalf of the Thai delegation, I would like to express our sincere appreciation to our host, the Government of the United States for the warm welcome and hospitality during these meetings. I would like to take this opportunity to congratulate Messrs. Horst Köhler and James Wolfensohn on their achievements over the past years and applaud them for the many bold initiatives and positive changes. I am certain that they will be a great benefit to member countries, especially those in the developing world.
Since we met in Prague two years ago, the landscape of the global economy has changed significantly. The impact of the slowdown of the information technology industry and the September 11 tragedy has stifled the progress of the world economy. Moreover, recent volatility in global markets has affected investors' confidence.

In case of Thailand, the present government, having come into office in February 2001, has introduced a new development paradigm, namely, the “Dual Track” approach, which aims to achieve a more balanced and dynamic economic structure by systematically strengthening domestic economy while strategically enhancing our international trade performance. With the full support of political will and commitment, the goal is to attain sustainable quality-oriented growth that will propel Thailand's future progress and prosperity.

In spite of the global uncertainties of the past two years, the Thai economy has been able to achieve macroeconomic stability and steady recovery. While the economy expanded by 1.8 percent in 2001, it has since grown at an accelerated rate of 4.5 percent in the first half of 2002. The projected rate of growth for 2002 growth is presently 4.0-4.5 percent.

Strong performance of the domestic economy, coupled with gradually improving exports, has been the key driver of Thailand's economic progress during the past two years. Latest indicators point to continued strength in the domestic economy and expansion of export performance. With inflation in check, growing international reserves, a stable baht, and a vigilant maintenance of fiscal sustainability, the Thai economy should continue on track for growth.

Looking forward, Thailand has two top priority objectives. The first is to maintain the momentum and stability of economic growth. The second is to undertake essential reforms and restructuring programs to lay a solid foundation and fundamentals for sustainable, quality-oriented growth.

These top priority goals are critical to Thailand’s progress as we recognize that it is impossible for our nation to stride forward without a vibrant and dynamic economy that can effectively cope with the fast-changing and increasingly competitive global marketplace. To achieve these goals, Thailand needs to undertake systematic reforms beginning at the grassroots level. In this regard, the government has been proactive in working with the private sector to initiate necessary social and economic reform programs, key examples of which are highlighted below.

To directly promote systematic development and address problems of the grassroots economy such as poverty and lack of opportunities, a series of specifically formulated programs have been successfully launched. These include the revolving village development fund, the
“one-village, one product” scheme, and the People Banks to stimulate income and create employment opportunities in the rural areas, thereby promoting greater self-reliance and sustainable grassroots progress.

Furthermore, we are focusing on fostering a dynamic and productive base of small and medium-size enterprises (SMEs) as a key driver of future growth. Leveraging unique local skills and knowledge such as craftsmanship, the grassroots-based SMEs possess great potential for development in terms of manpower, products, and resources. The government’s basic aim is to provide necessary support and infrastructure for the systematic development of SME networks throughout the country. Such support includes education and professional training, marketing and distribution network, and financial access. In addition, Thailand is also working with countries with experience and expertise in the development of SMEs. Ultimately, it is envisioned that a strong SME base will play a major role in Thailand’s highly productive, open economy, one that is more structurally balanced and better suited to sustain growth in today’s fast-changing global environment.

Concurrently, industrial reform is being carried out. Through the strategy of specialization, we aim to create sustainable expertise and competitive edges in high potential industries. In addition, the clustering approach is employed to upgrade the productivity of related and supporting industries, many of which are SMEs. In sum, we are attempting to create flexible, value-adding, expertise-focused networks capable of generating vibrant local and cross-border economic activities, thereby serving as the cornerstone of Thailand’s future industrial strength.

However, reforms in the real sector cannot succeed without a fully functioning financial sector. Heavily affected by the 1997 Asian crisis, Thailand’s financial landscape has significantly changed, with positive improvements yielding good results. With the state-founded Thai Asset Management Corporation (TAMC) in full operation, non-performing loans have been successfully dealt with. Of a total of US$17 billion in NPLs transferred from banks, the TAMC has resolved 40 percent. Most important, accelerated progress in NPL resolution is contributing to successful deleveraging of the corporate sector, which is highly crucial to the genuine revival and reform of Corporate Thailand.

Another important component of financial reform, bank consolidation, is also progressing well. Of the three remaining state-intervened banks, two were merged last year and one is being privatized this year. The largest state-owned bank has also launched its privatization. In general, Thai banks have become much healthier and have returned to profitability. Looking ahead, financial sector reform will receive an important boost from the new and unified Financial Institution Act,
which places great emphasis on transparency, accountability, and good governance.

Public sector reform is also gaining momentum. While two state enterprises went public with their share offerings last year, more state enterprises in key industries such as telecommunications, transportation, and energy are preparing for privatization this year and beyond. Furthermore, to improve the efficiency and coordination of the state agencies, the new government bureaucratic structure is taking effect this year.

To create a conducive and sound environment for our economy to prosper, legal reform is essential. With the promulgation of the new Constitution in 1997, Thailand has further enhanced the democratization of the decision-making process of the state, and has provided citizens broader rights and privileges. Numbers of acts are being amended, while significant numbers of bills are to be approved. In addition, a special panel of the nation’s legal experts has been appointed to review and recommend changes to improve the existing commercial regulations and code.

Though various measures undertaken by the government to ensure continued progress have brought positive results, Thailand cannot afford to be complacent. As an open economy, Thailand remains sensitive to the global trend and external uncertainty. The government is therefore firmly committed to build a solid foundation for sustainable, quality-oriented progress primarily through the carrying out of necessary reforms and restructuring. Striving toward our goals, Thailand looks forward to continued active engagement with our international partners and reaffirms our commitment to work closely with leading international institutions such as the World Bank and the International Monetary Fund to advance the common good of the global community.

The most important global initiative on the Bank’s agenda is, of course, poverty reduction. In this regard, we welcome the individual and collective announcements made to significantly increase ODA, as well as the successful conclusion of the IDA-13 replenishment, which agreed to increase the overall level and concessionality of financing. This decision was in line with the Monterrey Consensus in which the Bank and the Fund are expected to provide more and better assistance in both financial and technical terms. It also focused on economic dialogue in the context of strong national ownership programs and partnerships. We strongly believe that we all share responsibility for eradicating world poverty.

On the issue of the Bank’s activities in Thailand, we are pleased with the implementation of assistance through the Country Development Partnerships (CDPs). The CDPs, which cover the areas of public sector reform, financial and corporate sector development, poverty analysis and monitoring, environment and social protection, aim to prepare Thailand...
for the challenges ahead. Even though Thailand's external financing needs are limited in the near future, we are committed to working together with the Bank in developing nonlending programs to enhance our capacity-building strategy.

In matters relating to the International Monetary Fund, the stringent and arbitrary Fund conditionality imposed on crisis countries has been among the critiques of the Fund in the past decade. We are grateful that the Managing Director has played an instrumental role in streamlining Fund conditionality in Fund-supported programs. Through the subsequent proposal of new set of guidelines, we look forward to a clearly defined Fund conditionality that stresses the parsimony of conditions. Another welcome development is the adoption of the principle of “country ownership,” whereby member countries—and not only the Fund itself—would play a significant role in the design of conditionality.

The Fund staff has also been proposing novel quota formula alternatives, which more accurately reflect the increasing importance of emerging market and developing countries. Despite our disappointment on the decision to maintain the status quo formulas, we are hopeful that the Fund would agree at least to a general increase in quotas as part of the Twelfth General Review.

The Fund has recently been a key advocate of international standards and codes through its Reports on the Observance of Standards and Codes program. Thailand is making the necessary preparations to participate in various areas of this important exercise.

Finally, as a result of the tragic events last September, there has been a shift in Fund policy toward anti-money laundering and combating of the financing of terrorism. While we fully support the notable role of the Fund in the war on terrorism, it is important to underscore that the Fund and the Bank should concentrate on their areas of expertise, namely, matters relating to AML/CFT that could pose potential risks to the macroeconomic and financial stability of a country or the regional and global systems as a whole.

Looking ahead, I believe that Thailand’s economy is on the right track for sustainable growth as reforms are beginning to show results. The challenge before us is to maintain the momentum of this remarkable development and to take the opportunity to deepen reforms. I am optimistic that a new chapter in Thailand’s economic development has been written. In this regard, we have begun to build a new economic foundation to serve as a high performance platform for future progress that will also provide strength to cope with the external uncertainty. In closing, I trust that these Annual Meetings have been a highly valuable and useful occasion for all of us to share thoughts and innovative ideas in pursuit of our common goal.
STATEMENT BY THE GOVERNOR OF THE FUND FOR THE
DEMOCRATIC REPUBLIC OF TIMOR-LESTE

Mari Bin Amude Alkatiri

Today the Democratic Republic of Timor-Leste is participating for the first time as a member country at the joint Annual Meeting of the Boards of Governors of the World Bank and the International Monetary Fund.

After a long period of struggle spanning 25 years, Timor-Leste became an internationally recognized independent sovereign state on May 20, 2002. On July 23, 2002, Timor-Leste took a formidable step by joining the World Bank Group and the International Monetary Fund as their newest member. It was on this auspicious day that Timor-Leste signed the Articles of Agreement of the IMF, the International Bank for Reconstruction and Development, and the International Development Agency, as well as the Conventions of the Multilateral Investment Guarantee Agency and of the International Centre for Settlement of Investment Disputes. Upon joining the membership of these two most important world institutions, Timor-Leste became the 184th member of the IMF, and, in the World Bank Group, Timor-Leste became the 184th member of the International Bank for Reconstruction and Development, the 163rd member of the International Development Agency, the 158th member of the Multilateral Investment Guarantee Agency, and the 151st member of the International Centre for Settlement of Investment Disputes. Only two days ago, Timor-Leste became the 191st member of the United Nations family.

I must register the appreciation of my government and the people of the Democratic Republic of Timor-Leste for the support of the Governors, Executive Directors, management, and staff of both the IMF and the World Bank Group. I also extend the heartfelt gratitude of the government and people of Timor-Leste to all member countries of the constituency for supporting Timor-Leste's application to join their constituency. The level of solidarity demonstrated by all touches the hearts of the Timor-Leste people.

The International Monetary Fund has laid the foundation for rebuilding fiscal management and for establishing monetary management in Timor-Leste since the beginning of 2000. At the same time, the World Bank has coordinated donor funding of sectoral rehabilitation projects through many trust fund programs aimed at jump starting the recovery
process and reducing poverty. In association with the United Nations Transitional Administration, these institutions have provided ample assistance in fostering our institutional and capacity-building processes as well as support for our sectoral programs that focus on poverty alleviation.

The pivotal role of the International Monetary Fund and the World Bank in Timor-Leste has been recognized by all our citizenry. We are proud to be part of these world-class institutions, and we are cognizant of our responsibilities as a government to solidify and sustain cooperation with both institutions.

We have graduated from our struggle of resistance, and we have commenced a fresh struggle—the struggle to create a sustainable good and rewarding life for our populace. This struggle demands due diligence on our part to manage our economy well, create lasting and credible governance institutions, exercise and maintain fiscal and monetary discipline, and adapt to a public accountability framework that passes the test of time. All these necessary attributes of good governance will support the development process in our country and thus serve as catalysts to poverty alleviation for our citizens. We know we cannot do this alone. The continued support of our development partners, particularly the IMF and the World Bank, is a sine qua non to the achievement of our development objectives.

Mr. Chairman, members of the Boards of Governors, Executive Directors of the IMF and the World Bank, I embrace you as partners in our mutual quest to uphold the cardinal objectives of these noble institutions.

STATEMENT BY THE GOVERNOR OF THE BANK FOR TONGA

Siosiua T.T. 'Utoikamanu

It is an honor for me to address you on behalf of the government of the Kingdom of Tonga at the 2002 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group. I wish to extend my appreciation to the government of the United States and to the Washington, D.C. authorities for their hospitality and excellent arrangements and organization during these testing times. I also
wish to take this opportunity to welcome Timor-Leste as the newest member of the Fund and the Bank.

On the world economy, future recovery continues to depend on the outlook for the United States. The recent upward revision of the growth rate of the United States augurs well for the future outlook. We note that a modest rebound is projected for the Japanese economy. It is to be hoped that this can be sustained in the medium term to support future growth prospects for the world economy. It is also hoped that macroeconomic policies in industrial countries will continue to support worldwide economic activity. As such, we welcome the analysis by the Fund staff recommending the easing of monetary policy and appropriate fiscal policy consolidation.

We welcome the moves toward enhancing the effectiveness of Fund surveillance, which include improving vulnerability assessments, expanding the coverage of financial assessments, and enhancing multilateral surveillance of international capital markets. We also welcome the Fund’s initiatives to improve the Article IV consultation process to provide a broader and deeper analysis of the state of the economy of member countries.

The continued progress being made under the enhanced HIPC Initiative in providing debt relief to the world’s poorest countries is a major step forward. Debt relief is an essential first step for successful growth and development. However, much more needs to be done to ensure that HIPCs achieve a robust exit from unsustainable debt. The full benefits will only be realized if the improved debt situation is sustained through support to promote the investment and human development necessary to achieve sustained growth and poverty reduction. We urge that low-income non-HIPCs also be considered for debt relief in order to support growth and development.

We welcome the action being taken by the Fund and the Bank to support initiatives to counter money laundering and the financing of terrorism. In particular we welcome the assistance provided to member countries to address the abuses of the international financial system.

We join others in welcoming the agreements reached at the March UN Conference on Financing for Development in Monterrey, and more recently at the Johannesburg World Summit on Sustainable Development. The agreements offer a real prospect of meeting the Millennium Development Goals and securing a substantial reduction in global poverty. The agreements also offer opportunities through trade for more rapid growth and poverty reduction, and the challenges of financing for development through strengthening partnerships, improving the conditions for investment and growth, and enhancing official development assistance flows. We welcome all efforts to significantly increase official
development assistance. Poverty reduction, however, will be achieved only if we employ the available resources in a more effective way so as to ensure that the benefits of growth are shared as widely as possible.

We especially welcome the actions being taken by the World Bank and other international institutions to implement the proposals in the April 2000 report of the Joint Commonwealth/World Bank Task Force on Small States. We urge the Fund and the Bank to give greater recognition to the increased urgency of the challenges confronting their small and vulnerable members owing to recent international developments and other factors.

The Tongan economy continued to perform below expectations during the past year, with slower GDP growth, and fragile external and fiscal accounts. The key challenge for Tonga in the short term is to preserve external viability through strict fiscal and monetary policies. The key challenge in the medium term is to restructure the public sector in order to support private-sector-led growth. These challenges are exacerbated by the vulnerability of our country to natural disasters. In January, a destructive cyclone affected our northern island groups. We wish to acknowledge the rapid response of our development partners in providing relief, and more particularly the World Bank for providing an emergency recovery credit facility in a very timely manner.

This year, the government has embarked on a comprehensive economic and public sector reform program in order to respond to the short- and medium-term challenges the country faces. The twin objectives of the reform program are to improve the efficiency of the government and service delivery to the public and to create an environment more conducive to economic development, which will create new employment opportunities for new entrants into the labor market. The improved efficiency of government is to be achieved through stricter fiscal discipline, largely through the budgetary resource allocation process and civil service reform—which creates a performance-oriented system for recruitment, deployment, and remuneration of officials at all levels—and the government's decisions regarding the allocation of scarce resources to its competing priorities. An environment more conducive to economic development is to be achieved through a variety of measures, including regulatory reform, tax reform aimed at base broadening and rate lowering, and a re-examination of the role of the state in activities better left to the private sector.

Finally, we wish to congratulate the Managing Director of the Fund and the President of the World Bank for their leadership in managing both institutions during the challenging times following the tragic events of September 11 of last year. We wish them continued success in leading our sister institutions in facilitating a full recovery of the world economy.
We would also like to acknowledge with appreciation the technical and financial assistance that both institutions have provided to Tonga. The assistance, we assure you, continues to improve the standard of living of our people and we therefore look forward to a continued partnership in the future.

**STATEMENT BY THE GOVERNOR OF THE BANK FOR UGANDA**

*Gerald M. Ssendaula*

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 take this opportunity to pay tribute to both Bretton Woods institutions for the manner in which they have handled global development issues, especially following the events of September 11, 2001. We African Governors recognize that our continent faces daunting but surmountable economic and social challenges. These require a sustained set of actions by African governments themselves, for which we are currently undertaking a number of painful but necessary reforms. However, given the magnitude of the problems, and considering the fact that some of the impediments to our development are caused by exogenous factors, the Bretton Woods institutions have a legitimate and significant role to play in helping us.

**New Partnership for Africa’s Development**

The commitment by African governments to eradicate poverty and place the continent on a path of sustainable growth and development is reflected in the NEPAD. The NEPAD is anchored neither on an appeal for further entrenchment of dependency on aid nor on some marginal trade concession, but on the determination of Africans to extricate themselves and their continent from the malaise of conflicts, underdevelopment, and exclusion from trade benefits in a globalized world. The determination by African leaders to apply peer pressure on themselves in the promotion of democracy and good governance, and their concerted efforts to eliminate conflict, are some of the unique features of the NEPAD.
Regional integration

African governments are according high priority to regional integration, which, in recent years, has gained momentum throughout the continent. While regional integration is not a panacea for all our development challenges, it is an important vehicle for improving and strengthening the viability of Africa’s economies. We recognize, however, the financial and technical capacity limitations that exist in a number of critical areas. In this regard, we call on the Bretton Woods institutions to support our efforts in the building of regional institutions to enhance integration. We also urge the BWIs to support the implementation of regional projects and to reflect our regional priorities in the PRSPs and CASs.

Agriculture and Rural Development

The realization of the Millennium Development Goals in Africa is a tall order. We believe, however, that it can be achieved with an aggressive implementation of the Monterrey and NEPAD declarations. In Africa, where 75 percent of the population lives in rural areas, poverty is largely a rural phenomenon. Therefore, raising agricultural incomes will be key to halving extreme poverty by 2015. In this connection, we are concerned about statistics that suggest African governments are spending on average, less than 5 percent of their development budgets on agriculture and rural development. This low spending on the sector is a reflection of inadequate resources to fully fund our domestic agenda and not a reflection of any lack of interest in agriculture. We would like to assure the BWIs that we are committed to paying this sector the priority it deserves.

What is also of great concern to us is that the World Bank’s lending to agriculture and rural development has stagnated over the last decade to less than 20 percent of its total lending. We call on the BWIs to refocus their efforts and resources in this all-important sector. We welcome current efforts aimed at reversing this trend and urge the Bank to increase its lending to agriculture, in line with the 2003 World Development Report findings. We also urge that Fund-supported programs give adequate priority to rural development, allowing for the allocation of more budgetary resources for rural development and supporting decentralization in line with PRSPs.
Trade and Market Access

Many African countries have liberalized their economies and modernized their commercial laws in line with international best practices. In spite of these efforts, access to export markets remains limited. The continuing protection of export markets and recent increase in farm subsidies by some developed nations seriously undermine the contribution of our reforms to economic growth and poverty reduction. This, coupled with the technological divide, has led to a further marginalization of Africa in the globalization process. We strongly believe that Africa’s debt sustainability and prospects for growth will be realized through increased fair trade in addition to aid. In order to give developing nations a chance to benefit from globalization, we urgently call upon the industrial nations to strictly adhere to the rules and principles of globalization they themselves advocate. In this regard, we strongly urge the World Trade Organization and the BWIs to spearhead discussions with developed nations on securing market access for Africa’s exports and the removal of distorting subsidies.

Infrastructure Development

Mobilizing donor assistance and private capital flows is crucial for ensuring the adequate funding of infrastructure and the provision of basic services necessary for sustainable growth. In this regard, we urge the Bank and the Fund to support our governments in maintaining and modernizing existing infrastructure and promoting public-private partnerships in infrastructure development, including at the regional level. On our part, we commit ourselves to putting in place the necessary regulatory frameworks and to undertaking additional reforms in order to facilitate private participation in infrastructure.

Private Sector Development and Foreign Direct Investment

Despite sustained economic reforms over the last two decades, FDI flows to Africa have not been significant. This is in sharp contrast to the impressive macroeconomic environment and sustained efforts toward privatization in many African countries. We welcome the World Bank Group’s Private Sector Development Strategy, which, among other things, emphasizes investment climate surveys in the CAS and PRSP processes. We believe that such surveys will help to establish the missing link in the private sector-led growth equation, and will guide policy makers on the priority actions required to further improve the investment
climate. Furthermore, we believe that the development of SMEs is a critical element in poverty reduction because of their high potential to create jobs and develop local entrepreneurship. We urge the Bank to increase assistance to SMEs and to support country efforts in the coordination of donor support for increased aid effectiveness.

Education For All

We commend the leading role of the Bank in providing financial support for education, which is key to socioeconomic development. We believe that for all children to complete primary education by 2015, there is need for increased resource allocation to this sector, better coordination, and the strong commitment of both African governments and the donor community. Specific measures need to be taken to achieve the objective of “Education For All” as spelled out at the Dakar World Forum. In this respect, we welcome the Bank's invitation of 23 countries, including 13 from Africa, to join the Education for All Fast Track aimed at helping developing countries meet the MDGs. In the same vein, we urge the Fund in its country programs in Africa to support the allocation of additional resources to the education sector by national authorities.

HIV/AIDS and other communicable diseases

The adverse effects of HIV/AIDS on the socioeconomic fabric of African societies cannot be overemphasized. We appreciate the leading role the Bank continues to play in supporting the various programs aimed at halting the spread of the disease. We also commend the strong leadership of the Fund in assessing the macroeconomic impact of this pandemic. We encourage the BWIs to continue to provide technical assistance to countries whose technical and administrative capacity has been severely weakened by HIV/AIDS. However, other communicable diseases, notably malaria and tuberculosis, which continue to have a heavy toll on human life and labor productivity, also deserve concerted efforts. It is in this regard that we commend our development partners, particularly the Bank, WHO, USAID, and many NGOs for launching and promoting the Roll Back Malaria initiative.

Capacity Building and Technical Assistance

We commend the Bank and other partners for spearheading the establishment of the Partnership for Capacity Building in Africa to
complement the activities of the African Capacity Building Foundation. In view of the weak human and institutional capacity in Africa, we strongly urge the Bank, the Fund, and other partners to reorient their technical support toward building strong public institutions to support a vibrant private sector. We believe that increased partnerships with local institutions will help build sustainable capacity in our countries, both in the public and private sectors. In this context, we welcome the setting up of two technical assistance centers in East and West Africa by the Fund, and we urge the establishment of additional such centers across Africa.

The Poverty Reduction Strategy Paper, Poverty Reduction Support Credit, and Poverty Reduction and Growth Facility

The PRSP process provides a sound framework for recipient governments and donors to agree on the priorities for poverty reduction. To be successfully implemented, however, PRSPs must be underpinned by technical assistance for capacity building, an appropriate level of financial assistance, and streamlined procedures for effective coordination in the delivery of donor assistance. We are concerned about the linkage between conditionality and the speed of preparation of PRSPs. For our members, faster preparation can mean quicker access to resources, but inordinate speed in the preparation of PRSPs can compromise quality. We therefore urge that this linkage be broken. We believe that there is urgent need to strengthen the linkage between objectives outlined in Bank- and Fund-supported programs under the PRSC and PRGF with those established by our member countries in our PRSPs, in a manner that reflects country priorities and specificity. As regards strengthening ownership, the Bank and the Fund should give greater scope to client countries’ own policy scenarios.

Streamlining Conditionality

In spite of efforts to streamline operational policies, procedures, and practices, many borrowing countries still face a large number of donor conditionalities and cross-conditionalities. We urge the BWIs to provide leadership in applying new guidelines on conditionality in a manner that avoids micromanagement of our countries but, instead, promotes ownership. This will allow for the utilization of the limited technical and administrative capacities for the implementation of priority programs of African governments.
HIPC Implementation

We commend the two institutions for the implementation of the HIPC Initiative. However, the slow progress in reaching completion points, primarily because of the conditionalities imposed on countries with limited technical capacity, calls for urgent redress. Like the Bank, we urge the Fund not to suspend interim assistance, since such action prompts all other creditors to suspend assistance, some of which is used in critical areas such as HIV/AIDS. We urge donors to allow greater flexibility in the application of HIPC-related conditionalities in post-conflict countries because they lack the capacities to fully comply with the PRSP process. Progress in the implementation of the HIPC Initiative has also been slowed by some bilateral and commercial creditors who have resorted to litigation as a means to recover debt covered by the initiative. We therefore propose that equitable participation should be made binding for all creditors. On the other hand, we wish to highlight the financial and moral dilemma of the HIPC framework—that of requiring HIPC to HIPC debt relief. In our view, the provision of grants by donors to pay off these claims is the ideal solution, and the BWIs should help mobilize resources for this option.

Countries in Protracted Arrears Status

We are concerned that some of our countries in protracted arrears status have been implementing tough programs monitored by the IMF staff for lengthy periods but without external assistance. We urge the Fund to find innovative solutions to the protracted arrears problems of these countries, particularly in helping them mobilize resources in order to allow these countries to move quickly to PRGF and HIPC.

Post-Conflict Countries

Post-conflict countries that are eligible for HIPC assistance face enormous challenges as they strive to consolidate peace, achieve internal stability, and pursue sound economic policies. Moreover, the acute lack of technical and administrative capacity compounds the difficulty of developing a fully participatory PRSP. We therefore urge the international community to show greater flexibility in their efforts to provide assistance to enable these countries to move quickly to PRGF, PRSC, IDA, and HIPC. Similarly, countries hosting refugees face considerable obstacles and challenges associated with the financial and social cost of
resettlement as well as the long-term effect on the host even long after the refugees return to their home countries. Countries hosting refugees, therefore, require considerable support to carry this burden.

**IDA-13 Negotiations**

We welcome the conclusion of IDA-13 negotiations despite the long delay in reaching a final agreement. We are pleased to note that the thirteenth replenishment provides IDA with SDR 18 billion over the next three years, including SDR 10 billion in new donor contributions. We followed with keen interest the issue of grants. While we acknowledge the importance of grants for meeting some of our critical requirements, we underscore the need for IDA resource sustainability in the long run. We therefore welcome the compromise reached by donors to provide 18–21 percent of IDA’s overall resources in the form of grants, and to maintain the principle of IDA resource sustainability. We firmly support grant funding for areas such as communicable diseases, disasters, post-conflict situations, and education, where no immediate financial returns are expected.

**Financial Sector Reform, Money Laundering, and Financing of Terrorism**

We commend the Fund and the Bank for the technical and financial support in the implementation of financial sector reform, including the strengthening of surveillance systems. However, while we support the work on standards and codes undertaken in the context of FSAPs, we believe that the priority for African countries should be capacity building for the development of indigenous markets and viable financial institutions to support small and medium-size enterprises.

**Africa’s Voting Power and Voice**

The continuous decline of Africa’s voting power and voice in the Bretton Woods institutions runs counter to current endeavors to strengthen ownership in the development of Africa and is not consistent with the recent Monterrey Consensus. This trend also reflects a democratic deficit within the Fund and the Bank, given the comparatively enormous number of discussions and decisions taken on Africa in both institutions. We urge the two institutions to address this problem.
STATEMENT BY THE GOVERNOR OF THE BANK FOR UKRAINE

Vasyl Rohovyi

The benefits and risks of the global economy have been actively discussed by the international community for several years now. Agreements and initiatives launched in Monterrey and Johannesburg are increasing expectations for better cooperation among the developed nations and other groups of countries in addressing the challenges faced by the modern world. But at this forum we may want to devote more attention to increased financial instability and instances of trade protectionism, which might threaten hopes for implementing the honorable principles of the Monterrey Consensus.

In addition to the still depressed level of net capital flows to emerging markets, if compared with the mid-1990s, there has recently been another round of capital flows volatility. In addition, a synchronized and so far continuous downward adjustment of developed nations' stock markets is occurring. This adjustment will have an impact on the rest of the world economy. International finances, therefore, are not becoming more stable, and we have to face this challenge. Volatility testifies that anti-crisis immunity among some emerging markets has not been established to the extent necessary. Volatility also reveals that the strengthening of the international financial architecture seems to be lagging somewhat behind current developments.

In this light, it would not be entirely prudent to place the responsibility for volatile capital flows predominantly on the policy weaknesses of recipient countries. Such a view is not balanced enough. Capital account volatility, together with difficult global restructuring in such sectors as telecommunications, information technology, and energy can affect practically every country, and does not always respect the strength of local macroeconomic fundamentals.

Instability can affect not only systemically important emerging markets, but practically any other country. This is why all countries deserve equal treatment—systemically important emerging markets, developing countries struggling to overcome poverty, and countries transforming from centralized to market economies. The principle of equal treatment should cover market access, access to multilateral financing, and conditionality. The rules for access to IMF financing, in particular, should become more transparent and understandable. We welcome some
achievements in this respect and urge further progress in streamlining conditionality, strengthening ownership, and securing sufficient access.

Risk avoidance is currently dominating investors' behavior, as was clearly emphasized in the international financing institutions' recent research on global financial stability. Their important work on financial markets and anti-money laundering best practices deserves the full support of the international community. Practical recommendations for reducing vulnerabilities and reaching debt sustainability must go side by side with reforming market mechanisms and regulations. Making such mechanisms more manageable and predictable is important for crisis prevention as well as for crisis resolution. Mechanisms for reasonable burden sharing between the official and private sectors in crisis must be developed further to avoid sudden developments, which are undermining investor confidence and negatively affecting broad support for reforms in member countries stricken by crisis or contagion spillover.

Reaching the Millennium Development Goals and gradually approaching the official development assistance target levels of 0.7 percent of GDP, while improving market access, will be the best possible contribution to shielding the more vulnerable nations of the world from the effects of global financial and economic instability. Addressing the challenges of poverty will also be greatly helped by further mutually beneficial trade liberalization. To this end, we fully support the emphasis placed by President Wolfensohn and Managing Director Kohler on the utmost importance of the success of the Doha Round. We would also urge more publicity around the recent studies by the institutions on the negative effects of trade protection and trade subsidies on international trade and on investment and consumption in both developed and developing nations. Trade distortions may, in our view, become an even more prominent feature in surveillance.

Improving the investment climate remains an ongoing challenge for many nations, including Ukraine. Our country hopes for new positive achievements in this area, and we count on continuous support from the World Bank Group and the Fund in strengthening our market institutions. Transition has been harder and more challenging than anyone assumed 10 years ago. Now the most difficult times for Eastern European countries, including Ukraine, seem to be behind us. Transition economies have so far been weathering the global slowdown rather well.

In Ukraine, the evidence of regained confidence in our sound policies manifests itself in lesser dollarization of the economy, in the informal economy's emergence from the shadows, in improved indicators of the monetization of the economy, in further moderation of single-digit annual inflation, and in reduced levels of external debt. After reaching high growth rates of 9 percent and 6 percent in 2000 and 2001,
respectively, we have targeted a more modest 5–6 percent for the next few years. An increased emphasis on transparency in both the Bank and the IMF coincided with our national effort to improve the transparency of government operations, including privatization.

Among structural reforms, we are proud of having strengthened budget constraints throughout the economy, as well as the first results of our agrarian reform, which allowed Ukraine to regain its historical position as a grain exporter. We are not yet fully satisfied with progress on some other important structural fronts. Reforming the tax system, removing distortionary exemptions and incentives, instituting better budget expenditure management, and undertaking further sectoral reforms are among our priorities for the immediate future—along with the modernization of the country's infrastructure. We are currently somewhat concerned with the difficulties in meeting the goals of our privatization program. We planned to privatize some industries and enterprises in sectors that are experiencing difficulties throughout the world. Corporate accounting and governance scandals in one part of the world can apparently influence systemic transformation even in a different hemisphere.

Finally, we would like to emphasize that international financial institutions, as well as many sovereign nations, need to better adjust to the realities of the increasingly integrated global economy and fluid financial markets. We fully share the view that there are no viable alternatives to globalization, but the global economy needs to be inclusive, mutually beneficial, and for the entire membership.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE UNITED KINGDOM

Gordon Brown

We meet here in Washington this weekend to discuss the challenges we face in the world economy, where recovery is under way, and to demonstrate our commitment to building the next stage of global prosperity and advancing toward the globalization we want—social justice on a global scale.

Over the next year our aim in the international financial community must be to make real our commitment to the elimination of poverty, the promotion of development, the achievement of the Millennium
Development Goals, and the progressive removal of the wide disparities in living standards among countries by embracing what I call a new deal for the global economy—a new development compact that will allow all countries to earn a fair share of the benefits of global prosperity by developing countries systematically tackling corruption and instability, and creating the conditions for private investment, and developed countries opening up their trade and radically improving aid for poverty reduction, including education and health.

And because I believe that in the long run our prosperity is indivisible, and that to be sustained it must be shared, I hope that, even in an insecure world, we can make progress in Washington this weekend toward building a new international financial architecture and meeting the world’s agreed-on Millennium Development Goals—including that, by 2015, we halve global poverty, cut child mortality by two-thirds, and achieve primary education for all.

And this new deal is more not less necessary, more not less urgent, as we tackle the consequences of a worldwide slowdown, assess the risks and challenges ahead, and deal with the vulnerabilities of a more integrated but more volatile international financial system.

There are four building blocks of this new deal: economic stability, investment, trade, and aid.

**Economic stability**

The first is more urgent than ever: international economic cooperation and a new framework for a more stable global economy based on clear codes and standards, enhanced transparency, and improved crisis prevention and resolution mechanisms.

We must all be vigilant to the risks that we face at this time. And we must all, each continent and the international institutions, face up to our responsibilities in sustaining and strengthening the economic recovery round the world: Europe must make progress on economic reform, Japan must take decisive action on financial sector reform, and America must show that corporate reform is working.

In the United Kingdom we are making our contribution to global economic stability and growth. In these times of insecurity and risk—with 20 countries accounting for half of world output having been in recession this year and last—we must continue to have the strength to take the tough long-term decisions on the economy. It is because we did not fall for the quick fixes, easy options, and irresponsible shortcuts, that with Bank of England independence, tough fiscal rules, and rigorous
public spending controls, we today have the lowest inflation in Europe, the lowest unemployment in 25 years, and the lowest mortgage costs in 40 years.

And from this platform of stability, even at a time of global instability, we have doubled public investment and ensured that our public spending plans are fully financed on cautious assumptions. So to ensure that we can continue to deliver stability, growth, and strong public services, there will be no relaxation of fiscal discipline, no breach of the fiscal rules, and no return to the old days of reckless borrowing unsupported by fiscal prudence.

Because terrorists intended to bring the world’s financial system to a halt, to undermine the very prospect of global prosperity, we must continue to show that we will not succumb or surrender to their threats. The United Kingdom remains firmly committed to combating the financing of terrorism and, in concert with our international partners, the multilateral institutions and regional organizations, we have taken a range of measures and have fully implemented key anti-terrorist United Nations Security Resolutions 1373 and 1390.

As a result, the United Kingdom has frozen the assets of more than 100 organizations and more than 200 individuals. We comply with the FATF 8 Special Recommendations on terrorist financing. Domestically we have in place legislation to seize terrorist cash, freeze funds at the start of an investigation, and monitor suspicious accounts, and we have enhanced reporting requirements. We also supervise money service businesses to ensure that they comply with the money-laundering regulations. And we are working closely with European Union partners to identify terrorist organizations and individuals whose accounts should be frozen.

Increasingly, in this age of globalization, our national goals are shared international goals, our responsibilities are shared responsibilities, and our opportunities are shared opportunities.

I now believe that, just as through central bank independence we set down a new rules-based system in the United Kingdom with Bank of England independence and a new monetary and fiscal regime, we should, in pursuit of the objectives of stability, development, and prosperity, consider also a new rules-based system of international economic governance for the community of nations. This new system would be founded on clear procedures—all countries, rich and poor, pursuing agreed codes and rules for fiscal and monetary transparency and for corporate and social standards—and on a new openness and transparency, with the IMF independent of political influence in its surveillance of economies as an independent central bank is in the operation of monetary policy.

The adoption of clear and transparent procedures in economic decisions—for example, presenting a full factual picture of a country’s debt
position and the health of the financial sectors—and a willingness to be monitored for them, improves stability and provides to markets a flow of specific country-by-country information that engenders greater investor confidence and that reduces the problem of contagion. We should all adopt and monitor similar codes and standards for corporate governance, including for accounting, working with standard setters to develop stronger regulatory frameworks.

Leading by example, the United Kingdom will participate in the Reports on the Observance of Standards and Codes modules covering accounting and auditing, corporate governance and insolvency, and creditor rights. We will then have completed assessments against all codes and standards—the first, I hope, of many countries to achieve this.

With technical assistance and transitional help for early implementation of codes and standards generally, I hope other countries will become part of a wider move toward greater transparency, including the routine publication—by rich and poor countries alike, as well as the IMF—of all surveillance and program reports and IMF policy and administrative papers.

But there is a case for going even further. To ensure that the Article IV surveillance process fulfills the key objective of early identification of risks and vulnerabilities, all Article IV reports should include strengthened debt sustainability analysis, greater focus on the structural sources of instability, early identification of unsustainable macroeconomic policy frameworks, an assessment of adherence to codes and standards, and identification of countries that still need to take action to forgive debt under the HIPC Initiative.

More fundamentally, there is a strong case for enhancing the IMF’s surveillance and monitoring functions so that surveillance is—and is seen to be—independent of decisions about crisis resolution. We must implement further reforms to promote greater independence—ensuring that the Fund applies objective, rigorous, and consistent standards of surveillance to all member countries and that there is a clear separation between surveillance and lending activities and greater accountability, with the IMFC setting a surveillance remit, IMF management reporting each year on the Fund’s performance, and an annual assessment of effectiveness of Fund surveillance. Together, this would help to reduce the risk of financial crises internationally and promote a new era of global economic stability.

Where countries do operate transparent and effective systems, fully monitored by the international community, they have the right to expect the support of the international community if hit by financial contagion. The Contingent Credit Line should be seen as an attractive tool to help
countries prevent crises, and we look forward to the IMF’s forthcoming review of the CCL.

We also need to ensure there are effective methods in place for crisis resolution in a way that will ensure the burden of adjustments is not placed on the poorest and most vulnerable. The Fund is working on a stronger framework for crisis resolution to provide members and markets with greater clarity and predictability about the decisions that the Fund will take in a crisis. We urge the Fund to build on this, in part by finalizing and implementing the new framework to clarify and strengthen the procedures for exceptional access to Fund resources. We cannot send a message that bad decision making by lenders is encouraged by the expectation of an unlimited bail-out by taxpayers, or that bad policies by debtor countries will be condoned by more financial support by the international community. We also urge resolution of the obstacles that stand in the way of effective debt rescheduling. We need reform of the contractual arrangements for debt, and we need to continue work on a new, more comprehensive, legal framework, an international bankruptcy procedure. We welcome the progress made by the IMF on the contractual and statutory approaches. We encourage it to work further with the private sector and sovereign debt issuers on promoting collective action clauses. And we urge the IMF to work up concrete proposals for the Spring Meetings on the implementation of a statutory Sovereign Debt Restructuring Mechanism.

Finally, we urge clarification of Fund policy on standstills and lending into arrears. Under this new framework we can move from letting crises happen and then intervening to a new paradigm: systems that in themselves diminish the likelihood of crises, earlier awareness as difficulties arise, and more measured orderly responses when crises have to be resolved.

**Investment and corporate accountability**

However, stability is only the precondition. To ensure growth and development we must also take steps to promote domestic and foreign investment—and find better ways for public and private sectors to work together in plugging investment leaks. Not only is foreign direct investment too low in the poorest and least developed countries—with just $3 per head going to low-income countries compared with $1,100 per head to higher-income countries—but also domestically generated savings and investment are low, and often the savings that do exist leave the country in capital flight.
In seeking more favorable business environments in which private sector investment can be more productive, country-owned poverty reduction strategies have correctly focused on creating the right domestic conditions for business investment, including improved infrastructure, sound legal processes that deter corruption, and the creation of an educated and healthy workforce. We support the creation of new investment forums—such as those in Ghana and Tanzania—bringing public and private sectors together to examine the current barriers to investment and to build a consensus, in the light of regional conditions, on how to secure higher levels of investment.

Most important, investment forums are helping to break down the assumption that private sector development should either be led solely by business, or directed by the state, instead recognizing that public and private sectors must work together in partnership to secure economic growth and reduce poverty.

Where multinationals are unaccountable across boundaries, businesses and government must also do more to restore the right balance, increase stakeholder awareness, and achieve cross-border accountability. We urge more companies to follow the principles of good corporate practice laid out in the OECD’s guidelines for multinational enterprises. The initiative to increase transparency in extractive industries announced at the recent World Summit for Sustainable Development is an excellent example of how private sector companies can positively contribute to development and poverty reduction.

**Trade**

Our third building block is widening and deepening trade. Full trade liberalization globally could lift at least 300 million people out of poverty by 2015. That is why the U.K. government strongly supports the new trade round launched at Doha, where developing countries had a real and effective voice in the negotiations, and we are committed to Doha’s core development agenda.

We must ensure that poor countries have access to the medicines they need to tackle the diseases crippling their societies—AIDS, tuberculosis, malaria—and protect public health. Other developed countries should follow the EU’s lead by offering duty- and quota-free access to all products except arms from the 49 least developed countries. And since three-quarters of the world’s poor live in rural areas, urgent action is needed to reduce agricultural protectionism and open up trade.

Developed country subsidies to agriculture amount to $1 billion every day—a sum greater than the national income of the whole of
sub-Saharan Africa and seven times the total of overseas aid flows. The United Kingdom is working hard to secure substantial reforms in the mid-term review of the CAP now under way, and we urge others to join us—all developed countries subsidizing agriculture must show leadership.

But we must not rush developing countries to reduce their tariffs without recognizing the effect it could have on both government revenues and the livelihoods of people working on the land. We need a sequenced approach, which ensures that appropriate measures are in place to protect vulnerable countries and vulnerable people from an overly rapid transition to a system of liberalized trade. So we support the Fund and Bank commitment to undertake poverty and social impact assessments of trade reforms, and we will continue to promote the integration of trade into developing countries’ poverty reduction strategies. In addition to enable developing countries to participate fully and effectively in the trading system, by 2004 the U.K. Government will have committed £45 million to support trade-related capacity building.

**Development compact**

Economic stability, investment, and trade are all crucially important, but there cannot be a solution to the problems that developing countries face without a fourth reform: that in return for developing countries pursuing corruption-free policies for stability and creating a favorable environment for trade and investment, developed countries should be prepared to increase vitally needed funds to achieve the agreed Millennium Development Goals. For its part, the United Kingdom will increase its aid budget to nearly £4.9 billion by 2005-06—a 93 percent real-terms increase since 1997. This will take the U.K.’s ODA/GNI ratio to 0.4 percent—the highest in 20 years and double the G-7 average: continuing evidence of our commitment to the target of 0.7 percent.

We welcome the commitment by the G-7 to contribute their share of an extra $1 billion to finance the shortfall in the HIPC Initiative, together with the call for action to tackle the issues of creditor participation and debt sustainability. We stand ready to contribute our full share. We must also do more to support HIPC and other low-income countries that face legal challenges from creditors—both commercial and official—that are unwilling to give debt relief, and we look forward to receiving the forthcoming report on this from the Fund and the Bank. We propose a trust account, funded by donors, to pay for technical assistance to help any HIPC being sued by a creditor that refuses to deliver relief, including vulture funds.
Where countries have had to contend with external shocks, such as sharp falls in the price of key export commodities, we must form a broad consensus on the need for topping up at the completion point to ensure a lasting exit from sustainable debt. And we must develop more realistic and generous rules for its provision, including agreement that the calculation of topping up should exclude voluntary bilateral provision of an additional 100 percent relief.

But debt relief and the aid already pledged will not be enough on their own. The Zedillo report on Financing for Development estimated that if we are to achieve the Millennium Development Goals, at least an extra $50 billion of aid will be required every year. As a matter of urgency, we must consider the means by which the benefits of the new resources agreed on earlier this year can be maximized—both through improved aid effectiveness and by levering in additional funds.

Aid should be harmonized and aligned behind the priorities of country-led poverty reduction strategies, and coordinated with national systems and budget cycles. It should also be better targeted and made more effective through untying. But even with more debt relief and improved aid effectiveness, the scale of the challenge is such that we need to consider other innovative forms of financing, building on the $12 billion pledged in Monterrey, to reach our $50 billion target.

One option is to pool additional resources in a new international development financing facility that could leverage funds from international capital markets to meet the demand for large-scale assistance now and enable a much earlier achievement of the Millennium Development Goals than might otherwise be possible. This new financing facility would require donor countries to make a clear commitment to substantial additional resources over the long term.

The extent to which such a financing facility might leverage funds from international capital markets would depend on a wide range of factors, but reasonable assumptions suggest that such a fund might clear its debts in around 30 years. A broad package of measures that generated additional flows of $15 billion a year could be leveraged in the capital markets to provide an additional $50 billion each year until 2015—enough to meet the Millennium Development Goals.

Whatever means of raising the additional funding we pursue, one thing is crucial: developing countries themselves must show genuine commitment to education, health, and poverty reduction, demonstrating that the resources they receive through aid and debt relief are properly and effectively used. The progress African governments are making through the New Partnership for African Development has been a major step forward, with commitments to making progress on political and
economic governance, economic management, human development, and peace and security.

Anti-corruption strategies and international standards in public financial management and accountability are crucial. All countries should meet high standards in public financial management and accountability. And in the context of the HIPC tracking exercise, all HIPCs should agree to ambitious timetables to do so within their poverty reduction strategies. As a first step, I propose that all HIPCs currently receiving debt relief should achieve a core number of international benchmarks in budgeting, auditing, and reporting within three years. And the international financial institutions have an important role to play in providing governments with much more simplified and coordinated support to help them meet these international benchmarks.

More generally, the IMF and the World Bank must also do more to ensure a more open policy dialogue in their support of poverty reduction strategies in low-income countries, including explicit discussion, in Fund programs, of alternative policy choices and trade-offs, supported by poverty and social impact analyses, to ensure that policies deliver real benefits for the poorest.

Conclusion

The challenges of globalization are immense, but before us there is an unprecedented possibility of progress. Our vision of the way forward is that, in an increasingly interdependent world, all can benefit if each meets agreed obligations for change. We should not retreat from globalization. Instead, we must work together—across the world—to advance social justice on a global scale.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR THE UNITED STATES

Paul H. O'Neill

As we gather for these meetings we reflect on a year full of challenges and cooperation as we together worked to restore global economic growth after the shock of last September's terrorist attacks, help
countries deal with financial crises, find a way to bring more concrete improvements to the lives of those in developing countries, and fight the financing of terrorism.

The international financial institutions are critical to these efforts, and we welcome the role that they play in dealing with some of the most important and formidable tasks facing the world community. The IMF and the World Bank are indeed vital to our cooperative efforts to advance growth and development. At the same time, it is our shared responsibility to continue to look for ways to improve the institutions—to focus their objectives and enhance their effectiveness.

The United States’s engagement in the IMF and World Bank is guided by an over-riding belief that our role, and that of the official community as a whole, is to encourage governments to take the right steps themselves that will help them achieve economic success. We simply cannot bring about success from the outside. Instead, we can foster growth and development only by supporting and encouraging sovereign governments that rule justly, invest in their people, and expand economic freedom. This is the key to unleashing the potential created by the desire and ability of people everywhere to improve their lives.

**Promoting global growth**

We all know that the world economy and its people benefit when all countries—especially the major industrial nations—grow at their full potential. Achieving this depends on the adoption of policies to support strong and durable growth everywhere.

The United States is doing its part. After a shallow downturn, the U.S. economy is recovering. And, over the course of the coming year, I am confident that the United States will resume growing in line with its potential growth rate of about 3 to 3-1/2 percent of GDP.

Trade liberalization is a key component of the growth agenda, and the United States is committed to making the WTO negotiations under the Doha Development Agenda a success across the range of priorities. In this context, more rapid progress can and should be made in liberalizing financial services. We are pleased with the IMF’s and the World Bank’s steps to strengthen their efforts in the financial sector and look forward to their ongoing work to help build stronger financial systems.

**Preventing and resolving financial crises**

I want to underscore the primacy of a country’s own policies in determining its economic destiny. Countries with sound fiscal and
monetary policies, good governance, effective investment in human capital, and freedom of economic transactions will inspire confidence, attract resources, and build a stable basis for growth and prosperity—and thereby help protect against vulnerability to financial crisis.

Similarly, the official community must focus first and foremost on ways to prevent crises. This is a particular priority for the IMF, which must continue to strengthen its approach to anticipating and averting crises. The IMF must work to detect potential crises early and seek quick action to address sources of vulnerability.

A key to resolving crises is to develop a clear and predictable process for countries that reach a position in which they cannot sustain and service their debt burden. The aim is not to make defaults easier or more likely, but rather to simply make a restructuring more orderly and predictable should it occur. The United States is pleased with the progress made to date—through cooperation between the official and private sectors—toward implementing a market-oriented contractual approach to the sovereign debt restructuring process. We are also committed to continuing to work with the IMF on a statutory approach to restructuring.

A process for resolving debt-servicing difficulties will also provide an alternative to large official packages of support. This will enable us to hold firm on the size of packages from the IMF. If there is always the prospect of unlimited official financing to help countries manage their way out of trouble, there is little to motivate policymakers to make the tough choices that are necessary to maintain stability and achieve sustained growth. When a decision is made to provide exceptional levels of IMF financing, this decision must be strongly justified.

Achieving results in development

Economic development is one of the great challenges of our time. Many people have spent lifetimes dedicated to unraveling its mysteries. Certainly there are no easy answers. But we believe that there are a few key ingredients—first and foremost, leaders that are committed to and take ownership of the policies necessary for economic success.

The focus of the international community must be establishing the conditions in which individuals have the tools and opportunity to reach their human potential and to improve the future for their children and their nations. It is this concrete objective that must be paramount. We must not rest until we achieve real, tangible results for people on the ground.

The United States welcomes the progress made in the past year toward this objective. The agreements in Monterrey and Johannesburg
provide an important basis for moving forward together. Moreover, the agreement in the IDA-13 replenishment to deliver a significant portion of resources in the form of grants rather than loans and to give greater emphasis to measuring the outcomes and results of IDA programs represents a significant change in how donor nations will work to help poor countries succeed. This is just the start of what we expect will be a fundamental shift in focus in the multilateral development banks (MDBs). The challenge now for the MDBs is to adopt the real changes in operating style needed. We look forward to the World Bank taking a leading role in working with its development partners to establish an accountability structure for standardizing and measuring a set of priority development results. This will require a sustained and prioritized effort so that a results-oriented approach is fully integrated into every element of the Bank’s work. The goals set out in the Millennium Declaration provide a starting point.

**Fighting the financing of terrorism**

We in the United States are heartened by the solidarity that has characterized the fight against terrorist financing in the last year. We should all be gratified by the successes achieved thus far, but the battle must continue on all fronts. This means applying technology, intelligence, and regulations to locate and freeze the assets of terrorists, wherever they may be. It means attacking the terrorists’ financial infrastructure in order to make the transfer of money across borders more difficult, slower, and more visible and thus more easily intercepted. And it means ensuring that all nations have the technical abilities and systems to disrupt terrorist financing.

None of these efforts can succeed without cooperation from nations around the world. Together, our challenge is to protect the freedom and flexibility of the world financial system, while exposing those seeking to use the system for evil aims. The United States attaches the highest priority to this effort and is working through all multilateral channels and bilaterally with countries throughout the world—working in the realms of law enforcement, information sharing, and financial regulation and supervision.

We are pleased by the recent steps taken by the IMF and the World Bank to work closely with the FATF and other organizations to develop a process for comprehensive assessments of anti-money laundering and terrorism financing principles. This undertaking fulfills a critical need to identify gaps in countries’ implementation of agreed international principles so that appropriate technical assistance can be marshaled and
provided. We commend the institutions on putting in place a pilot program for these assessments and urge quick implementation of this important initiative in cooperation with the FATF.

STATEMENT BY THE GOVERNOR OF THE BANK FOR VENEZUELA

Felipe Perez Marti

Venezuela welcomes the IMF's determination to introduce mechanisms for crisis prevention and resolution. Now is the time for the IMF to take on the role of lender of last resort, in order to prevent the imposition of spurious considerations such as contagion on fundamentals, as a means of introducing lower Pareto equilibria. Following the breakdown of the Bretton Woods Agreement in the 1970s, the lack of an appropriate architecture to regulate the global financial system became an increasingly obvious problem with the advent and proliferation of financial crises that caused economic and social disasters, especially in the developing countries. In the same way that the absence of a central bank in a country can trigger runs on solvent banks, the lack of such a financial architecture since the breakdown of the Bretton Woods Agreement has caused widespread runs on the currencies of the more vulnerable countries. Capital flight has had an impact on countries such as Venezuela, where the private sector saved abroad but the local economy was deprived of investment and endured a succession of weak and indebted governments. These governments were ill-equipped to solve the severe social and political problems generated as a result of these crises, which reflected the weakness and volatility of the external value of a local currency that had previously been very strong and stable relative to the dollar. We look forward to a brighter future, thanks to the new mechanisms that are now being forcefully advocated.

We also welcome the plan to address the need to restructure debt through multilateral assistance, debt forgiveness, and other methods for aiding the poorer countries. In fact, we believe that a historic realization has occurred; namely, that if we are to have a global economy and a global market, we must absolutely have a global community to regulate that market and that economy. This global community should be concerned not only with correcting capital market failures, it should also produce and promote the production of public goods at the global level,
such as the creation of know-how and technology. The global community should seek to curb societal evils such as environmental degradation. It should rein in the inappropriate use of market power, and it should prevent the unethical behavior of certain transnational enterprises. Furthermore, the global community should promote transparency as a means of counteracting information asymmetry and should foster the use of appropriate standards and protocols at the global level. It should also pass legislation on security and enforce global laws through legitimate judicial bodies and systems of safeguards that are not influenced by private agendas but which reflect broadly applicable rules and principles.

However, if we are to have a global community, we ought to consider what goals it should pursue. And as the matter should not be decided by the few representing the many, we must rely on the unrivaled mechanism for defining such objectives: namely, democracy. If a democratic system is to be the cornerstone of policy making and decision making within a particular country, that same democratic system must serve as the basis for the rules and institutions that we mentioned earlier, both with regard to financial regulation and in all other areas. We cannot afford to be inconsistent or hypocritical as we call for democracy and respect for human rights. To avoid accusations of high-handedness or passivity (as the case may be), when we urge other nations to embrace democracy we should not merely give our blessing to democracy in the global community, we should actively encourage it. Nonetheless, democracy must be predicated upon human beings. The power exercised by the people of a democracy must derive from the individual; it follows that in a global community, fundamental decisions—particularly economic decisions—must respect the principle of one person, one vote. The lack of democracy currently on display at the United Nations is unacceptable, from this standpoint, in the new millennium.

Specifically, in a democratic country, when decisions are made concerning an economic program that includes fiscal rules—for example, rules pertaining to taxes—it is unthinkable that one person should have more votes, more decision-making power than another, purely because that person is richer. Likewise, in the decisions of an economic institution belonging to the global community—such as the IMF or the World Bank—it is wholly inappropriate for one country to exercise more power than another simply because it is wealthier. Furthermore, a society needs more than just a central bank and a development bank. It also requires a tax collection mechanism to finance its operations, such as the delivery of public goods, or to make revenue transfers in pursuit of democratically selected principles, such as equality of opportunity. Needless to say, in a society of altruists—based on some degree of genuine compassion—voluntary give-and-take produces a harmonious equilibrium in which
equality of opportunity is automatically assured. However, judging by the reality of global inequality—or should I say involuntary inequality?—and the related phenomenon of involuntary unemployment, clearly documented by the World Bank and mentioned today by World Bank President Mr. Wolfensohn, the degree of altruism shown by the richer countries from one day to the next is not sufficient to offset growing inequality, or to achieve the Millennium Development Goals. As has been empirically documented, inequality generates economic stagnation and violence. If the global community wishes to grow in a harmonious and sustained fashion, it must address the problem of poverty, as well as guarantee education and health care for the marginalized members of society. If we are serious about preventing terrorism, we must tackle poverty and inequality. This has been demonstrated by such authors as Gary Becker of the University of Chicago, who, in his discussions of the economics of law and the incentives to commit crimes, argues that an unequal society is an insecure society, not conducive to long-term investment.

However, since the requisite degree of altruism is still wanting, the democratic principle of majority rule in fiscal matters is bound to produce a transfer mechanism that safeguards the principle of equality of opportunity. And let us say this: the wealthy countries are not solely responsible for their wealth, just as the poor countries are not solely responsible for their poverty. Have we not learned that circumstances are decisive in such matters? This is hard for the wealthy countries to understand, but the poor have no such difficulty, as Jesus of Nazareth pointed out. In this case, democracy ensures that truth will triumph. Thus, the global community should also institute a democratically selected means of transferring revenue from rich to poor, one that upholds the principle of equality of opportunity. The objective, however, is not to reward those who seek to avoid work, but rather to level the playing field so that individuals can make their own decisions on a basis of parity.

Are the wealthy countries aware that if there had been more accountability in the institutions they traditionally dominate—such as the IMF—there would be less poverty in the world today? Considering the unfair advantages amassed by the wealthy over the years, many of the debts of the poor countries ought to be forgiven, and borders should be opened to trade and global production. It is also essential that principles of fair competition be embraced, so that local entrepreneurs can compete on an equal footing with their counterparts in the wealthy countries. Otherwise, cutthroat behavior in an imperfect market as well as in the social sphere—which takes no account of the most harmonious, efficient equilibria—will consign local entrepreneurs to poverty and inequality.
Let me close by saying something more specific. The supervision of loans granted to prevent crises, or of loans for development, should not be subjected to biased political criteria. For example, in a critical situation such as the one facing Venezuela, which has a fairly standard market economy program, politically explosive measures such as instantly quintupling the price of gasoline are not practicable. We have cut primary spending by three percentage points of GDP and introduced modest increases in the value-added tax and the tax on financial transactions. We are also working on a feasible and progressive plan for bringing gasoline prices into line with prevailing conditions. However, at a time when our fiscal revenue has fallen 35 percent because of the abominable acts of September 11, 2001 and the consequent substantial decline in the demand for oil, we need some understanding. In a year when debt service consumes nearly half of all tax revenue (despite the fact that Venezuela's debt is among the lowest in Latin America, its maturities are unevenly distributed), we also need understanding. But that is not what we have been getting so far, despite Mr. Köhler's wise pronouncements. Dare we hope that the marvelous principles espoused today at the beginning of this session will be followed by those lower down in the bureaucracy of the IMF and the World Bank?

We fervently hope that this will be so, as the hour of truth, intelligence, and wisdom approaches, a time when ideals are contrasted with reality—or at least with what is to come. The best prescription for growth, for the economy, for business, and for workers is also the morally sound solution: true democracy, equality of opportunity, harmony, peace and love.
CONCLUDING REMARKS

STATEMENT BY THE GOVERNOR OF THE FUND FOR SWITZERLAND

Jean-Pierre Roth

Fellow Governors, Mr. Chairman, Mr. Köhler, Mr. Wolfensohn, ladies and gentlemen, on behalf of Switzerland, I wish to thank you for the honor that you have bestowed on my country in choosing it to chair the Boards of Governors for this coming year. It will be difficult to match the skilled manner in which His Excellency Ahmed Bin Abdinabi Macki has conducted these meetings. We owe him a debt of gratitude, and we will try our best to follow his example.

This year's meetings were overshadowed by the events of September of last year and a growing concern about the future. The meetings have clearly highlighted the many and difficult challenges which we must face in the months and years ahead. It is imperative that these two great institutions intensify their efforts to promote growth and stability in their drive to bring about sustainable development and a reduction in poverty.

Thereby, they will make a large contribution to peace in the world. They need our support for this important task.

In closing, I want to thank the heads of our institutions, Mr. Köhler and Mr. Wolfensohn, and their staffs for what they have achieved over the past year and to offer them my wholehearted encouragement for the future.

I look forward to seeing you in Dubai next year, and wish all of you a good and safe journey home.
Mr. Chairman, Governors, honored guests, this has been a very fruitful weekend, despite some unusual circumstances. We have worked to find common ground in responding to the challenges facing the global economy. I am grateful to our hosts, the District of Columbia and the U.S. government, and to our hard-working and dedicated staff, for making this possible. And I congratulate Minister Macki for his able chairmanship.

From today's discussion, it was clear that the current risks and fragilities in the global economy have been very much on your minds. But I also sensed an intention to find what Gordon Brown has called the right balance between complacency and excessive pessimism. Advanced countries have shown they recognize the need for vigilance against any further weakening in economic prospects, and for action to remove impediments to stronger growth. And Governors across our membership have demonstrated their awareness of the need to build confidence and safeguard and strengthen the world economic recovery:

- through better national policies,
- and through better international cooperation.
- Here most of you have referred to the need for action to strengthen the multilateral trading system and bring the Doha round to a successful conclusion.
- You have also welcomed and encouraged the process of reform that is under way in the IMF—of course, with suggestions about what we can do better or differently.

I must thank you for the interest and support you have shown for an integrated concept for further reform of the IMF.

- You have asked for a clearer and more predictable policy on access to IMF resources. As some of you stressed, exceptional access must remain exceptional.
There was also endorsement of our work to improve debt sustainability analysis, and to help develop better mechanisms for dealing with unsustainable sovereign debts. I was particularly encouraged at the agreement that the IMF should continue its work on collective action clauses that could be included in international debt instruments, and that it should come forward with a concrete proposal for a Sovereign Debt Restructuring Mechanism, for consideration by our membership by the time of the spring meetings.

I understand that Governors are willing to look with an open mind at the concept of finding ways to provide a better safety net for countries pursuing sound policies. We intend to work on that.

And, while there is a range of views on issues relating to IMF quotas, there is universal acceptance of the principle that the IMF must have adequate resources to fulfill its role in the global economy, and interest in revisiting the distribution of quotas.

It is clear from today's discussions that we have a lot of work ahead of us. And I want to tell you—you can count on the devotion and professionalism of the IMF's Executive Board, its management, and in particular, its staff.

Mr. Chairman, ladies and gentlemen, these meetings have shown that there is broad agreement that globalization is a reality, and that even if we could turn back the clock, we should not try to do so. Integration into the global economy through trade, investment, and the spread of ideas and technology has the potential to bring about stronger economic growth and better standards of living for all this planet. But you have also made clear that it brings risks and social strains. And so you have stressed that we need to make a conscious effort to build a better globalization—one that is more inclusive, and leads to a better balancing of risks and opportunities. Your remarks have made it clear that all of us—member governments, international organizations, the private sector, and civil society—have to play our part. Our mandates and roles may differ, but we have common goals: strong economic growth; social and environmental sustainability; peace, justice, and fair play; and solidarity in the fight against world poverty, building on the spirit of Doha, Monterrey, and Johannesburg.

Mr. Chairman, ladies and gentlemen, I am convinced that a better world is possible, if we are willing to invest in better globalization. Let us work together to make it happen. I look forward to reviewing progress at our meetings next year in Dubai, under the chairmanship of Switzerland.
Mr. Chairman, Governors, honored guests; we met for two short days, but I believe that we have accomplished a great deal.

Clearly, we were all preoccupied with the difficult and uncertain world economic environment, but, as Horst said, that should not cause us to be pessimistic.

Indeed, all Governors stressed the importance for renewing our commitment and focusing our efforts on the attainment of the Millennium Development Goals.

I believe, Mr. Chairman, we have the opportunity to launch a new global partnership. I believe that we made substantial progress toward this agenda here at these meetings.

First, we agreed that the Development Committee and, through it, the Governors of the Bank and the Fund, should systematically monitor the actions needed to reach the MDGs based on the commitments made at Doha, Monterrey, and Johannesburg.

Second, as an immediate step, we will develop for the next meeting of the Development Committee a framework and specific indicators for tracking actions and policies on the part of all concerned—the developed countries, the developing countries, and the international institutions.

Third, we agreed to take forward the agenda on improving donor alignment behind country-owned strategies, enhancing our results orientation and harmonizing aid practices in partnership with the bilateral community and the multilateral development banks. Next steps: the DAC Forum in December and a high-level seminar in Rome hosted by the Government of Italy.

Fourth, I welcome the support from Governors on the EFA Fast Track Initiative and look forward to scaling up our efforts not only on EFA but also on HIV/AIDS and Water.

Fifth, I am pleased that Governors highlighted the importance of strengthening development country voice and participation. I personally very much welcome this. Ministers agreed that the Bank and the Fund would prepare a background paper for discussion at the next Development Committee meeting.
Sixth, I am gratified at the pledges announced at the meetings to close the financing gap for the HIPC program and look forward to successful completion at the meeting planned for October.

Finally, we agreed that we need to maintain momentum on many other areas that are key to the parts of the implementation agenda, including the work on PRSPs, on anti-money laundering/terrorist financing, strengthening the financial sector/standards and codes, and the like.

These together constitute an ambitious program, but, if we work in the spirit of partnership, not only with bilateral donors and multilateral partners, but also with the private sector and civil society, I am sure that we will be able to meet our goals. I am gratified that we are on the path to creating a just and safe world.

Mr. Chairman, Governors, and delegates, I am grateful to all of you who have come here from distant places as a demonstration of your solidarity and commitment to our common goal of a better and a more equitable world. I would like to extend my appreciation in particular to the authorities of the United States for making our meeting in Washington possible. I would also like to extend our thanks to the D.C. Government, to the D.C. Police Department, and to all the security personnel, for all their support throughout the meetings. To the protestors, I say we do not have a different goal and that we will better accomplish that goal through dialog and mutual respect. I wish you all bon voyage and look forward to seeing you next at the spring meetings or at our next Annual Meetings in Dubai.

CONCLUDING REMARKS BY
THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND
THE GOVERNOR OF THE FUND AND THE BANK FOR
THE SULTANATE OF OMAN

Ahmed Bin Abdulnabi Macki

Fellow Governors, as we come to a close in our deliberations this year, let us try to reflect and take stock of what we have discussed, and how our work over the past few days can help improve the lives of those we represent. Although our Annual Meetings were shortened this year, I feel that we were still able to focus on a range of important issues, which
are relevant both to the membership as well as to our two institutions, and I would like to review them briefly.

First, the wide-ranging agreements reached at Doha, Monterrey, and Johannesburg have provided all of us with a great deal of hope that we will now be able to make real progress in tackling what I referred to in my opening address as our greatest challenge, the meaningful reduction of poverty. A tremendous opportunity is before us now to work together to implement quickly the commitments that have been made, both by developed and developing countries, to improve the lives of those living in poverty, particularly in those quarters of the world where conflict is ongoing or has recently been resolved. We must not let this moment pass us by and allow the Millennium Development Goals simply to become hollow targets. We have to fulfill our promises to ensure that we halve hunger and poverty by 2015, as the poorest of our citizens are counting on us and our institutions, now more than ever, to make a lasting and significant improvement in their quality of life.

Second, the need to continue working together to improve the standards of living in developing countries more generally has also been stressed. In their efforts to set the stage for tackling poverty, developing countries are continuing to implement sound policies, liberalize their economies, and pursue structural reforms in order to improve their investment climate and attract private investment. However, although their economic destiny is primarily in their own hands, developing countries still need the support of the developed countries through increased official development assistance and a meaningful opening of their markets to the exports of developing countries.

Third, we are all concerned by the increased uncertainty surrounding the global economic outlook. However, we are confident that with determined implementation of sound policies in industrialized countries, emerging markets, and developing countries, the health of the global economy will continue to improve and the risks will diminish. We have also welcomed the ongoing initiatives by the Fund to improve the quality and effectiveness of its policy advice, streamline conditionality, and boost its crisis prevention and resolution efforts, including through strengthened surveillance. On a related note, the current studies under way on mechanisms to facilitate the orderly and efficient restructuring of unsustainable sovereign debt have been noted as indicating possible further ways to reduce the uncertainty and economic costs associated with future financial crises.

Fourth, we have welcomed the progress achieved under the Enhanced HIPC Initiative. Nonetheless, we remain concerned that the pace of implementation has been slow, that financing shortfalls still exist, and that, owing to exogenous factors, some HIPC countries will continue to have
unsustainable debt levels even after they exit from the initiative. In this regard, to ensure that in the future we will be able to look back upon the initiative as a success, many of us have called for providing sufficient resources for debt relief, as we recognize that unsustainable levels of debt are a serious impediment to development and poverty reduction.

We warmly welcome the agreement reached on the Thirteenth Replenishment of IDA, and we are pleased that while some IDA resources will now be provided as grants, the principle of IDA resource sustainability will be maintained. There have also been calls to ensure that both our institutions continue to have adequate resources to carry out their respective responsibilities.

Fellow Governors, we are gathered in a city that was directly affected by the tragic events of September 11. I am therefore very pleased to note that we have reiterated our strong support for eliminating money laundering and the financing of terrorism, and have welcomed the rapid progress our two institutions have made in their action plan to help the international community address this important issue.

Finally, we all agree that the Fund and the Bank remain the relevant institutions to address the issues and challenges we have mentioned today. Their work will help to continue reducing the apprehensions about globalization. We must therefore continue to support them and work with them to make certain that we spare no effort in our collective fight to strengthen all of our economies and ensure that all of our citizens have the opportunity to realize their potential, achieve their aspirations, and make a productive and valuable contribution to society. As the Managing Director mentioned earlier today, the true measure of our progress is the benefits we see in our member countries.

Fellow Governors, it has been a great honor for the Sultanate of Oman and it has been my privilege to have served as Chairman of the Boards of Governors of the Fund and the Bank.

I would like to conclude our successful meetings by first thanking all of you for your support during my tenure as Chairman. I would like to commend Mr. Köhler and Mr. Wolfensohn for their continuing admirable stewardship of our two institutions. I would also like to pay tribute to the strong commitment and dedication of the outstanding staffs of our two institutions, which have helped the Fund and the Bank successfully fulfill their respective mandates. My heartfelt appreciation goes to Mr. Anjaria and Mr. Fall, as well as to the staff of the Joint Secretariat, particularly Ms. Patricia Davies, for all of their hard work in arranging our meetings in such an organized and efficient manner, which I am sure was quite challenging given the special circumstances this year. I would also like to thank the staff that were assigned to me in the Office of the
Chairman for their valuable assistance in helping me carry out my duties as Chairman.

I would like to express our gratitude again to the U.S. authorities for hosting us, particularly the authorities of our wonderful host city, Washington, D.C., for their warm hospitality; their tireless efforts ensured that the business of our meetings was conducted smoothly.

My Fellow Governors, I would also like to express, on behalf of all of us, our profound appreciation to the security officials of the Fund and the Bank as well as to the various law enforcement agencies from all over the United States for their efforts to ensure our safety and well-being.

I would like to congratulate the Governor for Switzerland, who succeeds me as incoming Chairman of the Boards of Governors. I would also like to thank him for the kind words he just extended to me.

Fellow Governors, it gives me great pleasure that our next Annual Meetings will for the first time take place in an Arab country, the United Arab Emirates. I look forward to seeing all of you next year in Dubai.
DOCUMENTS AND RESOLUTIONS OF THE BOARD OF GOVERNORS
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SCHEDULE OF MEETINGS

Saturday

September 28
International Monetary and Financial Committee
Joint Development Committee

Sunday

September 29
8:00 a.m. Opening Ceremonies
Address from the Chair
Annual Address by Managing Director,
International Monetary Fund
Annual Address by President,
World Bank Group
Annual Discussion
3:00 p.m. Annual Discussion

Following the conclusion of the Annual Discussion
Procedures Committees Reports
Comments by Heads of Organizations
Adjournment

1 Meetings of the Joint Development Committee were held jointly with the Board of Governors of the Bank. The sessions of the Annual Meetings were held jointly with the Boards of Governors of the World Bank Group.

2 Fund only.
PROVISIONS RELATING TO THE CONDUCT
OF THE MEETINGS

Admission

1. Sessions of the Boards of Governors of the International Monetary Fund and the World Bank Group will be joint and shall be open to accredited press, guests, and staff.
2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

Procedures and Records

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they ask to speak.
4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.
5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the Managing Director of the International Monetary Fund, the President of the World Bank Group, and the Secretaries.
6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Member.

Public Information

7. The Chairman of the Boards of Governors, the Managing Director of the International Monetary Fund, and the President of the World Bank Group will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.
AGENDA

1. 2002 Annual Report

2. Report of the Chairman of the International Monetary and Financial Committee (Fund Document No. 4)

3. Report of the Chairman of the Joint Development Committee (Fund Document No. 5)

4. 2002 Regular Election of Executive Directors (Fund Document No. 6)


6. Administrative and Capital Budgets for Financial Year ending April 30, 2003 (Chapter 8 of the 2002 Annual Report and Fund Document No. 8)

7. Selection of Officers and Joint Procedures Committee for 2002/2003
REPRESENTS OF THE
JOINT PROCEDURES COMMITTEE

Chairman—Oman
Vice Chairmen—Iceland, Mauritius
Reporting Member—Belize

Other Members

Albania, Argentina, Bosnia and Herzegovina, Cape Verde, Ecuador, El Salvador, Eritrea, France, The Gambia, Germany, Ireland, Japan, Republic of Korea, Saudi Arabia, Singapore, Slovenia, Sri Lanka, United Kingdom, United States

Report 1

September 29, 2002

Mr. Chairman:

At the meeting of the Joint Procedures Committee held on September 27, 2002, items of business on the agenda of the Board of Governors of the International Monetary Fund were considered.

The Committee submits the following report and recommendations:

1. 2002 Annual Report

The Committee noted that provision had been made for the annual discussion of the business of the Fund.

1 Report I and the Resolutions contained therein were adopted by the Board of Governors of the Fund in Joint Session with the Board of Governors of the Bank, IFC, and IDA on September 29, 2002.
2. **Report of the Chairman of the International Monetary and Financial Committee**

   The Committee noted that a presentation would be made by the Chairman of the International Monetary and Financial Committee on September 29, 2002.¹

   The Committee recommends that the Board of Governors of the Fund thank the International Monetary and Financial Committee for its work.

3. **2002 Regular Election of Executive Directors**

   The Committee noted that the 2002 Regular Election of Executive Directors of the Fund would be completed on September 29, 2002 and that the next Regular Election of Executive Directors would take place in 2004.

4. **Financial Statements, Report on Audit, and Administrative and Capital Budgets**

   The Committee considered the Report on Audit for the Financial Year ended April 30, 2002, the Financial Statements contained therein (Fund Document No. 7 and Appendix IX of the 2002 Annual Report), and the Administrative Budget for the Financial Year ending April 30, 2003 and the Capital Budget for capital projects beginning in Financial Year 2003 (Chapter 8 of the 2002 Annual Report).

   The Committee recommends that the Board of Governors of the Fund adopt the draft Resolution set forth in Fund Document No. 8.²

Approved:

Ahmed Bin Abdulnabi Macki  
*Oman—Chairman*

Lisa Shoman  
*Belize—Reporting Member*

¹ See pages 18-20.

² Resolution No. 57-5; see page 270.
REGULATIONS FOR THE CONDUCT OF THE 2002
REGULAR ELECTION OF EXECUTIVE DIRECTORS

I. Definitions: In these Regulations, unless the context otherwise
requires:
(a) "Articles" means the Articles of Agreement of the Fund.
(b) "Board" means the Board of Governors of the Fund.
(c) "Chairman" means the Chairman or Vice-Chairman acting as
Chairman of the Board.
(d) "Governor" includes the Alternate Governor or any temporary
alternate Governor when acting for the Governor.
(e) "Secretary" means the Secretary or any Acting Secretary of the
Fund.
(f) "Election" means the 2002 Regular Election of Executive
Directors.
(g) "Eligible votes" means the total number of votes that can be cast
in an election.

2. Eligibility: The Governors eligible to vote in the election shall be all of
the Governors except those of the members that:
(a) are entitled to appoint an Executive Director pursuant to
Article XII, Section 3(b)(i);
(b) have notified the Managing Director, in accordance with the
procedure established by the Executive Board, of their intention to
appoint an Executive Director pursuant to Article XII, Section 3(c); or
(c) have had their voting rights suspended under Article XXVI,
Section 2(b).

3. Supervision of the Election: The Chairman shall appoint such tellers
and other assistants and take such other actions as he deems necessary
for the conduct of the election.

4. Schedule E: Subject to the supplementary Regulations set forth herein,
the provisions of Schedule E of the Articles shall apply to the conduct of
the election.

5. Number of Executive Directors to be Elected: Nineteen Executive
Directors shall be elected. In applying Schedule E of the Articles to the
election, "Nineteen persons" shall be substituted for "fifteen persons" in
paragraphs 2, 3, and 6, and "eighteen persons" shall be substituted for
"fourteen persons" and "nineteenth" shall be substituted for "fifteenth" in
paragraph 6.
6. **Proportion of Votes Required to Elect:** In paragraphs 2 and 5 of Schedule E “four percent” and in paragraphs 3, 4, and 5, “nine percent” shall not be changed.

7. **Nominations:**
   
   (a) Each Governor eligible to vote in the election shall be entitled to nominate one person for election as Executive Director. Any person nominated by one or more Governors shall be eligible for election as an Executive Director.
   
   (b) Nominations may be made from August 27, 2002 through September 9, 2002. Each nomination shall be made on a Nomination Form furnished by the Secretary, signed by the Governor or Governors making the nomination and deposited with the Secretary by rapid means of communication.
   
   (c) Upon the closing of nominations, the Secretary shall, by rapid means of communication, send to all Governors eligible to vote in the election the list of candidates for the election, together with an invitation to Governors to vote in the first ballot.

8. **Ballots and Balloting:**
   
   (a) One ballot form shall be furnished, before a ballot is taken, to each Governor eligible to vote. On any particular ballot, only ballot forms distributed for that ballot shall be counted.
   
   (b) Each ballot shall be conducted by the deposit of ballot forms, signed by Governors eligible to vote, with the Secretary either by rapid means of communication or in person. When a ballot has been completed, the Secretary shall cause the ballot forms to be counted and the names of the persons elected to be announced and communicated to Governors by rapid means of communication.
   
   (c) If the tellers should be of the opinion that any particular ballot form is not properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before tallying the results, and such ballot form, if so corrected, shall be deemed valid.
   
   (d) If, at any time during any ballot, a member does not have a duly appointed Governor, such member shall be taken not to have voted on that ballot.
   
   (e) Voting for the first ballot shall take place from September 10, 2002 through September 29, 2002. If a second or subsequent ballot is necessary, the Secretary shall announce and communicate the names of the candidates to be voted on, the members whose Governors are entitled to vote, and the timing for the second or subsequent ballot.
   
   (f) If a Governor does not vote for any candidate when entitled to do so, he shall not be entitled to vote on any subsequent ballot and his votes shall not be counted under Article XII, Section 3(i)(iii) toward the election of any Executive Director.
(g) If a second or subsequent ballot is required under Schedule E, but the number of remaining candidates is equal to the number of vacancies to be filled, those candidates shall be deemed to have been elected in the preceding ballot, provided that paragraph 13 of these Regulations shall apply.

9. If in any ballot there are more candidates than the number of Executive Directors to be elected and two or more candidates tie with the lowest number of votes, no candidate shall be ineligible for election in the next succeeding ballot, but if the same situation is repeated on such succeeding ballot, the Chairman shall eliminate by lot one of the candidates from the following ballot.

10. If any two or more Governors having an equal number of votes shall have voted for the same candidate and the votes of one or more, but not all, of such Governors could be deemed under paragraph 4 of Schedule E to have raised the total votes received by the candidate above nine percent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote in the next ballot.

11. When in any ballot the number of candidates is the same as the number of Executive Directors to be elected, and no candidate is deemed to have received more than nine percent of the eligible votes, each candidate shall be considered elected by the number of votes received even though a candidate may have received less than four percent of eligible votes.

12. If the votes cast by a Governor raise the total votes received by a candidate from below to above nine percent of the eligible votes, the votes cast by that Governor shall be deemed, for the purposes of paragraph 4 of Schedule E, not to have raised the total votes received by that candidate above nine percent.

13. Any member whose Governor has voted in the last ballot for a candidate not elected may, before the effective date of the election as set forth in paragraph 15 below and subject to the limits specified above on the total number of votes that may be cast toward the election of an Executive Director, designate an Executive Director who was elected, and that member's votes shall be deemed to have counted toward the election of the Executive Director so designated.

14. Announcement and Review of Result:
(a) After the last ballot, the Secretary shall cause to be distributed a statement setting forth the result of the election.
(b) The Board of Governors, at the request of any Governor, will review the result of the election in order to determine whether, in light of the objectives set forth in Chapter O, Section 2 of the Report by the Executive Directors to the Board of Governors on the Proposed Second
Amendment to the Articles of Agreement, an additional Executive Director should be elected to serve for the term of office commencing November 1, 2002.

15. **Effective Date of Election of Executive Directors:** The effective date of election shall be November 1, 2002, and the term of office of the elected Executive Directors, and of any Executive Director appointed under Article XII, Section 3(c), shall commence on that date. Incumbent elected Executive Directors shall serve through October 31, 2002.

16. **General:** Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board of Governors. Whenever possible, any such question shall be put without identifying the members or Governors concerned.

As approved by Board of Governors
Resolution No. 57-4, August 19, 2002

**STATEMENT OF RESULTS OF ELECTION, SEPTEMBER 29, 2002**

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<th>Number of Votes</th>
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<td>Ian E. Bennett</td>
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<td>The Bahamas</td>
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Ingimundur Fridiríksson

Teller

Jan Kee

Teller

Report III

September 29, 2002

Mr. Chairman:

The Joint Procedures Committee met on September 27, 2002 and submits the following report and recommendations:

1. Development Committee

The Committee noted that the Report of the Chairman of the Joint Ministerial Committee of the Boards of Governors of the Fund and the Bank on the Transfer of Real Resources to Developing Countries (Development Committee) would be presented to the Boards of Governors of the Fund and Bank on September 29, 2002 pursuant to paragraph 5 of Resolutions Nos. 29-9 and 294 of the Fund and Bank, respectively (Fund Document No. 5).²

¹ Report II dealt with the business of the Boards of Governors of the Bank, IFC, and IDA. Report III and the recommendations contained therein were adopted by the Boards of Governors of the Fund and of the Bank, IFC, and IDA in Joint Session on September 29, 2002.

² See pages 21-23.
The Committee recommends that the Boards of Governors of the Fund and the Bank note the report and thank the Development Committee for its work.

2. **Officers and Joint Procedures Committee for 2002/03**

The Committee recommends that the Governor for Switzerland be Chairman and that the Governors for Chad and Thailand be Vice Chairmen of the Boards of Governors of the Fund and of the World Bank Group, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: Benin, Brazil, Cambodia, Chad, Cyprus, Denmark, France, Germany, India, Japan, Luxembourg, Malawi, Pakistan, Portugal, St. Kitts and Nevis, Saudi Arabia, Swaziland, Switzerland, Thailand, United Kingdom, United States, Uruguay, and Venezuela.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Switzerland, and the Vice Chairmen shall be the Governors for Chad and Thailand, and that the Governor for Pakistan shall serve as Reporting Member.

Approved:

Ahmed Bin Abdulnabi Macki
*Oman—Chairman*

Lisa Shoman
*Belize—Reporting Member*
RESOLUTIONS

Resolution No. 56-1

Increase in the Quota of the People’s Republic of China

Under date of September 2, 1997, the Government of the People’s Republic of China requested a special increase in its quota to better reflect its position in the world economy following the resumption of Chinese sovereignty over Hong Kong on July 1, 1997. The Executive Board recommended on January 4, 2001 that the Board of Governors agree to the request and approve an increase in the quota of China from SDR 4,687.2 million to SDR 6,369.2 million, and resolved that action on the request should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on January 5, 2001, for a vote without meeting:

RESOLVED:

That the quota of China shall be increased from SDR 4,687.2 million to SDR 6,369.2 million, provided that China has consented in writing to the increase and has paid SDR 420.5 million in special drawing rights or usable currencies and the remainder of the increase in the currency of China. The increase shall become effective when both the consent and the full payment have been received by the Fund, but not before the effective date of this Resolution. The written consent must be executed by a duly authorized official of China. Both the written consent and payment of the increase in full shall be made promptly and in any event not later than 30 days after the effective date of this Resolution, provided that the Executive Board may extend the period within which the consent and the payment may be made as it may determine.

The Board of Governors adopted the foregoing Resolution, effective February 5, 2001.
Resolution No. 56-2

Direct Remuneration of Executive Directors and their Alternates

Pursuant to Section 14(e) of the By-Laws, the 2001 Joint Committee on the Remuneration of Executive Directors and their Alternates on July 9, 2001 directed the Secretary of the Fund to transmit its report and recommendations to the Board of Governors of the Fund. The Committee's report contained the following proposed Resolution for adoption by the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on July 10, 2001 for a vote without meeting:

RESOLVED:

That, effective July 1, 2001, the remuneration of the Executive Directors of the Fund and their Alternates pursuant to Section 14(e) of the By-Laws shall be paid in the form of salary without a separate supplemental allowance, and such salary shall be paid at the annual rate of $175,910 per year for Executive Directors and $152,160 per year for their Alternates.

The Board of Governors adopted the foregoing Resolution, effective August 15, 2001.

Resolution No. 56-3

2001 Annual Meeting Cancellation

The Executive Board resolved on October 26, 2001 to recommend the cancellation of the 2001 Annual Meeting of the IMF Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on October 29, 2001 for a vote without meeting:
RESOLVED:

That the Board of Governors 2001 Annual Meeting that was scheduled to be held in Washington, D.C. is canceled.

The Board of Governors adopted the foregoing Resolution, effective November 27, 2001.

Resolution No. 56-4

Reports on Audit, Financial Statements, and Administrative and Capital Budgets

The Executive Board resolved on October 26, 2001 that upon the approval of the Resolution No. 56-3, the formal business of the 2001 Annual Meeting should be conducted by mail.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on December 5, 2001, for a vote without meeting:

RESOLVED:

That the Board of Governors of the International Monetary Fund considers the Reports on Audit for the Financial Year ended April 30, 2001, the Financial Statements contained therein, and the Administrative Budget for the Financial Year ending April 30, 2002 and the Capital Budget for capital projects beginning in Financial Year 2002 as fulfilling the requirements of Article XII, Section 7 of the Articles of Agreement and Section 20 of the By-Laws.

The Board of Governors adopted the foregoing Resolution, effective January 10, 2002.

* Information on the Administrative Budget for the financial year ending April 30, 2002 and the Capital Budget for capital projects beginning in financial year 2002, which have been approved by the Executive Board, is presented in Chapter 8 of the Fund's 2001 Annual Report.
Resolution No. 57-1

Membership for East Timor

On March 22, 2002 the Government of East Timor applied for admission to membership in the International Monetary Fund. The Executive Board decided on May 1, 2002 that action on the application should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on May 1, 2002 for a vote without meeting:

WHEREAS, on March 22, 2002, the Second Transitional Government of East Timor applied for the admission, on the attainment by East Timor of constitutional independence, of East Timor to membership in the International Monetary Fund in accordance with Article II, Section 2 of the Articles of Agreement of the Fund;

WHEREAS, East Timor is scheduled to attain constitutional independence on May 20, 2002;

WHEREAS, pursuant to Section 21 of the By-Laws of the Fund, the Executive Board has consulted with the representative of East Timor and has agreed upon the terms and conditions which, in the opinion of the Executive Board, the Board of Governors may wish to prescribe for admitting East Timor to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Board, hereby resolves that the terms and conditions upon which East Timor shall be admitted to membership in the Fund shall be as follows:

1. **Definitions:** As used in this Resolution:

   (a) the term “Fund” means the International Monetary Fund;

   (b) the term “Articles” means the Articles of Agreement of the Fund, as amended; and

   (c) the term “SDRs” means Special Drawing Rights of the Fund.
2. **Quota:** The quota of East Timor in the Fund shall be SDR 8.2 million.

3. **Payment of Subscription:** The subscription of East Timor shall be equal to its quota. East Timor shall pay 24 percent of its subscription in SDRs or in the currencies of other members selected by the Managing Director from those currencies that the Fund would receive in accordance with the Fund’s quarterly financial transactions plan in effect at the time of payment. The balance of the subscription shall be paid in the currency of East Timor.

4. **Timing of Payment of Subscription:** East Timor shall pay its subscription within six months after accepting membership in the Fund.

5. **Exchange Transactions with the Fund and Remuneration:** East Timor may not engage in transactions under Article V, Section 3, or receive remuneration under Article V, Section 9, until its subscription has been paid in full.

6. **Exchange Arrangements:** Within 30 days after accepting membership in the Fund, East Timor shall notify the Fund of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section I of the Articles.

7. **Representation and Information:** Before accepting membership in the Fund, East Timor shall represent to the Fund that it has taken all actions necessary to sign and deposit the Instrument of Acceptance and to sign the Articles as contemplated by paragraphs 8(a) and 8(b) of this Resolution, and East Timor shall furnish to the Fund such information in respect of such action as the Fund may request.

8. **Effective Date of Membership:** After the Fund shall have informed the government of the United States of America that East Timor has complied with the conditions set forth in paragraph 7 of this Resolution, East Timor shall become a member of the Fund on the date when East Timor shall have complied with the following requirements:

   (a) East Timor shall deposit with the government of the United States of America an instrument stating that it accepts in accordance with its laws the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all of its obligations under the Articles and this Resolution; and
(b) East Timor shall sign the original copy of the Articles held in the Archives of the government of the United States of America.

9. **Period of Acceptance of Membership:** East Timor may accept membership in the Fund pursuant to this Resolution on or after the date on which it attains constitutional independence, but not later than six months after this Resolution has been adopted by the Board of Governors; provided, however, that if the circumstances of East Timor are deemed by the Executive Board to warrant an extension of the period during which East Timor may accept membership pursuant to this Resolution, the Executive Board may extend such period until such later date as it may determine.

*The Board of Governors adopted the foregoing Resolution, effective May 29, 2002.*

**Resolution No. 57-2**

Direct Remuneration of Executive Directors and their Alternates

_Pursuant to Section 14(e) of the By-Laws, the 2002 Joint Committee on the Remuneration of Executive Directors and their Alternates on June 25, 2002 directed the Secretary of the Fund to transmit its report and recommendations to the Board of Governors of the Fund. The Committee’s report contained the following proposed Resolution for adoption by the Board of Governors._

_In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on July 1, 2002 for a vote without meeting:_

**RESOLVED:**

That, effective July 1, 2002, the remuneration of the Executive Directors of the Fund and their Alternates pursuant to Section 14(e) of the By-Laws shall be paid in the form of salary without a separate supplemental allowance, and such salary shall be paid at the annual rate of $182,590 per year for Executive Directors and $157,940 per year for their Alternates.

*The Board of Governors adopted the foregoing Resolution, effective August 5, 2002.*
Resolution No. 57-3

Forthcoming Annual Meetings

The Executive Board decided on July 15, 2002 that action in connection with the places and dates of forthcoming Annual Meetings from 2004 through 2006 should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on July 16, 2002 for a vote without meeting:

RESOLVED:

That the 2004 and 2005 Annual Meetings shall be convened in Washington, D.C. beginning on Monday, September 27, 2004 and Monday, September 26, 2005;

That the invitation of the Government of Singapore to hold the Annual Meetings in Singapore in 2006 be accepted; and

That the 2006 Annual Meetings be convened on Tuesday, September 19, 2006.

The Board of Governors adopted the foregoing Resolution, effective August 15, 2002.

Resolution No. 57-4

2002 Regular Election of Executive Directors

The Executive Board decided on July 19, 2002 that action in connection with the regulations for the conduct of the 2002 regular election of Executive Directors should not be postponed until the time of the next regular meeting of the Board of Governors at which the election would take place.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on July 22, 2002 for a vote without meeting:
RESOLVED:

(a) That notwithstanding paragraph (b) of Resolution No. 55-3 adopted on August 16, 2000, which provides that “a Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 2002”, the proposed Regulations for the Conduct of the 2002 Regular Election of Executive Directors are hereby adopted; and

(b) That a Regular Election of Executive Directors shall take place in 2004.

The Board of Governors adopted the foregoing Resolution, effective August 19, 2002.

Resolution No. 57-5

Financial Statements, Report on Audit, and Administrative and Capital Budgets

RESOLVED:

That the Board of Governors of the International Monetary Fund considers the Report on Audit for the Financial Year ended April 30, 2002, the Financial Statements contained therein, and the Administrative Budget for the Financial Year ending April 30, 2003 and the Capital Budget for capital projects beginning in Financial Year 2003 as fulfilling the requirements of Article XII, Section 7 of the Articles of Agreement and Section 20 of the By-Laws.

The Board of Governors adopted the foregoing Resolution, effective September 29, 2002.
INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE OF THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND

PRESS COMMUNIQUÉ

September 28, 2002

1. The International Monetary and Financial Committee held its sixth meeting in Washington, D.C. on September 28, 2002, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets

2. The Committee observes that the global economic recovery is proceeding, although at a slower pace than expected earlier this year. Growth is expected to strengthen in the near term, supported by a strong policy response across the international community. However, there remain downside risks and uncertainties, as well as medium-term challenges associated with persistent imbalances, underscoring the need for vigilance. IMF members should continue to be ready to adapt policies as necessary in order to foster broad and sustained growth, to strengthen policy and regulatory frameworks, and to support durable poverty reduction. The Committee underscores the importance of stability in oil markets at prices reasonable for consumers and producers.

3. In the advanced economies, growth generally is expected to strengthen. However, monetary policy makers should remain ready to respond to developments where necessary and to ease policy further if the risk of economic weakness intensifies and inflation prospects remain subdued. In Japan, monetary easing should help end deflation. In many countries, there is scope for automatic stabilizers to operate, but fiscal policy needs to be attentive to the medium-term challenge of consolidation in order to ensure sustainable debt levels, improve the scope to respond flexibly to future economic shocks, and help address challenges such as those associated with population aging. Structural reforms should also be pursued vigorously to further improve growth prospects and strengthen resilience:
In the United States, the actions underway to strengthen corporate governance, accounting, and auditing are important to underpin confidence;

In Europe, further reforms, particularly in labor and product markets, are needed;

In Japan, banking and corporate restructuring should be vigorously pursued, in particular addressing the issue of non-performing loans.

Performance in emerging markets has been mixed, reflecting both global developments and domestic circumstances. While growth in Asia has picked up strongly, several economies in Latin America in particular are facing a deterioration in conditions due to external developments, country-specific vulnerabilities and policy uncertainties. In countries that have room for maneuver, the policy stance should generally remain accommodative, but countries facing external financing difficulties will need to continue to give priority to restoring market confidence. The Committee welcomes Brazil’s commitment to sound policies. It acknowledges the positive steps taken in recent months by Argentina to address its difficult economic situation, and urges the authorities, in cooperation with the Fund, to move quickly to reach agreement on a sustainable economic program that could receive the support of the international financial institutions and provide the basis for the reestablishment of stability and growth.

Many of the developing countries have also been affected by global developments and adverse movements in commodity prices, as well as domestic circumstances. The Committee reiterates the need for sustained international efforts to fight poverty. The Global Development Compact embodied in the Monterrey Consensus and the Doha Development Agenda—based on mutual accountability, country ownership, sound domestic policies and institutions, good governance, increased and more effective international support and commitment to an open multilateral trading system—was reaffirmed at the World Summit in Johannesburg. The Committee looks forward to the effective implementation, with international assistance, of the New Partnership for Africa’s Development to strengthen institutional foundations, governance, and infrastructure. Stressing the critical importance of technical assistance to support this effort, the Committee looks forward to the important contribution that the AFRITACs will play. It also calls for urgent international assistance to address the human and economic toll exacted by the drought in southern Africa. It also stresses the positive role of the
CIS-7 initiative in improving prospects for enhanced growth and reduced poverty.

6. The Committee underscores the vital importance for global growth and effective development of achieving substantial trade liberalization in the Doha round of multilateral trade negotiations, which will benefit both developed and developing countries. Urgent progress is essential in enlarging market access for developing countries and phasing out trade distorting subsidies in developed countries. Developing countries should also further liberalize their trade regimes to maximize growth and development opportunities. Trade-related technical assistance is also important to support developing countries’ capacity building.

**Strengthening Crisis Prevention and Resolution**

7. The Committee welcomes the Managing Director’s report on the IMF in a Process of Change, which sets out the reforms underway to make the Fund more effective in promoting greater financial stability and stronger global growth, the progress which is being made, and the agenda for the period ahead.

8. The Committee supports the steps taken by the Fund to improve the quality and effectiveness of its policy advice, and to help countries strengthen policy frameworks and prevent crises. These are the key priorities for surveillance. In particular, the Committee:

- stresses that rigorous vulnerability assessments will be key to the Fund’s crisis prevention efforts, and, in this regard, welcomes the progress in improving the framework for assessing debt sustainability and looks forward to its application to all members;
- welcomes in this context the increased focus on the interactions between external shocks and domestic vulnerabilities, the strengthened focus on global capital markets in the Fund’s multilateral surveillance, and the recent steps to further improve data provision by members to the Fund;
- emphasizes the importance of surveillance of systemically important countries and their impact on the global economy;
- supports the Fund’s ongoing work to ensure that surveillance in program countries reassesses economic developments and strategy from a fresh perspective; and
- underlines the need for high quality and persuasive surveillance of all member countries to help them act promptly to minimize
emerging vulnerabilities and avoid policies that might have negative regional or global effects.

The Committee will review, at its next meeting, ways of further enhancing the effectiveness of Fund surveillance. It looks forward to further progress in the voluntary publication of country staff reports, building on the positive role that improved transparency and data dissemination by the Fund and its membership are playing in informing the public and supporting financial market assessments.

9. The Committee notes the substantial progress on the Financial Sector Assessment Program and the standards and codes initiative, including their increasing integration into Fund surveillance. It looks forward to the forthcoming reviews of these initiatives, and calls on the Fund to consider ways to build on this progress, together with the World Bank and relevant standard-setting bodies, to address gaps, strengthen technical assistance, and promote broader participation. The Committee notes the importance of enhanced standards and principles on corporate governance, accounting and auditing, and of stronger national practice. It also underscores the role that precautionary access to Fund financing can play in safeguarding sound policy frameworks in the face of uncertainty in international capital markets. The Committee looks forward to the forthcoming review of the Contingent Credit Lines.

10. The Committee endorses the Fund’s continuing work on private sector involvement and a stronger framework for crisis resolution to provide members and markets with greater clarity and predictability, including about the decisions the Fund will take in crisis management. In particular, the Committee welcomes the work underway to strengthen the policy on exceptional access to Fund resources. This involves more clearly defined criteria to justify exceptional access, and strengthened procedures for early consultation and decision making. The priority now is to finalize and implement the new framework, and the Committee calls for a progress report by the Spring meetings.

11. The Committee strongly welcomes the progress made with the contractual and statutory approaches to restructuring unsustainable sovereign debts. It welcomes the ongoing dialogue on collective action clauses in the G-10 and other fora with private creditors and emerging market sovereign issuers. Going forward, the Committee encourages the official community, the private sector, and sovereign debt issuers to continue working together to develop collective action clauses, and to promote their early inclusion in international sovereign bond issues; in
that regard, it welcomes the recent decision by many countries to include collective action clauses. The Committee also calls on the Fund to consider the issues further and to develop, for consideration at its next meeting, a concrete proposal for a statutory sovereign debt restructuring mechanism to be considered by the membership.

The Fund's Role in Low-Income Countries

12. The Committee supports the Fund's continuing role in helping poor countries address the challenge of meeting the Millennium Development Goals by supporting economic reforms aimed at accelerating growth and reducing poverty. It welcomes the increased momentum in countries' efforts to develop and implement their PRSPs, and the Fund's and donors' efforts to align their support more closely with PRSPs. It recognizes that there may be a need to consider mobilizing new PRGF resources if high demand for PRGF financing continues. The Committee stresses the importance of: sound macroeconomic frameworks that can respond flexibly to changes in the external environment; identifying ways to encourage higher and sustainable growth; good governance; improving public expenditure and financial management systems; and using poverty and social impact analysis more systematically, and building country capacity in this area. The Committee encourages the Fund and Bank to continue their collaboration on these issues and looks forward to reviewing progress. Furthermore, it looks forward to considering the results of the Fund's work to better meet the diverse needs of its low-income members, including those stemming from disruptive exogenous shocks and emergence from conflict.

13. The Committee welcomes the progress made on the HIPC Initiative, allowing countries to benefit from lower debt servicing and higher social spending. It recognizes that significant challenges remain to ensure that countries achieve a lasting exit from unsustainable debt. The Committee reaffirms the commitment to implement the initiative and finance it fully to help countries overcome the burden of unsustainable debt, and underscores that the HIPC Initiative has the flexibility to provide additional debt relief at the completion point to help countries that have suffered a fundamental change in their economic circumstances due to exceptional exogenous shocks. These elements, together with sustained commitment to sound economic policies—including efforts to improve resilience to external shocks, to manage debt prudently, and to reinforce good governance—and new financing on appropriately concessional terms, should provide a basis for long-term sustainability. The Committee notes that the financing shortfall in the HIPC Trust Fund could be up to
$1 billion, and welcomes the recent pledges of support. It calls on other governments to make firm pledges and contributions as a matter of urgency. Furthermore, it urges all official and commercial creditors that have not yet done so to fully participate in the HIPC Initiative. The Committee acknowledges that the issues of HIPC-to-HIPC debt relief and creditor litigation raise serious issues that should be addressed.

**Combating Money Laundering and the Financing of Terrorism**

14. The Committee welcomes the actions taken by many countries to combat money laundering and the financing of terrorism, in response to the action plan agreed in Ottawa last year, and urges countries that have not fully responded to do so urgently. It also urges rapid progress on the exchange of information between authorities. The Committee commends the substantial progress made by the Fund, in close collaboration with the Bank, in advancing the action plan. It endorses the conditional addition of the Financial Action Task Force recommendations to the list of standards and codes for which Reports on the Observance of Standards and Codes are prepared, and looks forward to the final adoption of the methodology and an early start of the 12-month pilot program of assessments and accompanying ROSCs. The Committee encourages countries to make available additional experts and resources for the IMF/World Bank pilot program, welcomes the pledges made so far, and urges the IMF and World Bank to coordinate closely with the strong international and bilateral efforts to provide critically important technical assistance. The Committee looks forward to an interim report at its next meeting and a full report at the conclusion of the pilot program.

**Other Issues**

15. The Committee welcomes the adoption by the Fund’s Executive Board of new guidelines on conditionality, thus bringing to a successful conclusion the review of conditionality initiated by the Managing Director two years ago. The consistent implementation of these guidelines will help enhance the effectiveness of Fund-supported programs by fostering national ownership and streamlining conditionality, focusing it on elements critical to the success of members’ economic programs. The Committee stresses that strengthened collaboration with the World Bank is an integral part of these efforts to enable both institutions to provide complementary and effective support.
16. The Committee stresses the importance of the Fund having adequate resources to fulfill its financial responsibilities. Quotas should reflect developments in the international economy. The Committee notes that the Executive Board is continuing its consideration of the Twelfth General Review of Quotas and will present its report to the Board of Governors by January 2003. It recommends an early implementation of the Fourth Amendment.

17. The Committee welcomes the first report of the Independent Evaluation Office on “Prolonged Use of Fund Resources” to the Executive Board. It welcomes the establishment by Fund management of an internal task force to propose steps to carry forward the report’s recommendations, as appropriate.

18. The next meeting of the IMFC will be held in Washington, D.C. on April 12, 2003.
### INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

**COMPOSITION**

*As of September 28, 2002*

Gordon Brown, *Chairman*

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<td>Kaspar Villiger</td>
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¹ Edward George  
² Tobias Nóbrega  
³ Ernst Welteke  
⁴ Masaru Hayami  

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1. We met today to discuss implementation of the strategies and decisions agreed in Monterrey and Johannesburg and achieving debt sustainability for heavily indebted poor countries.

2. At our meeting last April, we welcomed the very important progress achieved in Monterrey laying out a new partnership between developed and developing countries, based on mutual responsibility and accountability, to achieve measurable improvements in sustainable growth and poverty reduction. We welcomed the announcements by a number of donors of significant increases in their ODA. Earlier this month, the WSSD concluded in Johannesburg with a number of decisions that provide additional direction to our task of eradicating poverty and achieving sustainable development. A series of important commitments were made in the areas of water and sanitation, energy, health, agriculture, biodiversity and ecosystem management, accompanied by the launch of implementation initiatives. Today we committed ourselves with a new vigor and determination to implement the agreed strategies and partnerships and to use our future meetings regularly to review progress through clear and measurable indicators. Building on the outcomes of Monterrey and Johannesburg, we also intend to have further discussions on global public goods.

3. The global community must now convert the ideas and the shared approaches agreed in Doha, Monterrey and Johannesburg into concrete action and measure ongoing progress. Experience has repeatedly shown that progress will only be made through implementation of sound and sustainable country-driven strategies. To make existing and new aid commitments more effective, these strategies must also be supported by better coordination and cooperation amongst development partners and by effective alignment of donor support with country strategies. We underline our commitment to work together and with civil society and
the private sector, under the leadership of the government concerned, in a coherent way to achieve concrete results.

4. We reaffirmed the crucial importance of trade as a source of growth and poverty reduction. We recognized that it is essential for developed countries to do more to open their markets and eliminate trade-distorting subsidies for products that represent major potential exports for developing countries, such as agriculture, textiles and clothing. At the same time, we recognized the importance of continued efforts towards trade liberalization in developing countries as part of an overall development strategy, in conjunction with the necessary policies and capacities that facilitate an appropriate supply response and minimize the adjustment burdens on the poor. We therefore welcomed the increased attention to trade issues in the work of the World Bank and International Monetary Fund in support of a successful Doha Development Agenda. We urged intensified efforts to mainstream trade in the development dialogue with the Bank’s members, with an enhanced operational focus on building both institutional and physical capacity to help developing countries take advantage of new trade opportunities.

5. Last April, we endorsed a World Bank plan to help make primary education a reality for all children by 2015 and gender equality in primary and secondary education by 2005. Today we reviewed implementation of the Fast Track Initiative and requested a progress report on results achieved for our next meeting. In addition, we considered the challenges of scaling up activities in two additional areas—HIV/AIDS/Communicable Diseases and water and sanitation. We urged the World Bank to pursue its work in these areas.

6. We endorsed the overall approach set out for discussion today for making results central to the management of development programs in both developing countries and in development agencies. We urged the Bank to expedite implementation of the action plan for increasing its results orientation and to intensify its work with multilateral and bilateral partners to share information on planned and ongoing country development activities, including diagnostic work and operational support, as a basis for enhanced alignment of donor support for national development strategies. We also urged increased use of joint evaluations of donor programs, especially for country and sector program support, to complement assessments of individual agencies’ performance, including as development partners. We highlighted the need for increased and
coordinated donor support for capacity building, including for results-oriented monitoring and evaluation and statistics. We asked the Bank to report on these efforts at our next meeting.

7. We recognized the need for intensified efforts to harmonize operational policies and procedures of bilateral and multilateral agencies at the institutional and country levels so as to enhance aid effectiveness and efficiency and promote greater ownership by developing countries. We committed to further action in streamlining such policies, procedures and requirements over the period leading to the high-level forum scheduled in Rome in February 2003 and beyond.

8. Recognizing the special challenges faced by Africa in meeting the millennium development goals, we urge the Bank and the IMF to scale up assistance to these countries and to build on the NEPAD initiative as a unique opportunity to make significant and quick progress building on African leadership.

9. Our discussions have reinforced our conviction that major progress on achieving the Millennium Development Goals is possible. What is needed now is determined implementation of agreed strategies and partnerships on the part of both developed and developing countries, as well as multilateral agencies and the setting out of a clear framework identifying responsibilities and accountabilities by which progress can be regularly measured. The Development Committee intends to contribute to moving this implementation agenda forward through regular monitoring and review of the policies, actions and outcomes needed to achieve these goals. We request the Bank and the Fund to present proposals at our next meeting for taking this forward, whilst recognizing the role of the United Nations in monitoring the MDGs.

10. The Monterrey Summit also stressed the importance of greater coherence, coordination and cooperation among multilateral organizations and the need to broaden and strengthen participation of developing countries and countries with economies in transition in international decision-making and norm-setting. The Summit encouraged the World Bank and the IMF to find pragmatic and innovative ways to further enhance participation of these countries and thereby to strengthen the international dialogue and work of these institutions. We requested the Bank and the Fund to prepare a background document to facilitate consideration of these important issues at our next meeting.
11. We welcomed the continued progress made on the HIPC Initiative and reconfirmed our commitment to its implementation and full financing. We fully support the objective of helping our poorest, most heavily indebted members achieve an enduring exit from unsustainable debt but we recognize that considerable challenges remain. Success will require: a sustained commitment by HIPC countries to improvements in domestic policies and economic management; capacity building for the management of financial assets and liabilities; full participation and delivery of relief by all affected creditors; and adequate and sufficiently concessional financing by international financial institutions and the donor community. We call upon all official and commercial creditors that have not yet done so to fully participate in the HIPC Initiative. We have asked the Bank and the Fund to undertake an early review of the difficult issues of HIPC-to-HIPC debt relief and creditor litigation. We stressed the urgency of meeting the financing shortfall of the HIPC Trust Fund which could be up to $1 billion. We welcome the recent announcements of support and call upon other donor countries to make firm pledges and contributions as early as possible. At the same time, we reaffirm our commitment to ensuring that the cost of debt relief to IDA is not permitted to compromise IDA’s resources, and we note the arrangements in place to accomplish this objective.

12. We reviewed further experience with PRSPs which confirmed the broad findings of the joint Bank/Fund review earlier this year. The Committee is encouraged by the increased momentum in countries’ efforts to develop and implement their PRSPs. We call on the Fund and Bank, together with all donors to align their support with country PRSPs and to collaborate with each other to: strengthen their analysis of the sources of growth; streamline conditionality; help countries improve their public expenditure management systems; facilitate an environment conducive to private sector development; and intensify efforts to help countries undertake poverty and social impact analyses on a more systematic basis.

13. Finally we reviewed the role being played by the Bank and Fund, in collaboration with other international institutions, in combating money laundering and the financing of terrorism. We endorse the conditional addition of the FATF 40+8 Recommendations to the list of international standards and codes useful to the operational work of the Bank and the Fund, and the conditional beginning of the 12 month pilot program of comprehensive AML/CFT assessments and accompanying ROSCs, in accordance with the voluntary, cooperative and uniform approach. We encourage the Bank and the Fund to continue to integrate these issues
into their diagnostic and surveillance work in line with their respective mandates and to enhance their technical and capacity-building efforts.

14. We express our deep condolences to the family of the late Mr. Bernard Chidzero, former Minister of Finance of Zimbabwe. Minister Chidzero served with great skill and distinction as Chairman of the Development Committee from 1986 to 1990.

15. The next meeting of the Development Committee will be held in Washington, D.C. on April 13, 2003.
### Development Committee Composition

*As of September 28, 2002*

**Trevor Manuel, Chairman**

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<td>Xiang Huaicheng 6</td>
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*Alternate attending for the member:*
1. Suchart Jaovisidha
2. Sergei Kolutukhin
3. Bohoun Bouabre
4. Jan O. Karlsson
5. Haruhiko Kuroda
6. Jin Lipun
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Ng Chow Soon
Hooi Eng Phang
Michael Ian Raffan
Gopala Krishnan Sundaram

Alternate Governor
Rimious Hermious

Mauritania

Governor
Mohamed Jaleel

Alternate Governor
Ibrabim Naeem

Advisors
Krishnanand Guptar
Hemraz Oopuddhye Jankee
Guy Wong So

Mali

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Alternate Governor
Bangaly N’Ko Traore

Advisors
Tiena Coulibaly
Idrissa Traore

Mexico

Governor
Guillermo Ortiz Martinez

Alternate Governor
Agustin Carstens

Temporary Alternate Governor
Javier Guzman-Calafell

Advisors
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Ariel Buira
Claudio Guzman
Roberto Marino

Federated States of Micronesia

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John Ehsa

Alternate Governor
Lorin S. Robert

Temporary Alternate Governor
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Advisor
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Advisor
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Othman Benjelloun
Mohammed Dairi
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Adil Embarch
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Ali Lamrani
Aziz Mekouar

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Myanmar
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Nepal
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Peter Nijisse
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J. Wijnholds

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Al-Jashmi
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- Jasmin Huggins
- Laurie Lawrence
- Jennifer Nero

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- Calixte Leon

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**Alternate Governor**
- Maurice Edwards

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- Garth P. Nicholls

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**Alternate Governor**
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**Temporary Alternate Governor**
- Josefo Bourne

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**Alternate Governor**
- Eugenio Lourenco Soares

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**Alternate Governor**
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**Temporary Alternate Governor**
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- Mazen Wasfi Abdulmajeed
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- Ali Alghaith
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- Abdullah I. Al-Hudaithi
- Abdullah Al-Hugail
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- Abdalatif Al-Jabr
- Abdulhamid Al-Khalifa
- Medlej Al-Medlej
- Abdulrahman Mohammed Almofadhi
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- Saeed Al-Qahtani
- Talal Al-Qudaibi
- Abdulaziz Rashed Al-Rashed
- Rashed Abdulaziz Al-Rashed
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Rick Nelson Houenipwela
Solomon Islands (continued)

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Pablo Moreno
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Rajapakse A. Jayatissa
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J.D.A. Wijewardena

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Khidir Haroun Ahmed
El Mutasim Abdalla Ahmed
El Faki
Mohammed Elhassan Elshiekh
Elsanousi
Mohamed A. Eltom
Abdelbagi Kabeir
Amin Salih Yasin Basheir

Swaziland

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*Alternate Governor*
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*Advisors*
Busie A. Dlamini
Cyprian Mabuza
Bhadala T. Mamba

Sweden

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Urban Backstrom
Sweden (continued)
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Per Hakansson
Sven-Olof Johansson
Sandro Wennberg
Jenny Wilhelmsson

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Kasper Villiger
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Beat Siegenthaler
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Fritz Zurbrugg

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Temporary Alternate Governor
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Herbert E. Mrango
Anna K. Muganda
Blandina Nyoni
John Chimile Rubambe

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Pridiyathorn Devakula
Alternate Governor
Pakorn Malakul Na Ayudhya
Advisors
Pariwat Kanithasen
Ruthaichanok Manivat
Supawadee Punswi
Nucha Sirirattna
Cbantavarn Sucharatakul

Timor-Leste
Governor
Mari Bin Amude Alkatiri
Alternate Governor
Aicha Bassarewan
Advisor
Jose Manuel Guterres
<table>
<thead>
<tr>
<th>Country</th>
<th>Governor</th>
<th>Alternate Governor</th>
<th>Advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Togo</td>
<td>Kossi Assimaidou</td>
<td>Mongo Ahar-Kpessou</td>
<td>Akoussoulelou Bodjona, Yoro Diakite, Soungalo Andre Fayama, Ayewanou Agetoho Gbeasor, Gnassingbe Kpatcha, Yao Kanekatoua</td>
</tr>
<tr>
<td>Tonga</td>
<td>Jessie Cocker</td>
<td>Henry William Cocker</td>
<td>Fernando Escobar</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>Ewart S. Williams</td>
<td>Jerry Hospedales</td>
<td>Charles de Silva, Penelope Forde, Anthony John Joseph, Michael Mendez, Anston Jwala Rambarran</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Mohamed Daouas</td>
<td>Hamed Gaddour</td>
<td>Slaheddine Bouguerra, Sadok Rouai, Brahim Saada, Habib Sfar</td>
</tr>
<tr>
<td>Turkey</td>
<td>Masum Turker</td>
<td>Sureyya Serdenecti</td>
<td>Hasan Sukru Binay, Selim Cakir, Ilker Domac, Ayse Karayalcin, Salih Ozatay, Bahadir Yaman, Huseyin Zafer</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>Mered Bairamovich Orazov</td>
<td>Parakhat Durdyev</td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td>E. Tumusiime-Mutebile</td>
<td>David S. Nsubuga</td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td>Volodymyr Semenovych Stelmakh</td>
<td>Ihor Yushko</td>
<td>Oleksandr Chalyi, Kostyantyn Grishchenko, Pavlo Haidyrskyi, Volodymyr Grygorovych Khrebet, Sergii Khudiiash, Volodymyr Makukha, Serhiy Manokha, Oleksander Sharov, Igor Shumiyo, Olexandyr Mykolayovych Sorokin, Yaroslav Voitko, Yurii G. Yakusha</td>
</tr>
</tbody>
</table>

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Governor
Sultan Bin Nasser Al-Suwaidi

Alternate Governor
Mohamed Khalifa Al-Fahed

Advisors
Jassim Al Housani
Ajlan Ahmed Al Qubaisi
Abdulla Al-Saboosi
Salem Jasem Al Baker
Fadhel Saeed Al Darmaki
Saeed Abdulla Saeed Al Hamiz
Anis Al-Jallaf
Khalifa Al Neaimi
Hussain Al Qemzi
Anthony Bush
Robert Douglas
Wahbi Khalifa Hagras
Khalifa Mohammed Hassan
Ibrahim Nasser Lootah
Mohamed Imran Markar
Joshd Meter
Hamed Naser Mohammed
Majid Radpay
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Muhammad Jenab Tutunji
Michael Williams

United States

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Eduardo Aguirre
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- Michele Shannon
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- George Wolfe

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- Shavkat Khamrakulov
- Nariman T. Mannapbekov
- Sheila Tschinkel
- Shukhrat Abdusha Vafaev

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- Alternate Governor
  - Andrew Kausiama

Republika Bolivariana de Venezuela
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  - Tobias Nobrega Suarez
- Temporary Alternate Governor
  - Angel S. Ruocco

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- Jesus Cova
- Alejandro Dopazo
- Rosa Maria Fuenmayor
- William Larralde Paez
- Angelo Lucenti
- Guillermo Ortega
- Rubin J. Villavicencio

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- Carlos Steneri
- David Vogel Peliart

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- Shukhrat Urinbaev

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Omar Salim Bazara
Ahmed Ahmed Ghaleb
Galah Mohamed Moula
Ahmed Saeed
Jalal Yaqoub

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Fortune Chidavaenzi
Mutasa Dzinotizei
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Tatenda Makono
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Srboljub Antic

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Longa Mulutula
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Chitundu Norman Mwango
Likolo Ndalamei
Bwalya E. Ngandu
Andrew Phiri
Ledson Zulu
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**Observers, Representatives of International Organizations, and Special Invitees**

### African Development Bank Group
- Omar Kabbaj
- Theodore F. Nkodo

### African Export-Import Bank
- Christopher Chuka Edordu
- Benedict O. Oramah

### Andean Community
- Jorge Gustavo Vega

### Andean Development Corporation
- Enrique Garcia Rodriguez
- Felix Bergel
- Fidel Jaramillo
- Marlene Milles
- Hugo Sarmiento

### Arab Authority for Agricultural Investment and Development
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- Abbas Hassan Monofali

### Arab Bank for Economic Development in Africa
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- Kamal Mahmoud Abdellatif
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### Arab Monetary Fund
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### Asian Development Bank
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- Victor Jerom Nembelessini-Silue
- Abdullahi Sarki Mahmoud
- Lawrence Okeluc Osa-Afiana

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- Gavin Bingham
- Renato Filosa
- Andre Icard
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### Bank of Central African States
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### Black Sea Trade and Development Bank
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- Panayotis Gavras
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### Caribbean Community
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Central African States Development Bank
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Sergio F. Recinos

Central Bank of West African States
Damo Justin Baro

Common Fund for Commodities
Rolf W. Boehnke

Common Market for Eastern and Southern Africa
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Tidenekialesh Asfaw
Donald Mark Pearson
Ibrahim Abdulahi Zeidy
Michael Gondwe
Alex Gitari Kwimenya

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Council of Europe Development Bank
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<td>Abdulla Hussain Ahli</td>
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<td>Mohamed Ali Rashid Alabbar</td>
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<td>Patricia Ann White</td>
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<th>Singapore Planning Team 2006 Annual Meetings</th>
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<tr>
<td>Hugh Lim</td>
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<td>Catherine Ow</td>
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<td>Maggie Tan</td>
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<td>Alice Yeo</td>
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# EXECUTIVE DIRECTORS, ALTERNATES, AND ADVISORS

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<th>Advisors to Executive Directors</th>
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<td>Abdullah S. Alazzaz</td>
<td>Melhem F. Melhem</td>
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<td>Alexandre Barro Chambrion</td>
<td>Damian Ondo Mane</td>
<td>Noel Guetat</td>
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<td>Ruediger Von Kleist</td>
<td>Abdel Rehman Ismael</td>
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<td>Frank Vermaeten</td>
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<td>Andrei Lushin</td>
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<td>Fernando Varela</td>
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<td>Ismaila Usman</td>
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<td>Meg Lundsager</td>
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<td>Wang Xiaoyi</td>
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<td>Guillermo Le Fort</td>
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