

THE WORLD BANK GROUP

2006 ANNUAL MEETINGS
OF THE
BOARDS OF GOVERNORS

SUMMARY PROCEEDINGS

WASHINGTON D.C.
SEPTEMBER 18–20, 2006

INTRODUCTORY NOTE

The 2006 Annual Meetings of the Boards of Governors of the World Bank Group, which consists of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID), held jointly with that of the International Monetary Fund, took place on September 18–20, 2006 in Singapore. The Honorable, Bharrat Jagdeo, Governor of the Bank and the Fund for Guyana, served as the Chairman.

The Summary Proceedings record, in alphabetical order by member countries, the texts of statements by Governors, the resolutions and reports adopted by the Boards of Governors of the World Bank Group. The texts of statements concerning the IMF are published separately by the Fund.

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THE WORLD BANK GROUP

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REMARKS BY THE PRIME MINISTER OF SINGAPORE LEE HSIEN LOONG

Introduction

Let me welcome all of you to Singapore. We are honored to be the hosts for this year's Annual Meetings of the IMF and the World Bank. We hope that the Singapore Meetings will mark another milestone in our collective efforts to promote sustained global growth and lift our people out of poverty.

New Asia in a Globalized World

The world is changing faster than ever. The key driver of this change is globalization. Countries are becoming more closely interlinked with one another, through the cross-border movement of goods and services, capital and labor, technology and ideas. An integrated world is making economies more efficient and businesses more competitive. Consumers are enjoying more choice and higher living standards.

The Asian experience shows the benefits of plugging into the global grid. Indeed Asia's transformation is based fundamentally on globalization—open markets and outward orientation. Over the last two decades, more people have been lifted out of poverty in Asia than in any other region at any other time in history. Although Asia was struck by a severe financial crisis in 1997, it is significant that none of the Asian countries opted out of globalization after the crisis. On the contrary, once they stabilized their economies, they continued to keep themselves open to competition, court foreign investments and promote exports.

Asian governments remain convinced that despite the risks, opening up is the best way to achieve economic progress and improve the lives of their people. They have focused on enabling their economies to better meet the challenges and seize opportunities in world markets. They have pursued sound macroeconomic policies, strengthened their financial systems and improved corporate governance. Some of this is still work-in-progress. But investors are taking notice, confidence has returned, and the changes are already producing results.

In addition, the rise of China and India has energized the whole region. New patterns of trade and investments have emerged, linking Asian countries not just with China and India, but all across the region. At the same time, Asia is also becoming more connected to the rest of

the world. Asia's future lies in being part of the global economy, not in a closed regional bloc. And just as Asia seeks opportunities in the world, the world should seek opportunities in Asia.

Asia is strengthening relations with existing partners like the US and Europe. The developed world too must build up stakes in Asia's growth and prosperity, and encourage the continent to play a constructive and responsible role in world affairs. There is also considerable potential for Asia to promote trade and investment with new partners in emerging regions such as Africa, Latin America, Russia and the eastern European economies. These strong external links will reduce the risk of rivalry and conflict between regions as a result of the Asian renaissance.

How to Make Globalization Work for Us

Globalization has worked for Asia, and it can work for other developing regions too. But it will not always be easy. Initial conditions matter. History and geography have sometimes conspired to make it particularly challenging for some regions. Take sub-Saharan Africa, home to roughly one-third of the one billion people worldwide living in extreme poverty. The spread of HIV/AIDs and malaria, coupled with lack of potable water and arable land as well as weaknesses in basic services and institutions, has made economic take-off difficult.

Yet Africa is changing. There are more elected governments and fewer civil wars. There is renewed commitment to delivering basic health and education services to the poor. Companies are being started and growing steadily, especially in banking, retailing and mobile telecommunications. There are emerging bright spots in the region—such as Tanzania or Ghana. These countries are liberalizing trade, promoting investment and developing their private sectors. Their sustained growth and progress show what is possible when governments free up markets and encourage enterprise.

Globalization is not without risk. Shocks and disturbances are transmitted across borders with greater speed and virulence, and can destabilize economies. Wage disparities between skilled and unskilled workers have widened in both industrialized and developing countries. The downsides of globalization—company closures, job losses, and a sense of insecurity—are usually concentrated and felt immediately. On the other hand, the benefits—higher productivity, wider consumer choice at lower prices, and better living standards in general—although greater are usually indirect and widely spread. Not surprisingly, protectionist sentiments are growing in many countries.

How can we make globalization work for everyone? How can we mitigate the downside risks and reap the upside opportunities? The first precondition is a stable and open global environment that gives all countries

access to growth and development opportunities. Next, we must have good governance that enables countries to benefit from globalization, and ensures that these benefits reach all segments of the population. Only then will countries support policies which promote globalization, and enter a virtuous cycle where everyone has a stake in an open system that delivers prosperity for all.

A Stable and Open Global Environment

International financial stability is a critical element of a stable and open global environment. One potential source of instability is the mounting macroeconomic imbalances among the major economies. The longer corrective action is delayed, the bigger and more painful the inevitable adjustment will be.

There are no easy solutions. The imbalances essentially reflect differences in domestic savings and consumption patterns in the major economies. Exchange rate realignments are part of the solution, but by themselves exchange rates will not have sufficient impact on the imbalances. More fundamental measures are necessary—changes in macroeconomic policies and structural reforms that will shift domestic demand. These changes should be made in a coordinated way and over a period of time, to minimize the risk of a sudden slowdown in global growth. Countries must discuss this problem to reach a shared understanding of how to proceed. This dialogue must take place not just among G7 countries, but also among the key players in Asia, Europe and the oil-exporting countries.

Another priority area that we must work on is international trade. Trade promotes competition, specialization, and innovation. It is a critical means of gaining and sharing the benefits of globalization. Trade has benefited all countries, though to varying degrees. The impasse in the WTO Doha Round of trade negotiations therefore carries a heavy cost, which will extend beyond economics. The more we restrict trade and investments, the less prosperous and more insecure we will end up. If developed countries turn protectionist, the emerging economies, which are being exhorted to abide by multilateral disciplines, will be very fast learners. A rising tide of protectionism will leave us all worse off. It has happened before; it can happen again.

The Doha Round is a historic opportunity to further liberalize trade, and thereby foster development and raise living standards across the world. However, striking a deal will not be easy, because the trade issues themselves are hard, and also because of the political timetables in several key countries. I am encouraged that after the meeting on Sunday of the IMF Governing Board with the Director General of the WTO, Mr. Pascal Lamy, the Finance Ministers have called for an urgent resumption of the

talks and an ambitious, successful outcome of the Doha Round by the end of the year. It is crucial that all countries are just as “fired up” towards making this a reality.

To maintain global financial stability and expand international trade, we require effective multilateral institutions like the WTO, IMF and World Bank. Regional assistance and surveillance mechanisms are useful, but cannot replace the IMF and World Bank. The Fund and the Bank are the referees and facilitators which ensure that the game is played fairly and equitably. Only these Bretton Woods institutions have the standing to take a global perspective of issues and help coordinate corrective actions in the major economies.

To play their roles more effectively, and strengthen their legitimacy and credibility, the Fund and Bank must have a more balanced representation of countries. This will also better reflect current realities, where Asia contains four of the ten largest economies in the world, rather than the historical configuration of powers in the immediate post-war period. The Fund and Bank can then bring to bear a richer and more diverse set of perspectives and experiences on macroeconomic and development issues—what has worked and what has not, the risks and downsides commonly encountered in reform efforts, and how standard policies have been adapted effectively to local conditions.

Reforms to the governance of the IMF have already started on a positive note. We have passed the first stage of the IMF quota reform by increasing the voting shares of China, South Korea, Mexico and Turkey. We must now press forward with the second stage, to revise the quota formula, increase the voice of countries whose stake in the global economy is not adequately recognized, and follow through on other reforms in the governance of the Fund.

Good Governance Is Key

Ultimately, whether individual countries benefit from globalization depends on how they prepare themselves for it. The paradox of globalization is that it limits the role of governments and yet makes good governance more important than ever. Good governance is not just about opening up the economy and freeing up the dead hand of bureaucracy. It is also about creating the conditions for sustained development and actively pursuing policies to make life better for all segments of the population.

First, governments must uphold high standards of integrity. This essentially means the rule of law, effective institutions, non-corrupt administration and sound regulation. These can ensure a fair and competitive economic landscape, whereas corruption robs the poor of the benefits of growth, distorts incentives, and perpetuates poverty.

Second, governments need to build capabilities for the future. This means investing in quality education and skills training, while paying special attention to the most vulnerable segments of the population. We must educate and train rural women so that they can raise children with the drive for learning and self-improvement; we must educate our young, especially those from lower-income families, so that they can succeed in a rapidly changing world; and we must re-train and re-skill our displaced workers so that they can find jobs and lead productive lives again.

Third, governments must manage the process of change with care. The pace is fast, and there is no time to waste. But governments must get the sequence and implementation of economic reforms right. They need to build consensus among key players, to weigh and manage the risks of reforms, and to make course corrections as events unfold. For example, the Asian financial crisis showed that countries have to strengthen their financial supervision and prudential safeguards before fully liberalizing their capital accounts, in order to reap the benefits of improved resource allocation and reduce instabilities caused by herd instincts in financial markets.

Fourth, governments must win the people's support for globalization. This is not easy because of natural resistance to change, disruption and uncertainty. Smaller countries like Singapore perhaps find it easier because we clearly have no alternative. Bigger countries have more resources, but also greater inertia to resist change. The circumstances in each country are different, and each will have to strike its own point of balance. Governments must customize strategies to manage the pace of change, and broaden the opportunities for all segments of society to benefit from globalization. Only then can they have the latitude to take an enlightened, long-term view of their national interests, and resist populist sentiments and protectionist pressures.

Finally, governments must help those adversely affected by globalization. The rewards of globalization will seldom be spread evenly within a country, and there will be some groups who fall behind. Governments must think creatively about how to assist these groups, and help them progress along with the rest of society.

Overall, globalization represents the best hope to improve the lives of the world's population. It has created growth and wealth, and fostered trade and interdependence. Globalization is not without its downsides, but properly managed, it is a powerful force for social good. It must be part of the solution; it need not be part of the problem. With good governance and effective multilateral institutions, all countries can contain the risks and benefit from open markets and competition.

Conclusion

John Maynard Keynes said at the first Annual Meeting of the IMF and World Bank in 1946 that he hoped the Bretton Woods twins would receive three gifts from their fairy godmother:

- First, a many-colored coat as a “perpetual reminder that they belong to the whole world”;
- Second, a box of vitamins to encourage “energy and a fearless spirit which does not shelve and avoid difficult issues, but welcomes them and is determined to solve them”; and
- Third, “a spirit of wisdom ... so that their approach to every problem is absolutely objective”.

Over the next few days, I hope that we will show the world the splendor of the many-colored coat by moving decisively towards a more equitable representation in the two institutions. I hope that we will muster the relentless energy to improve the lives of people everywhere. And I hope that through our deliberations, we will all gain the wisdom and insights to address our shared concerns, and make progress in solving them together, as one global community.

**OPENING ADDRESS BY THE CHAIRMAN
BHARRAT JAGDEO
PRESIDENT OF GUYANA
GOVERNOR OF THE BANK AND THE FUND FOR GUYANA**

Introduction

I would like to welcome you all to the 2006 Annual Meetings of the International Monetary Fund and the World Bank Group. It is a great honor for my country, Guyana, to chair these meetings.

The theme for our meetings this year is “*Asia in the World; the World in Asia*,” and it is fitting that we meet this week in Singapore, a member country that is a prime example of the success and sustained progress that has been achieved throughout this region. Asia’s development experience holds many lessons for our member countries, and the growing importance of Asia’s largest emerging market economies has significant implications for global economic growth and monetary and financial stability.

Global Economic and Financial Market Prospects

Since the Spring Meetings of the IMF and the World Bank, global growth has remained robust, with economic activity in most regions meeting or exceeding expectations. However, rising inflation concerns—owing to dwindling spare capacity in some countries and elevated oil and metal prices—have led to a tightening of monetary conditions, and downside risks for the world economy. At the same time, global imbalances remain large, and the potential for a disorderly unwinding of these imbalances remains a clear concern, as the *World Economic Outlook* cautions.

Clearly, greater vigilance on the part of everyone is needed, but most especially on the part of those whose economies have a systemic impact on other parts of the world.

Surveillance

It is in this context that I welcome the IMF’s renewed emphasis on more effective surveillance, as part of its Medium-Term Strategy. The IMF’s new tool for surveillance—multilateral consultations—will allow issues of global or regional significance to be taken up comprehensively and collectively with several member countries. This will provide a valuable platform for analysis and consensus-building and is a framework that will help members to pursue coordinated actions with improved outcomes.

I look forward to the results of the first multilateral consultations, which have already started. The consultations are appropriately focused on narrowing global payments imbalances, and I hope that the major global players understand that the well-being of billions of people around the world depends on them taking timely and appropriate action.

Support for Crisis Prevention

Preventing crisis is an important part of the IMF's mandate and indeed is a key plank of its Medium-Term Strategy. At present, not many of our emerging market country members borrow from the Fund. This is a reflection of good conditions in the global economy and financial markets, as well as of improved economic management in emerging market countries themselves. Nonetheless, we need to ensure that if conditions change, we have the ability to support these countries. Thus, revisiting the IMF's facilities for preventing and responding to crises in emerging market countries is important.

In this connection, the Managing Director has proposed a new instrument that will provide a high-access line of credit to emerging markets with strong macroeconomic policies but that remain vulnerable to shocks. To be more attractive to emerging market countries than previous approaches, this new instrument must provide for more automatic drawings for countries with sound economic policies and proven track records, and provide more financing up front. Any conditionality associated with this facility should be tailored specifically to maintaining macroeconomic stability and reducing vulnerabilities.

Emerging market economies, for their part, should continue to maintain sound macroeconomic frameworks, including appropriate monetary and fiscal policies. They should reduce their vulnerabilities by reducing public debt burdens and further strengthening their financial systems.

Vote and Voice

Another element of the IMF's Medium-Term Strategy—probably the most critical for the legitimacy of the Fund—is ensuring that the representation of members in the Fund is fair and that all members have an adequate voice in the institution. It is gratifying that there has been growing recognition of the need to increase the relative quotas and voting shares of a number of countries, whose economic weights have risen over the years, as well as to ensure the adequate participation of low-income countries in the governance of the IMF. In this regard, the strong support by Governors for the resolution on quota and voice reform in

the IMF sends a clear signal of the importance and urgency of these reforms. We must now muster strong consensus on the next phase of the reforms proposed by the Managing Director, which provides for more fundamental changes during the coming two years. These reforms are important, as only through them can the IMF maintain its legitimacy as a representative and democratic institution. In this context, I also urge continued discussions to build political consensus on voice issues in the World Bank as well.

Cooperation with Middle-Income Countries

I welcome the evolving role of the IMF and the World Bank in cooperating with middle-income countries. Effective cooperation in development efforts in middle-income countries, which are home to the majority of the world's poor, is essential to achieving the MDGs. These countries clearly value their relationship with our two institutions, but also look toward improved engagement with them in terms of greater flexibility and reduced costs of doing business, as well as better customization of products and technical assistance to meet their needs.

Supporting Low-Income Countries

The IMF and the World Bank must continue to support the efforts of low-income countries to reduce poverty. This is one of the most important areas of the two institutions' work, and one where the stakes are high. We have made some progress over the past few years: a number of countries in Asia and Latin America are now well-positioned to meet the poverty reduction objective of the Millennium Development Goals (MDGs). Nonetheless, although near the halfway mark to 2015—the year we have set for ourselves to reach the MDGs—we still have a long way to go, especially in sub-Saharan Africa.

Success will require increased efforts by both donors and aid recipients. The necessary ingredients for success include good policies, increased resources, and improved aid effectiveness. Good policies, in turn, entail better governance, developing infrastructure, expanding trade, promoting economic integration, and fostering the development of the private sector.

A robust and competitive private sector is crucial to putting countries on the path of sustainable development and achieving the MDGs. In this connection, I would like to highlight the important role of the International Finance Corporation (IFC), and congratulate its management and staff on the institution's 50th anniversary. Throughout this period, the IFC has been at the forefront of promoting sustainable private sector development. However, I believe that much more can be

done in small developing countries, and I would be particularly happy to see a greater IFC presence in them.

The international community last year renewed its pledge at the United Nations Millennium Review Summit to help accelerate progress towards the MDGs. They agreed to support a decisive reduction in debt owed by many low-income countries, and to increase aid for many others.

The International Financial Institutions have already made important efforts to lower debt. Debt relief under the Multilateral Debt Relief Initiative and the Enhanced HIPC Initiative through the Bretton Woods Institutions and the African Development Fund is expected to reduce by almost 90 percent the debt stock of the 29 HIPCs that have reached the decision point. If all HIPCs, particularly those in Latin America and the Caribbean, are eventually to become sustainable, we must act now to extend similar relief from the Inter-American Development Bank.

We must ensure that the gains from reducing debt are not squandered. Developing countries must strengthen their capacity to design medium-term debt strategies, and understand the risks of a rapid build up of debt. The forward-looking debt sustainability framework designed by the IMF and the World Bank specifically for low-income countries will be an important contribution to this effort. These countries must also ensure that their macroeconomic frameworks are sound and that adequate governance and public expenditure management systems are put in place, so that increased resource flows reach their target and achieve better outcomes.

Governance

For debt relief and higher aid to benefit the poor, improved governance will be crucial. Corruption, which is a symptom of poor governance, would have to be more aggressively tackled. However, countries must not be tainted as being corrupt or be penalized based on perceptions, anecdotal evidence, or partial surveys. In this regard, I welcome efforts that would lead to a verifiable, quantitative, and operational framework to strengthen governance in a coherent, fair, and effective manner.

Promoting Trade

I am sure that all of us were disheartened by the news that came from Geneva a few weeks ago. I sincerely hope that we can still successfully conclude the Doha round of negotiations. Increased trade, facilitated by greater openness, has been a critical element of world eco-

conomic growth for many years—and is indeed one of the great lessons of Asia. We must urge our negotiators to persevere and ensure that the key objectives of the Doha round are preserved. These include the phasing out of agriculture subsidies and providing special and differential treatment to poor and vulnerable countries to allow them to integrate into the global economy at a pace that will minimize economic and social dislocation. The donor community must also deliver on their promise of Aid for Trade.

The CARICOM Single Market and Economy

Turning to my own Region, we in Guyana and the Caribbean are small and vulnerable economies. We face many challenges, including natural disasters, high oil prices, and erosion of trade preferences. Our economies also have to confront the scourge of drug trans-shipment, and deportation of hardcore criminals from North America and Europe. In addition, we suffer from the effects of high migration of skilled professionals and entrepreneurs. In spite of this, we remain stable democracies, our macroeconomic fundamentals continue to be sound, and we are actively responding to the economic challenges through efforts to improve the international competitiveness of our economies and to deepen economic integration through the Caribbean Community (CARICOM) Single Market and Economy. We look forward to continued support from the IMF and the Bank and, in particular, the IFC in advancing our developmental agenda.

Closing Remarks

As we meet this week in Singapore, we stand at a crossroads. Preventing a disorderly resolution to the global imbalances, reaching a successful conclusion to the Doha round, and achieving the MDGs are possibly the most important—and daunting—challenges facing the global community today. Either we do what is needed to face up to these challenges, or we miss the opportunity and slow the progress of our nations.

But while the challenges we face are great, I also see hope. I see hope in the ability of our global community to come together and close ranks to confront critical challenges. We have done this so many times during the eventful years of the past decades. This spirit of cooperation is the very cornerstone of our two institutions. Let us once again reaffirm and strengthen this spirit of solidarity.

I now declare the 2006 Annual Meetings of the International Monetary Fund and the World Bank Group open.

REPORT BY ALBERTO CARRASQUILLA CHAIRMAN OF THE DEVELOPMENT COMMITTEE

I am pleased to report to you on the Committee's work during the two meetings held in 2006. On behalf of the Committee I wish to thank the authorities and people of Singapore for the excellent hospitality and facilities provided for these Annual Meetings. As under the chairmanship of my predecessor, Chairman Trevor Manuel, the main focus of our discussions has continued to be the implementation of the actions and partnerships agreed in Monterrey to meet the Millennium Development Goals (MDGs).

Progress toward the MDGs

As has become our custom, at our Spring meeting the Committee reviewed progress toward the MDGs based on the assessment presented in the third annual *Global Monitoring Report*. We focused our discussion on aid, trade and governance. We were encouraged by progress in reducing income poverty with growth in Sub-Saharan Africa exceeding 5 percent for the third consecutive year. But we also noted that progress is uneven and insufficient for many countries to meet the MDGs. We called for further actions to strengthen governance, improve the business climate, increase access to infrastructure, enhance market access and trade opportunities, and promote equity to achieve rapid, sustained, and shared growth.

Aid, Aid Effectiveness, and Debt Relief

At our Fall meeting we reviewed progress in meeting the pledges made in 2005 to substantially increase the volume of official development assistance (ODA), including a doubling of aid to Africa by 2010. We stressed the importance of meeting these pledges, and delivering the increased aid in a predictable manner. We also urged those donors that have not yet done so to make concrete efforts towards the target of devoting 0.7 percent of GNI to ODA in accordance with their commitments. We were encouraged by the progress made on some innovative forms of development finance including Advance Market Commitments for vaccines, and the launch of the international Financing Facility for Immunization and the International Drug Purchase Facility. We looked forward to a successful IDA 15 replenishment next year, and urged donors to meet their commitments to make HIPC and the Multilateral Debt Relief Initiative (MDRI) additional to other aid flows. For the future we have asked the Bank to develop a framework for its role

in the provision of global and regional public goods including criteria for its involvement and financing modalities.

At both our meetings we stressed the key role being played by the Education for All Fast-Track Initiative (EFA-FTI). At our Fall meeting we recognized the need to expand the initiative to larger countries and fragile states, and for further work on measurement of learning outcomes. We called for predictable and long-term funding for the initiative.

We have discussed the need to improve the effectiveness of aid as well as aid volumes. At both our meetings we called for rapid progress in implementing the commitments embodied in the Paris Declaration. At our Spring meeting, we encouraged donors to improve the quality of aid and modalities of delivery, to achieve greater predictability and stronger alignment with national strategies, to move toward multiyear commitments, and to finance recurrent costs where feasible. We noted the key role of the Bank and IMF in helping ensure that increases in aid volumes can be absorbed effectively. At our Fall meeting we noted the country-based “results and resources meetings” approach to facilitate scaling up of aid being piloted in several African countries. We urged developing countries to prepare well-defined and cost programs for using scaled-up aid.

September 2006 marks the 10th anniversary of the HIPC initiative. At our Fall meeting we noted the substantial reduction of debt stocks and the increase of poverty-reducing expenditures of the 29 HIPCs that have reached the decision point. We welcomed implementation of the MDRI by the IMF, IDA, and the African Development Fund. At both meetings we stressed the importance of the joint Bank-Fund Debt Sustainability Framework (DSF) in helping to ensure that new borrowing in post MDRI countries does not undermine their debt sustainability. We welcomed the approach proposed to deal with “free-riding” and urged all export credit agencies, IFIs, and other official creditors to use the Bank-Fund Framework in their lending decisions.

Doha and Aid for Trade

The de facto suspension of the Doha negotiations represents a setback to progress toward achieving the MDGs. The Committee urges WTO members to provide their trade ministers with the flexibility to resume the negotiations by the end of the year. We have also stressed our commitment to expanding the funding and strengthening the mechanisms for Aid for Trade. At our Fall meeting we welcomed the recommendations of the WTO Task Forces on Aid for Trade and the Integrated Framework (IF).

Middle Income Countries

Middle-income and emerging market countries (MICs), partner countries of the IBRD, are home to 70 percent of the world's poor. Although they constitute an extremely diverse group of countries, they all face major challenges of poverty reduction and development. At our Fall meeting, we reviewed the Bank's proposals to strengthen the IBRD's value added and engagement with these countries in response to their evolving needs. We strongly endorsed the statement on the Bank's corporate role and mission in its partnership with MICs. We also noted the IMF's efforts to adapt, better focus, and enhance its engagement with emerging market countries through its Medium-Term Strategy.

We welcomed the Bank's various proposals to deliver better and more flexible services to MICs. These include proposals to reduce the cost of doing business with the Bank; to simplify loan pricing and make its products more competitive; to increase provision of fee-based expert services, unbundled from lending; to mainstream sub-national lending; and to better exploit synergies within the Bank Group. We stressed that increasing the use of country systems where mutually agreed and verifiable standards are in place is an important part of this agenda. We also called for deeper cooperation between the Bank, regional development banks, and other partners in their engagement with MICs. We encouraged the Bank to develop a menu of options for targeted blending of concessional donor support with multilateral development bank loans in cases of market failure or where there are affordability issues.

Clean Energy and Development

The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and poverty reduction while preserving the environment. At our Spring meeting, the Committee recognized lack of access to energy and adaptation to climate change acute problems for many low-income countries and agreed to explore ways to help developing countries enhance their access to affordable, sustainable, and reliable modern energy services, with due attention to environmental considerations. We asked the Bank to review existing financial instruments and to explore the potential value of new financial instruments to accelerate investment in clean, sustainable, cost-effective and efficient energy.

At our Fall meeting, we welcomed the progress made by the Bank in developing a Clean Energy Investment Framework. We found broad support for the Bank's approach in addressing the three interrelated issues of: (i) energy for development and access to affordable energy for

the poor; (ii) the transition to a low carbon economy; and (iii) adaptation. In particular, we supported the Action Plan for improved energy access in low-income countries and urged donors to provide additional funding and other assistance required. We supported further examination of the Bank's future role in the transition to a lower-carbon economy, recognizing the primary institutional responsibility of the UN Framework Convention on Climate Change. We asked the Bank, in close coordination with the GEF, to continue to work on further exploring financing options to support investment in clean energy for development. We also stressed the need to develop strategies, tools and finance to help countries meet the challenge of adaptation to increased climate variability.

Governance

At our Fall meeting we discussed and supported the Bank's engagement in governance and anticorruption work. Actions to promote good governance are crucial to successful development and poverty reduction, and helping member countries on these issues is therefore important to the Bank's mission and to achieving the MDGs. Tackling corruption effectively and firmly is a significant part of this. We recognized that governments are the key partners of the Bank in governance and anticorruption programs, while, within its mandate, the Bank should be open to involvement with a broad range of domestic institutions taking into account the specificities of each country. We also emphasized that predictability, transparency, and consistent and equal treatment across member countries are the Bank's guiding principles. In stepping up attention to governance and anticorruption in Country Assistance Strategies, we asked the Bank to further develop and use disaggregated and actionable indicators, recognizing that IDA resources will continue to be allocated through the existing system. We recognized that the Bank's strategy will evolve with implementation and in the light of experience, but there is now a framework in place for continued Bank engagement in this work and for the further consultation planned with partner countries, with the Fund and with other donors and multilaterals, with civil society, and with the private sector. We stressed the importance of continued Board oversight of the strategy as it is further developed and then implemented.

Voice and Participation

At our Fall meeting we welcomed the Managing Director's report on progress made in the reform of IMF quotas and voice. Acknowledging the measures already taken by the Bank to enhance capacity in EDs'

offices and capitals of developing and transition countries, we asked the Bank to work with its shareholders to consider enhancement in voice and participation in the governance of the Bank.

Looking ahead, on all these issues the Committee will continue to review progress and take forward the discussions at our future meetings.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS

ALGERIA: MOURAD MEDELICI

Governor of the Bank

It is my pleasure to deliver this year's unified Arab speech on behalf of the Arab Group at this year's Annual Meetings. First, I would like to thank the Government of Singapore for hosting these meetings and striving to make them a success.

We welcome forecasts indicating that growth would continue this year at a high rate, and would be more balanced across regions. To ensure sustainability of this recovery, we believe that major economies specifically should rectify their imbalances, particularly that global economic conditions are favorable to undertake such reforms.

As for countries in the Arab region, they have achieved high growth rates last year. This growth is expected to continue this year. Not only is this improvement the result of increases in oil export revenues, but also of sound economic policies and progress in implementing structural reforms by the region's countries.

However, we realize the need for further reforms in Arab economies, particularly in the areas of improving the investment climate and trade liberalization, in order to boost economic growth. This is particularly true in connection with the major challenge still facing our region, namely the creation of sufficient jobs for the increasing numbers of young people, who represent nearly half of the population, half of them are women. We also take into consideration the need to increase participation in economic activities by Arab women to raise productivity, which can in turn be reflected on living standards of the Arab family. In this respect, we look to the two international institutions to intensify their support for continued reform efforts in these countries, and to the World Bank to develop suitable mechanisms and tools to finance regional integration programs and pay attention to women's issues in its regional operations. Regional growth prospects, however, remain vulnerable to risks that always contribute to instability in the region.

Recognizing their international responsibility for helping control the fluctuation of world oil prices, Arab oil exporters have considerably boosted their production rates. We think that use of oil revenues should be linked to each country's special circumstances.

The IMF plays a major role in stabilizing the global monetary system. In this context, we welcome the IMF's proposed medium-term

strategy to enable it to deal with new global economic challenges. We look forward to a discussion by the Fund's Executive Board of various aspects of this strategy. We also look forward, in particular, to strengthening the Fund's supervisory role, especially multilateral supervision. Concerning emerging economies, we encourage the Fund to consider a new mechanism that would provide quick financing to such economies, if needed. We also think that the IMF should approve a sustainable budget that would enable it to carry out its required role. In this respect, we welcome the formation of a committee composed of eminent personalities from the financial sector to consider a mechanism for the Fund's income, and look forward to its recommendations.

In order to bolster the credibility of the Bretton Woods institutions, various member states should have a voice in the ownership and management of these institutions. In this context, and with respect to a decision on quotas and votes, we call for ensuring the support for developing country role in the ownership and management of the two institutions according to the Monterey Consensus.

We follow with concern stalled progress at multilateral trade negotiations under the Doha round. In view of the importance of global trade, and with a view to strengthening efforts to reduce poverty, we urge member countries to avoid protectionist policies and to seek to lower tariff and non-tariff barriers. We also encourage countries to take advantage of opportunities for economic integration provided by liberalization of world trade. We call for continuing support and technical assistance to developing countries to improve their trade capacities.

We welcome achievements in the area of official assistance flows to developing countries, and the agreement to increase the resources of the International Development Association (IDA) and the Multilateral Debt Reduction Initiative (MDRI). However, these efforts still fall short of the development and poverty reduction requirements, particularly of low-income countries that lack necessary resources to achieve the Millennium Development Goals (MDGs). We look forward to more efforts to meet major donor commitments to increase the volume of assistance and improve its quality and to more contributions by international development institutions, particularly the International Finance Corporation, to providing necessary financial resources. In this respect, we would like to note the effective role of Arab donor countries, as they lead all donor countries in providing assistance, as a percentage of their national product. Meanwhile, it is worth mentioning the considerable increase in foreign private investment flows into the region, reflecting growing confidence in adopted structural reforms.

Concerning middle-income countries, to which many countries in our region belong, we support suggestions included in a report submitted to the Development Committee. We hope that this strategy would

enhance the Bank's expertise and adapt its financial and technical assistance products to the countries' special and varied needs through the development of an action plan that helps the follow-up of such strategy and the assessment of its results.

Efforts of the bank and the IMF in our region should be mostly focused on supporting those countries experiencing the effects of conflict. Lebanon is in the forefront of those countries that require extensive and urgent support from all international institutions and donor countries, in view of the massive destruction to its houses, other buildings and infrastructure and the deteriorating living conditions as a result of the Israeli aggression. In this context, we welcome the establishment by the World Bank of a trust fund to help reconstruction efforts in Lebanon. We also welcome grants promised at the Stockholm seminar, and look forward to get them fulfilled as soon as possible. We also call for continued support to the Palestinian people who are much suffering under occupation and economic and political siege, and for continued support for reconstruction efforts in Iraq, the reduction of its debt and support for its joint initiative with the United Nations to launch "the International Covenant with Iraq", aiming at building a partnership with the international community. Continued sanctions and economic and banking boycott against Syria by some major powers prevent necessary structural reforms and the provision of technical and financial assistance from the Bank and the IMF. We stress the importance of accelerating efforts to allow the Sudan to take advantage of the Multilateral Debt Reduction Initiative (MDRI) and the Heavily Indebted Poor Countries (HICPs) Initiative, particularly since it had met all economic and financial requirements set by international financial institutions. We hope it can get use of such initiatives away from political considerations.

We welcome the increased attention paid by international institutions, including the Bank and the Fund, to encourage good governance and combating of corruption in member countries. I would like to note the steps taken by Arab Group countries in this respect, recognizing the fundamental role of good governance in achieving sustainable development.

In this context, we support current efforts by the Bank and hope member states would enhance such efforts for broader and faster progress in this area. We stress the importance that the new proposal includes all aspects of fighting corruption, at concerned country representatives or the international private sector. We realize this is a task that requires considerable efforts. To achieve desired goals in this sensitive area, we believe that it is necessary for the Bank to respect the sovereignty of states, to avoid heavy Bank conditionality that impede development programs and to focus efforts on responding to demands

by member states for financial and technical assistance to facilitate the design and development of their reforms in a framework of cooperation.

We have followed the developments contained in the World Bank's report on clean energy sources. In this respect, we welcome additional consultations, including those with Arab oil producers. While modern energy sources are the engine of development, large numbers of the world population still use conventional sources, resulting in adverse impacts on the local environment, especially in the area of health. In this respect, we encourage the World Bank to focus its efforts on facilitating access of the poor to modern energy sources.

In conclusion, I thank you, Mr. Chairman, for chairing this year's Annual Meetings, hoping for more progress towards a more stable and prosperous global economy. We also look forward to increased cooperation with the Fund and Bank to strengthen stability and growth in our region's countries.

AUSTRALIA: PETER COSTELLO
Governor of the Bank and the Fund

The past year has again been favorable for growth and development. Global growth has remained strong, underpinning greater prosperity and a reduction in poverty in many, but not all, countries.

There have also been important steps to increase the legitimacy and effectiveness of the IMF and World Bank, most notably the agreement to address the outdated and unrepresentative system of quotas at the Fund. This has been the result of leadership and commitment from the Managing Director as well as from many members of the Fund directly and through their participation in the work of the G-20, the African Governors and other groupings.

On a negative note, the failure to advance multilateral trade reform through the Doha round will cost the world greatly, while protectionist sentiment is rising in many countries. There has also been little progress in addressing the unsustainable nature of global macroeconomic imbalances, and downside risks to growth have increased.

Quota and Voice Reform

Australia welcomes Governors' support for the resolution on quota and voice reform. This provides an immediate improvement in IMF representation by increasing the quotas of four countries that are clearly underrepresented. But even more importantly, it paves the way for more comprehensive reform to ensure representation is fair and reflects changes in the world economy.

Australia has been at the forefront of this debate because we consider that the current arrangements have undermined the authority and effectiveness of the Fund, and have thus been to the detriment of all members. Increasing legitimacy will help make the Fund more effective in maintaining international financial stability, promoting sound macro-economic policies, and assisting with balance of payments adjustment among its members.

While the first stage of quota reform is important, for the IMF to remain legitimate and effective in the modern economy, its membership still has much to do. We have the framework for a new set of arrangements, underpinned by a remit to develop a simpler, fairer and more representative quota formula, which in our view should give predominant weight to GDP. This would enable further ad hoc quota increases for underrepresented countries. There is a commitment to substantially increase basic votes, assist the Executive Directors who represent the largest constituencies and examine the process for appointing the Managing Director of the Fund.

There is still much detail to be worked out and, by necessity, compromises reached. We appreciate that reaching this stage has not been easy. We would encourage all members to continue to focus on how we can collectively take these matters forward to the benefit of the IMF and the international community. The clock is now ticking on our two year reform objective. We will need to work quickly to ensure that the reform momentum is maintained, and we should strive to complete this process well within the two year timeframe, if at all possible.

The President of the World Bank has indicated that corresponding governance and participation issues will be considered and addressed at the Bank. We are supportive of this and look forward to speedy progress.

Surveillance

While governance reform is critical, so is ensuring that the Fund has the appropriate policies, instruments and resources to deliver on its mandate to the benefit of all members, in a rapidly evolving environment.

We therefore strongly welcome the commitment by the Managing Director and the Executive Board to embark on the Medium-Term Strategy.

Central to this is improving Fund surveillance. The new multilateral consultation mechanism offers the potential to improve Fund surveillance and we look forward to a report on its progress. We also support efforts that clarify surveillance objectives, such as the consideration of a remit for surveillance and the proposed review of the “1977 Decision on Surveillance over Exchange Rate Policies”.

These initiatives could provide an improved, and more transparent, policy framework to underpin the Fund's surveillance efforts, and enable it to improve the traction of its advice. It will be important for members to be open to the evolution of surveillance to ensure the best outcome for the membership as a whole.

The Fund's efforts to improve the operational aspects of its surveillance are also welcomed by Australia. Strengthening the synergy between multilateral, regional and bilateral surveillance will improve the coherence of the Fund's advice, and we also look forward to the work being undertaken to fully integrate financial sector issues into surveillance.

But reform of Fund surveillance also requires a hard-headed assessment of how to improve the traction of Fund advice. As a counterpart to this, members themselves have an obligation to seek to maximize the benefits from the surveillance process.

IMF Role in Emerging Markets

The IMF has a key role to play in assisting with both crisis prevention and resolution in emerging markets. The primary responsibility for crisis prevention rests with the countries themselves, through implementing sound policies and identifying and addressing underlying vulnerabilities.

We support consideration of ways in which the Fund can improve its assistance to emerging market countries, including through a new contingent financing instrument. However, we recognize the difficulties and complexity that remain to be overcome in designing a single instrument that will need to meet the two objectives of crisis prevention and resolution effectively. With this in mind, we look forward to further discussions on how a contingent financing instrument might be designed.

IMF-World Bank Collaboration

We also welcome efforts to improve the effectiveness of the IMF and World Bank in those areas of operation where their mandates overlap. We particularly look forward to the report of the 'External Review Committee on IMF—World Bank Collaboration'.

World Bank Engagement in Middle and Low-Income Countries

While welcoming the World Bank's consideration of its long-term sustainability and engagement in middle income countries, Australia

considers that further work is required to develop a long-term strategic direction for the Bank's engagement with this very important client group.

We also recognize that strengthening governance, reducing corruption is vital, and we are generally supportive of the World Bank's direction on these issues. At the same time, we believe that the Bank should remain focused on alleviating the main impediments to development and promoting the drivers of economic growth, and should remain appropriately engaged in even very difficult development environments. This does not mean "business as usual" in the face of weak governance, but a strategic engagement that continues to assist reform and reformers and which lays the groundwork for a more comprehensive engagement as circumstances allow.

In recent years, the Bank has developed a strong policy framework for engaging in fragile states. The challenge is implementation. Converting the Bank's strong policy framework into results on the ground is crucial for achieving development progress in Africa and other regions. Fragile states generally have low capacity to absorb aid. We believe that a consistent, long-term engagement centered on a strong in-country presence, is the most effective approach in these low governance environments and we encourage the Bank to operationalize this across its fragile states client group. We look forward to the forthcoming management review 'Strengthening the Organizational Response to Fragile States'.

Australia is a long-standing supporter of debt relief, and I was pleased to announce recently that we will pay AU\$136.2 million upfront for the first ten years of the Multilateral Debt Relief Initiative. The Fund and Bank play an important role in supporting members to develop debt sustainability strategies and we look forward to upcoming work on the Joint Debt Sustainability Framework. Following 100 per cent debt relief to eligible countries, it will be important to strengthen borrowers' own debt management capacity, and for the international community to avoid contributing to future unsustainable debt levels in low income countries.

Both the Fund and the Bank will also have important respective roles in advising donors and low income countries on how best to take advantage of the fiscal space now being made available to low income countries from debt relief and increased aid flows, particularly given their absorptive capacity constraints.

Australia values its close working partnership with the Fund and Bank and we look forward to further ongoing productive dialogue with both institutions to promote sustainable development and tackle poverty.

BANGLADESH: M. SAIFUR RAHMAN
Governor of the Bank and the Fund

It is indeed an honor and a privilege for me to have the opportunity to address once again the Annual Meetings of the Bank and the Fund. I would like to express my sincere appreciation to the Government of Singapore for the excellent arrangements made for holding this annual event of the Bretton Woods Institutions.

Five years have elapsed since the signing of the Millennium Declaration. But the world is still far from achieving the MDGs. Time has come to ask ourselves whether we delivered on our promises of implementing the framework of mutual accountability to achieve these goals as enshrined in the Monterrey Consensus.

Meeting commitments of donors to scale up aid is a central facet of the framework of mutual accountability. We welcome the recent reaffirmation of the international community to increase aid and advance the harmonization and alignment agenda. The decline in actual disbursement of aid to low-income countries by the Multilateral Development Banks (MDBs) in 2005 is, however, a matter of concern. ODA will have to grow at an accelerated pace to reach the target of 0.7 percent of GNI of donor countries by 2015. Disbursement of committed aid should also be ensured. To mitigate exogenous risks like oil price shock further reforms of the existing Bank-Fund facilities and their augmentation are urgently needed. We also strongly emphasize the urgent need for working out a simple and transparent formula for redistribution of quotas among the Fund's member countries that reflects developments in the world economy and strengthens the voice of the developing countries including the low-income ones in the governance of the Fund.

The quality and composition of aid are crucial for attaining the MDGs. Stronger economic growth across the developing world is possible through sizeable investment in infrastructure. Reduction of human poverty calls for substantial scaling up of investment in health and education sectors particularly their recurrent costs. Aid will also have to be delivered in a flexible, cost-effective and predictable manner. While appreciating the Paris Declaration that highlighted 'harmonization' and 'aligning to country procedures', I feel uncomfortable to mention that the recipient countries are still flooded with multiplicity of missions and the country procedures and the countries' capacity still being ignored. The harmonization and alignment agenda has to be accelerated and progressive use of country systems emphasized to ensure sustainable development.

While we deeply appreciate the World Bank's latest move about corruption and governance issues, I am afraid, the attention on them seems

rather too much compared to its mandated focus on poverty reduction. We must do our best to address the corruption and governance issues, with a cautionary note that we do not shift main attention from our poverty reduction mandate. I agree with the concerns in this regard raised by some multilateral and bilateral agencies including those of UNCTAD in their recent report and I think it is high time to revise the World Bank's aid framework to further accelerate efforts targeted mainly to reduction of poverty.

World Bank's estimates indicate that global welfare gains from full liberalization of merchandise trade will amount to US\$280 billion annually by 2015 of which \$86 billion would accrue to developing countries. In view of the unfortunate status of negotiations under the Doha Round, we urge upon the multilateral donors to reinforce their advocacy role for immediate resumption and successful conclusion of negotiations and ensuring that hundred percent duty-free access is extended by developed countries to exports originating from LDCs.

The mutual accountability framework requires the developing countries to pursue sound development strategies and good systems of governance to ensure that resources are effectively used. We emphasize the need to further deepen the Poverty Reduction Strategy approach through joint Country Assistance Strategies depending on specific country circumstances and country ownership. We also support the need to strengthen development results measurement and monitoring of governance. However, we urge upon the donor community to support country-owned governance reforms and at the same time assess the governance standards on the basis of objective and actionable disaggregated indicators rather than on perception—based aggregate indicators. In aid allocations, country performance and needs should be given the highest priority.

Let me now briefly reflect on the developments in my country. Despite recurrent natural calamities and exogenous shocks the economy grew at a rate of nearly 7 percent last year with annual budget deficit contained below 4 percent of GDP. Export continues to record robust growth reaching 21 percent last year. Poverty has been reduced by 9 percent over the last five years, the highest rate achieved so far in my country. The country has achieved significant progress across a range of social indicators. We are on track to reach most of the MDGs. The World Bank, ADB, DFID and Government of Japan have adopted a Joint Country Assistance Strategy in support of our PRSP.

Let me conclude, Mr. Chairman, by wishing success of our common efforts to fulfill our mutual commitment to the poverty stricken people of the world.

BELARUS: ANDREI V. KOPYAKOV
Governor of the Bank

I would like to greet all of you at this major international economic forum and express sincere appreciation to the authorities of the city of Singapore for their hospitality, and to the management and staff of the International Monetary Fund and the World Bank for the superb manner in which they have organized this event.

We have assembled again today to determine on our behalf, on behalf of our governments and our countries, what the year since the last meetings has brought our countries and the international community as a whole. It's no secret that the past year has severely tested the strength and stability of the current system of international relations, and the challenges of global economic and social development and environmental conservation have become more acute. These issues, after all, are interdependent and mutually reinforcing components of stable development, and are the basis of our efforts to provide a better quality of life for all.

Unfortunately, the rather controversial processes of globalization and integration have made the economic development of nations more uneven. The global problems stemming from the worldwide economic recession, from energy price increases, the stagnation of a number of highly developed countries, the GDP decline in many countries and the economic shocks are, on the whole, having a negative impact on global economic relations and hampering the development and consolidation of trade and socio-economic relations between nations. In addition, a number of seemingly non-economic factors, such as the consequences of natural disasters, international terrorism and intra-national social conflicts, are having an adverse effect on the economic performance of various countries, and on international economic relations.

These trends have also left a substantial imprint on the development of the Republic of Belarus, whose performance has depended in large part on keeping a precise balance between global political and economic processes and national interests and capacity.

What kind of year has it been for our country? Despite a number of objective difficulties, Belarus continues to strengthen its economic, social and political positions in the international community, while remaining a dynamically developing nation with a steadily growing GDP and industrial and agricultural output, a relatively stable banking system, insignificant foreign indebtedness and a well-developed export capacity. Thanks to a strong and effective government which is working to benefit people and does not allow anarchy or interethnic or political conflicts, efforts continue to be focused in the Republic on a strong social policy, oriented above all toward improving living stan-

dards, which is fully consistent with the mandate of the Bank and the Fund.

In recent years the problems of stagnation and economic recession in a number of industrialized countries have become more and more pressing. GDP indicators are steadily dropping due to a preponderance of capital exports over trade in goods and services. However, Belarus has consistently ranked among the leading countries in Europe and the CIS in terms of economic growth rate. Gross domestic product (GDP) rose 10.1 percent in the first six months of 2006 compared with the same period last year, whereas the 2006 forecast was 7–8.5 percent.

The dynamic and steady development of the Republic's industry is continuing. Industrial production in Belarus increased by 12.6 percent in the first six months of 2006 compared with the same period last year. The energy-intensiveness of GDP continues to drop. At the same time, the profitability of production has grown, and the proportion of enterprises operating at a loss has declined.

The monetary sector is operating reliably, something that is evident from the stability of the Belarusian ruble and the continued decline of the inflation rate. This sets the Republic of Belarus notably apart at a time of problems related to the instability of the global monetary system and significant fluctuations in exchange rates.

The advantageous geographic location of Belarus, which is a European communications corridor, its well-developed transportation and industrial infrastructure, scientific and technological framework and growing export capacity also have a favorable effect on the strengthening of our country's trade and economic relations. In the first six months of 2006 Belarus had trade relations with 160 countries.

Foreign trade in goods and services continues to grow. In actual prices it was 31.9 percent higher than in the first six months of 2005, with increases of 23.5 in exports and 41.2 percent in imports.

Both the International Monetary Fund and the World Bank often express serious concerns over the payments discipline, the increase in debts, the enterprises in the republic operating at a loss and their impact on the economic growth prospects, employment and real income and, consequently, the deterioration in conditions for human development.

I would agree that these problems exist, and would like to stress that one of the most important tasks for the Republic's Government is the financial revitalization of the real sector of the economy. To this end, sector and regional programs and timetables for alleviating the loss positions of enterprises have been drawn up and are being implemented, and systemic conditions are being created for achieving a fundamental financial revitalization.

The number of businesses operating at a loss dropped substantially in the first six months of this year. The process of property reform is

on-going. In the process of privatization of state property, the majority of facilities have been converted to open joint-stock companies.

The main objective of the Program of Socio-Economic Development for the Republic of Belarus for 2006–2010 is to further improve the living standards and quality of life of the population based on the development and effective utilization of human potential, technological modernization, improving the structure of the economy and increasing its competitiveness.

All of the foregoing confirms that the Republic of Belarus has chosen the correct development path, which allows us to take firm positions both in the economy and the social and cultural sphere. Obviously, there are certain problems and difficulties in the country's socio-economic sector. Unfortunately, some economic and political reforms are not proceeding with the proper intensity. Considering, however, that the country's economy is in transition, the Government is making every effort to speed up the Republic's integration into the international community and strengthen world economic relations. These processes would move more intensively if the country had a program with the Fund and a broader strategy with the Bank.

Over the past year there have been significant advances in the development of relations with the IMF and the World Bank, which are having a favorable effect on the country's attractiveness for investment and the reliability and predictability of its socio-economic environment.

A number of important documents that establish the framework of cooperation between Belarus and the World Bank Group have been signed in recent years: Memoranda of Understanding (1994 and 1997), Country Assistance Strategies (1999 and 2002) and loan agreements for specific projects.

The Republic of Belarus attaches considerable importance to cooperation with the World Bank and greatly appreciates the assistance that the Bank has provided in recent years in solving pressing problems of socio-economic development, energy conservation and minimizing the aftereffects of the Chernobyl disaster.

Obvious progress has taken place in relations with the Bank in the past few years. The main result of cooperation has been the completion of preparation of a loan project related to Chernobyl issues. On April 19, 2006, a loan agreement was signed between the Republic of Belarus and the International Bank for Reconstruction and Development that provides for the allocation of US\$50 million to the Republic for a project to rehabilitate areas that were affected by the disaster at the Chernobyl nuclear plant. Implementation of this project should mark the beginning of a new phase in relations between the Republic of Belarus and the Bank.

In addition, work is under way to incorporate specific projects into the World Bank's new medium-term Strategy with the Republic of Belarus, which will make it possible to increase Belarus's interaction and fruitful cooperation with the Bank. The Republic of Belarus has an interest in the further increase of the Bank's technical and advisory assistance, and for our part we are ready for a dialogue on directions, priorities and timetables.

I would note in particular that the experience of cooperation between the Republic of Belarus and the IMF over the past few years attests to the progress in our country's dialogue with this authoritative international institution and the significant positive trends in our interaction.

The technical assistance that the World Bank and the International Monetary Fund are providing is enabling the Republic to accomplish a number of pressing tasks. The work with the IMF in this direction has produced concrete results in upgrading the system of collecting, tabulating and disseminating statistical information and devising measures designed to counteract terrorism financing and money laundering. Moreover, the Belarussian Government makes use of recommendations from IMF experts in its economic policymaking. Based on these recommendations, in recent years monetary policy has been tightened substantially, the exchange rate of the national currency has been unified, restrictions on foreign trade have been eased, some progress has been achieved in privatization, and new programs of cooperation have been prepared for implementation.

Last May a mission of experts from the Fund worked in the Republic of Belarus under Article IV of the IMF Articles of Agreement. We would like to express satisfaction that the Fund's official report on the results of that mission portrays the positive changes in the nation's socio-economic development quite objectively compared with reports of previous years, contains more balanced conclusions by Fund personnel and welcomes the Government's implementation of a number of structural reforms. At the same time, a number of negative points made in the report are debatable. But we hope that continuation of the dialogue to eliminate remaining disagreements about the pace and directions of the republic's economic development will make it possible to take the relations between the Republic of Belarus and the Fund to a qualitatively new level and will help make the Republic of Belarus more attractive to foreign investors.

We would like to express our appreciation to the Fund's management for continuing to provide technical assistance and to point out the significant benefit to the Republic of the IMF technical missions. Recommendations by the Fund's technical missions are taken into

consideration when the Government implements structural reforms and determines the prospects for the country's future socio-economic development.

In the short term, cooperation with the Fund will continue over a wide spectrum of areas of technical assistance. In this context we would like to stress the need to beef up the cadre of IMF personnel who work on Belarus and to develop a full-fledged mission to work in the Republic of Belarus on a full-time basis in order to do a more thorough and objective study of the trends in Belarus's changing economic situation. This is precisely the time when it is essential to expand the Fund's work and technical assistance, given the Republic's strong need for the Fund's advice and recommendations during the transitional period when structural reforms are being implemented and made more effective.

We would like to count on a fuller acknowledgment by the Fund of the positive results achieved by the Republic of Belarus in conducting economic policy and developing on that basis a favorable informational database that is essential for attracting foreign investors. We also hope that the International Monetary Fund will take account of the specific characteristics of the socio-economic development of the Republic of Belarus and its desire to continue close cooperation. As the positive trends in the economy take hold and the degree of cooperation with the Fund increases, we would like to believe that conditions will be created for implementing an official program of cooperation between the Republic of Belarus and the IMF.

I'd like to conclude by giving high praise once again to the authorities of the city of Singapore and the leadership and staff of the International Monetary Fund and the World Bank, as well as the security department, for the superb way in which the annual meetings have been organized.

BELGIUM: GUY QUADEN

Governor of the Fund

I would like to warmly thank the Government of Singapore for its hospitality shown during this Joint Annual Meeting.

Economic Prospects and Policy Issues

The European economies have performed markedly better than expected so far in 2006, with the pace of growth well above potential. The world economy is expected to continue its strong growth this year and the next. If the WEO projection for 2007 materializes, the world economy will have grown by more than a fifth in just four years. An unprecedented performance indeed, made possible largely by contin-

ued robust growth in the United States, China, India and a number of other emerging market economies.

IMF Issues

Quota and Voice

We voted in favor of the Board of Governors' resolution on quota and voice reform in the IMF, including its timetable. We therefore agree with the first round of ad hoc increases for China, Korea, Mexico and Turkey. The IMF, as the foremost institution to promote international financial co-operation, must remain relevant to all its members. This implies adapting members' quota and voice as their weight and role in the global economy changes.

We are open to discussing how the present quota formulae can be made more transparent and simple, reflecting the Fund's mission. A new formula should be based on economic and financial openness, GDP, and other relevant variables. Indeed, the role and participation of countries in the international economy and financial system is determined by several variables. The Fund's mandate is primarily promoting international cooperation and international trade. It is the Fund's mandate that justifies the present weight of openness in the existing formulas.

Once the review of the quota formulae has been brought to a successful conclusion, we agree that a second round of limited ad hoc increases should follow to adjust the situation of the most under-represented members.

We agree that better alignment of members' quotas to their weight and role in the world economy should be considered in the context of future general reviews of quota. But the present rules governing general quota increases must continue to apply, meaning that an established need for additional Fund liquidity is an essential precondition for any general increase in quotas.

We strongly support to at least double the number of basic votes, to be implemented in line with the timetable in the resolution. We also support introducing a mechanism to safeguard the share of basic votes in total voting power. Similarly, we support steps to increase the number of senior staff of particularly large constituencies.

We are open to discussing how the present quota formulae can be made more transparent and simple, reflecting the Fund's mission. A new formula should be based on economic and financial openness, GDP, and other relevant variables. The Fund's mandate is primarily promoting international cooperation and international trade. It was the

Fund's mandate which justified the present weight of openness in the existing formulas.

As part of the reform program, we support a review of the method of selection of top management of all international financial institutions.

Review of Surveillance

Surveillance is the core mission of the Fund. It has been proposed to modernize the 1977 decision on surveillance of exchange rates in order to clarify a number of aspects of surveillance, including the place of exchange rate surveillance within the broader context of surveillance. In a world of open capital accounts, it is the Fund's task to closely scrutinize whether each member is conducting policies consistent with its exchange rate regime. The 1977 decision already explicitly allows for this possibility.

In addition, given the diversity and rapid development in the global economy, the legal framework for IMF surveillance should remain sufficiently broad and flexible. The non-prescriptive nature of the 1977 decision has allowed adapting surveillance to the changing needs of the Fund and its members. We are open to discussing how surveillance can be better implemented, including better coverage of multilateral issues and a more substantial treatment of exchange rate policies, but do not see the need to fundamentally revise the 1977 surveillance decision.

The Fund's estimates of long-term equilibrium exchange rates and the methodology used in computing these exchange rates should not be published. The interpretation of such computed exchange rates is complex and could easily trigger unwarranted volatility.

We support the setting of a remit for IMF surveillance to clarify medium term objectives and operational priorities of surveillance, subject to further work on the issues involved and in the context of the surveillance package as a whole. The remit should respect the role of the Executive Board as the Fund's central body in charge of conducting the Fund's work on surveillance, as well as the role of the IMFC.

We welcome the launch of the first multilateral consultation and hope that it will prove effective in generating the necessary policy momentum.

Financing of the Fund

The reduced volume of members' outstanding obligations to the Fund has produced an income shortfall, necessitating strict expenditure control. However, budgetary considerations should not compromise the quality of surveillance, which is the Fund's primary mandate. In order

to make informed choices about where expenditure cuts can take place, the Fund should be more transparent about the full cost of each of its activities.

The establishment of an investment account is a welcome step in the direction of a more robust, predictable, and less volatile and credit-linked income position but more measures are needed. We look forward to the conclusions of the External Committee on the Financing of the Fund, which should help identify other sources for financing the activities of the Fund, with fair burden sharing among all member countries.

Role in Emerging Market Economies

The Fund should continue to provide meaningful financial assistance to countries that need and deserve it. The Fund should in that respect maintain its proven record of being able to act swiftly if a crisis strikes.

The Fund should explore further how to respond to the need of emerging market countries for high precautionary access to Fund financing. We note that small, pragmatic and common sense changes in the Fund's practice of precautionary Stand-By Arrangements could make them better adapted to emerging market countries' needs in the face of potential capital account crises. An approach based on existing and well-known Fund instruments guarantees the predictability of access to Fund resources, while limiting the financial risks to the Fund.

Low-Income Countries

The role of the Bretton Woods Institutions in reducing poverty remains as important as ever, even in the light of increasing private finance flows to the developing countries. Both institutions have to step up their efforts, together with their multilateral and bilateral partners to accelerate progress towards achieving the Millennium Development Goals. Increased financing and technical advice will have to be secured both to the low income and middle income countries, home to the majority of the poor in the world. The Gleneagles Summit of last year has been instrumental in raising awareness among all development partners that action is needed if the international community is to reduce poverty in a substantive manner, in particular in Africa where the challenges are the biggest.

Donors have increased their aid flows, albeit a large part through debt relief, and recipient countries have strengthened their macro-economic and social frameworks allowing them to absorb more

efficiently this additional financing. But more work is needed. From the perspective of the donor community, more predictable aid flows should be ensured, keeping in mind that official development assistance remains one of the most prominent avenues to help countries meet the MDGs. In this respect, Belgium remains committed to reach the agreed UN target on ODA by 2010 and we are pleased to announce that we are on track to reach that goal. As IDA is in many low-income countries the cornerstone of the aid architecture, we call upon all donors to agree upon a robust IDA-15 replenishment on which negotiations will start shortly. As the President rightly states in his note: “this will be the final opportunity for making further progress towards the MDGs”. On the receiving end, countries need to further strengthen their institutions to permit development monies to be allocated for the benefit of the poor and to solidify their growth perspectives. Indeed, both sides have to assume their responsibility.

Long-term debt sustainability has now become one of the cornerstones of the Fund and the Bank’s assistance to low income countries. We believe this is the right approach as we don’t want to see indebted poor countries, having benefited from debt relief, returning to situations where a new debt overhang hampers the implementation of their structural reforms. In this regard, we look forward to the scheduled review of the DSF framework the coming months, in which particular attention should be paid to the so-called “free riders” issue. All creditors, be it official, commercial, including export promotion agencies, should be brought on board to persuade them to refrain from extending lending on inappropriate terms.

We welcome the progress achieved since the Spring Meetings on laying out a broad strategy on governance and anti-corruption. It is to the credit of Mr. Wolfowitz that good governance has become more than a buzz word in international development. We support wholeheartedly the principles on which the strategy is based upon, but would expect that further refinements will be made in full collaboration with other stakeholders and not the least with the countries themselves. Establishing and respecting good governance principles is a long term and complex endeavor and should be gradually introduced rather than imposed. Belgium has already undertaken considerable efforts to integrate good governance in its development policy, but we are also learning as we move along. That is why my Government has planned an International conference on governance in the spring of next year in Brussels and we would like to take the opportunity to extend an invitation to Mr. Wolfowitz to attend this brainstorming session.

Finally, a word on Bank-Fund collaboration. Being sister organizations, we can not expect that the relation is always a smooth one, but we encourage both of them to clarify further their role and mandate, in par-

ticular in low-income countries. We look especially forward to the conclusions by the external expert panel and hope that their findings will help in strengthening even further the relation between both institutions.

BRUNEI DARUSSALAM:
PEHIN DATO ABDUL RAHMAN IBRAHIM
Alternate Governor of the Bank and the Fund

I am deeply honored to speak at this prestigious and historic gathering of the Annual Meetings of the Board of Governors of the Fund and the Bank. Our most sincere appreciations are extended to the Government and People of the Republic of Singapore for their cordial reception and excellent arrangements for the meetings.

The meeting in Singapore takes place almost a decade after the Asian Financial Crisis. Following the crisis, many countries in the region, made efforts to strengthen themselves by implementing macro-economic as well as structural reforms. We believe continuous implementation of high quality reforms, will help ensure the sustainability of the region's dynamism.

Today, this region can boast itself as among the world's fastest growing regions. Nonetheless, downside risks associated with global structural imbalances, volatile oil prices, rising interest rates, and geo-political tensions, still remain. In this rapidly changing environment, we welcome the Fund's comprehensive Medium-Term Strategy to enable the IMF to respond effectively to the needs of its diverse members. The Fund and its members should further enhance their common understanding on the implications of key policy prescriptions under consideration to facilitate collective actions necessary to address the challenges.

On the issue of global structural imbalances, the Fund's Multilateral Consultation initiative, which involves major relevant countries, is an important step towards bringing about, an orderly resolution to the imbalances. In the area of trade, we recognize the importance of the multilateral trading system in strengthening, globalized economic and financial system that promotes growth and reduces poverty. It is therefore in the best interest of all parties, particularly developing countries, like Brunei Darussalam, to resume negotiations in Geneva and to exercise the necessary political will to bring the Doha Round to a speedy and successful conclusion.

We welcome the milestone progress achieved in Singapore to address the long-standing issue of representation in the Fund's membership, in the context of quota and voice reforms. Our daunting task now, is to move forward in realizing the second round of reforms. We

are optimistic, these reforms when completed, will make the Fund more responsive to global economic changes, and enhances the participation and voice of low income members.

On the Fund's engagement in low-income countries, we note the Fund's active involvement through its poverty reduction strategies. Concerted efforts from the Fund, the World Bank, other key development partners and the developing countries themselves are needed in order to help realize higher growth in the coming years to meet the Millennium Development Goals. Further, we laud ongoing discussions on the establishment of a new precautionary facility that can assist countries that are active in international capital markets.

As a member of the Fund and the World Bank, Brunei Darussalam has benefited immensely especially, from the surveillance exercises, policy discussions and technical assistance extended by these institutions. Prudent economic management and favorable external environment, have led to Brunei Darussalam's continued strong macroeconomic conditions and solid prospects for sustained long-term growth.

The Government of His Majesty the Sultan, continues to place high emphasis on the need to sustain economic growth of Brunei Darussalam, by diversifying its economic activities, away from the oil and gas sector. One key non-oil sector that is being given greater attention is the Financial Services Industry. In particular, through the establishment of the Brunei International Financial Centre (BIFC), Brunei Darussalam aspires to be a key player in attracting international financial institutions into the country. Brunei Darussalam has enacted comprehensive, cutting edge and up-to-date legislation aimed at offering a secure domicile from which regional and global activities can be conducted. More importantly, the legislation will also allow various Islamic banking and finance undertakings to take place including structured financing, fund management, private equities, and financial advisory services. We aim to continue leveraging on our membership of the Fund and the World Bank, to help achieve this important goal.

Islamic financing was formally introduced in Brunei Darussalam in 1991 with the official opening of the first Islamic financial institution, Brunei Islamic Trust Fund (TAIB). This was followed by the establishment of two Islamic Banks in the following year as well as their Takaful subsidiaries. In order to strengthen the commercial presence of the Islamic banks, the two Islamic Banks were recently merged to become The Islamic Bank of Brunei Darussalam. The establishment of Brunei Darussalam's Syariah Financial Supervisory Board, which came into effect in January 2006, serves to facilitate regulators and players alike, in ascertaining that all transactions, products, and services offered are truly in accordance to Syariah principle. In summary, Islamic banking has seen consistent growth of 19 per cent per annum since 1993 and a

market share of 32 per cent. Looking ahead, we are confident in the potential growth of this industry in the coming years.

On the issue of good governance, we reiterate our support for the proposed strategy, but would like to stress the importance of country ownership on the implementation plans. It is therefore essential for both institutions to remain engaged with all members whilst giving special attention to capacity building.

Finally, International Financial Institutions (IFIs), such as the Fund and the World Bank, have an important role to assist developing countries in their continuous efforts to improve economic policy framework, as well as to strengthen both their technical and institutional capacity. With increased dialogue and consultation among all parties in an atmosphere of mutual respect and trust, further progress could be achieved to ensure that international economic policies are beneficial to all member countries. All these are essential in our common desire to improve prospects for a sustained strong global economy in the period ahead.

CAMBODIA: CHEA CHANTO AND AUN PORN MONIROT

Governor of the Bank and the Fund

Humanity at large stands today at an important juncture in progress towards achieving self-imposed deadline. Six years since the Millennium Summit and with nine years remaining to achieve critical MDGs, there are both positive and discouraging signs. Led by Asia, and followed by Latin America and the Caribbean, significant progress has been witnessed in reducing income related poverty, but many countries lag behind. In many other areas, additional and more concerted action is needed to reach MDGs in general. In this meeting of senior economic managers from all parts of the world our collective agenda should therefore be on what we should all do to maximize prospects of MDGs being achieved to the largest extent possible.

Most of what has to be achieved has to take place in developing countries which need substantive inflow of assistance to set in place the needed infrastructure, institutions and systems for this purpose and to provide direct catalytic support to lift the poor from their uneconomic status. Therefore, our collective actions necessarily involve those who provide development assistance and the countries which use such funds. IMF and the World Bank as global development institutions have a critical role in these efforts.

On the side of development assistance providers, there should be stronger and visible commitment to increase aid volume and aid effectiveness. Most donors are still to make progress to increase aid volumes and to make concrete efforts towards attaining the target of 0.7 percent

of GNI as ODA. The faster we reach that goal the greater are the chances of poorer countries reaching the largely humanitarian MDGs. The proclamations of supporting poor developing countries through debt write offs or swaps needs also to gather more momentum in terms of practical implementation. All LDCs, of which only a few like Cambodia are left in Asia, should be put on to the priority list. Cambodia is appreciative of IMF taking the lead in this regard by providing us debt relief under the Multilateral Debt Relief Initiative. We are committed to making full use of it for our poverty reduction efforts. We urge the World Bank to follow suit. While working faithfully with the two major countries which made loans to us in the last century to solve the problem of old debt, we would also welcome if they find it possible to write off or provide swap to most of what we owe. This would be help to the poor.

In terms of aid effectiveness, donor countries and development assistance institutions should speedily transform the noble rhetoric and laudable sentiments of Paris and Rome Declarations into ground level reality. They need to align their assistance with the socio-economic development plan and poverty reduction strategy of the recipient countries. They need to improve aid delivery modalities to enhance the real value of aid to the recipient. Some of them need to temper their well-found enthusiasm to involving and enhancing the role of civil society with accent on improving and strengthening the government capacity which can ensure a more sustainable long-term development achievement.

On the other hand, the recipients must sharpen and concretely demonstrate their commitments to improved economic management, through strengthening the management of the domestic resources, ensuring effectiveness of governance and delivery of basic services.

Cambodia is grateful for the immense financial, technical and advisory support it has received from its external development partners in the last decade for its development efforts. Such assistance would continue to be needed for the foreseeable future. We have always had a clear vision of our long, medium and short term development goals. Our National Strategic Development Plan, to operationalize our Rectangular Strategy for Growth, Employment, Equity and Efficiency, clearly orchestrates and articulates our goals, strategies and programs. At the heart of our efforts is good governance. We firmly believe that without improved governance, growth and development can neither be achieved nor sustained.

The Royal Government of Cambodia welcomes the stronger focus of the Bank on results. However, the current result evaluation model is very subjective and in its implementation tended to cross lines of fair treatment. We would like to re-emphasize that implementing reforms

requires not only political will, but also considerable human and financial resources. The critical role of cultural and social factors and political ethos and context has to be borne in mind.

The Bank could improve the quality of the result evaluation by strengthening the statistical data input. Therefore, the Bank should help strengthening domestic statistical data coverage and quality through building related recipient institution capacity. This data could in turn be used as the input for evaluation.

Cambodia is fully and constantly conscious of its responsibilities to be accountable and transparent to its own people and the tax payers of the donor countries. The Royal Government of Cambodia unreservedly welcomes the recent action of the Bank to do fiduciary review of its projects. We have valued very highly our association with the Bank and hope that this continues through mutual respect and accountability and partnership. However, we call on the Bank to reform its investigation procedures and modality, which, we note with dismay, have in the recent past tended to violate the principles of fairness and ethics. As a professional development agency the Bank needs to studiously steer away from trying to influence the internal politics of a country or even from creating an impression through its actions. Far more positive results, our ultimate goals, can be better achieved amicably by pro-active, positive and participatory engagement and partnership with recipient governments as true and trusted partners than by resort to overt or covert public accusatory criticisms of the governments even before consulting the governments.

Let me now briefly outline some major achievements in Cambodia in the recent past in terms of economic development. With prudent economic management, the economy has registered enormous progress over the last 12 years, with GDP growth averaging at over 7.6 percent per annum, and in reaching record high of about 13.5%. Growth in 2005 was broad based, largely driven by continued high export growth, albeit in one product, healthy tourism receipts, robust construction activity, and strong agricultural production bolstered by both favorable weather conditions and proactive investment efforts by the government. Even after allowing for continued high oil prices, and likely less favorable agricultural production, GDP growth in 2006 is projected at 8%. Annual inflation rate, represented by consumer price has remained within tolerable limits though it rose to 6.7 percent in 2005 due largely to the impact of high oil prices. The exchange rate has been broadly stable.

Poverty level in Cambodia has been declining rapidly in the last 27 years, from 100% in 1979 when the country was liberated from Khmer Rouge's genocidal regime, to about 47% in 1994 and 35% percent in 2004. Per capita household consumption has risen 32 percent in real terms.

The long term progress made in reducing income poverty reflects our favorable economic environment, rapidly improving governance, better economic management and across the board and deep reforms. There are also clear signs of better progress towards the human development MDGs. The under-five mortality rate per 1000 live births declined from 124 in 1998 to 82 in 2005 and 2015 targets likely to be more than achieved. Achieving universal nine-year basic education is a challenge, though it is also dependent on other contributory factors, mainly pro-poor growth. The Royal Government of Cambodia has taken steps to broaden and strengthen bases of growth by diversifying the economy, with stronger focus on agriculture (including irrigation), enhancing governance and strengthening government capacity, improving trade and investment climate, reorienting capital outlays toward development of rural areas, and promoting agro-industry and small and medium-sized enterprises. Cambodia attached high importance on creation, improvement, strengthening and sustaining of its human capital through human development and other initiatives.

Overall, we realize that the pace of Cambodia's sustained growth will depend very much on capital flows, domestic consumption, exports and suitable fiscal policy. It will also depend on the speed and substance of banking reforms and the soundness and viability of the financial system to underpin the efficient transmission of monetary policy and to encourage the intermediation process. With the National Strategic Development Plan based on our Rectangular Strategy as our guide the Royal Government accords high priority to accelerating broad based and across the board reforms in all sectors, to ensure rapid and orderly development of the country for ever increasing enhancement of well-being and prosperity of our people. The contribution of the banking and financial sector to the process is significant and vital. To date, much has already been achieved with respect to banking reforms: the legal frameworks and regulatory apparatus for central banking, banking and micro finance supervision, and banking business are all in place. The bank re-licensing program is effectively contributing to the financial soundness of the banking sector.

The capacity of the National Bank of Cambodia (NBC) for both on-site and off-site bank supervision has been upgraded and strengthened. Regulatory standards have been gradually improved and additional banking regulations have been issued to enhance the banking system, including measures on anti-money laundering and combating the financing of terrorism. In regard to developing underpinnings for a properly functioning banking and microfinance sector, a credit information sharing system has been established. This has facilitated wider credit access, especially to small borrowers, by lowering cost of borrowing for responsible borrowers, and by reducing credit risk exposure

to the banking system. To be effective in its efforts against poverty, the government recognizes that the productive base must spread rapidly to the country side. Adequate supply of micro-financial services is critical to initiate and sustain rural development. The year 2006 has been declared the Year of Microfinance in Cambodia to give a boost to microfinance institutions.

With the successful first stage of the banking sector reform highlighted above, we have also started with all earnest the reform of our insurance sector. Next item in our agenda will be the introduction of capital market in order to diversify the sources of investment financing. We recognize that there is still a long way to go to build up effective and efficient financial sector in Cambodia. With full awareness that the road ahead will not be always easy, the RGC is committed to the successful implementation of the updated Financial Sector Blueprint for 2006–2015.

We are all excited about the promising perspective of oil and gas sector in Cambodia. Successful petroleum exploration could lead to energy independence, foreign exchange earning, and employment opportunity. There is no doubt that the most important benefit from the petroleum exploitation would be its fiscal role in generating tax and other revenue for the country. Mindful about this and learning from the experiences of many oil producing countries around the world, the RGC is therefore fully committed to ensure that an appropriate framework for managing the revenue generated from this sector will be put in place and that this revenue will be used to build the foundation for sustainable growth and development of Cambodia. So, if there are sizable oil and gas reserves in Cambodia, we will make sure that it will become the “blessing” for our country and our people, but not the “curse” like it has happened elsewhere in the world.

Cambodia can thus be said to have secured necessary conditions for sustainable economic development and owes it in a large measure to the joint efforts between the Royal Government of Cambodia and the development partners, of which IMF and WB have played a notable role. Therefore, the recently released Bank’s Report, which places Cambodia in the group of the so called “Fragile State”, came to us as a surprise. Overall, while recognizing our somehow still low capacity to perform due to the many handicaps caused by our recent history and the many challenges ahead of us, we feel that as Cambodia succeeded, in the last decade, in conducting regular democratic elections, maintaining enduring political stability and social order, ensuring high rate of growth of more than 7% per annum, keeping inflation low, reducing poverty at a rate of more than 1% annually, improving substantially our social indicators, and so on and so forth, we also would not mind living in this kind of “fragile situation” for the next decade.

In conclusion, I would like to express our deep appreciation to the Board, Management and staff of the Bank and the Fund for their hard work and, despite recent hiccups in our relations with the Bank, their readiness in responding to the needs and challenges of the region and individual member countries, and especially for the support and assistance in the rehabilitation and development in Cambodia. We look forward to continued strong partnership with the Bank.

Allow me also to express our admiration and appreciation to the Government and people of Singapore for hosting this important meeting and for making such superb arrangements for it befitting and enhancing Singapore's well deserved reputation for excellence, perfection and warm hospitality.

CANADA: JAMES M. FLAHERTY
Governor of the Bank and the Fund

Our meeting comes at an important time for both Bretton Woods institutions. In the case of the IMF, we stand on the threshold of major reform that will better equip the institution to meet the challenges of a rapidly globalizing economy. In the case of the World Bank, with less than a decade to achieve the Millennium Development Goals, we need to redouble our collective efforts to achieve concrete and effective development results.

The IMF—Strengthening Reform

The forces of globalization have provided unparalleled opportunities for economic growth and private entrepreneurship, but at the same time raise the cost of inappropriate policies. The key lesson to be drawn in the evolving global economy is that adaptability and innovation are vital to success. This lesson is as true for the IMF as it is for the rest of the world. Fundamental and innovative changes are needed to ensure the IMF's continued relevance in a world where the economic influence of emerging market economies is growing, where the smallest and poorest countries need to be better integrated into the world economy and not marginalized, and where the Fund's surveillance and lending roles must continue to adapt.

Under the guidance of Managing Director de Rato, we have before us a broad and innovative set of policy responses to the challenges facing the institution. A stable and equitable financing model for the IMF itself will need to be considered as part of the reform package. Moreover, ensuring that IMF financing facilities serve the needs of members, while promoting sound economic and financial policies, will be a difficult but important task.

Perhaps the most pressing issue of IMF governance is reform of Fund quotas. Proper alignment of quotas with countries' economic and financial weight in the global economy is essential to the Fund's legitimacy as an international institution. Legitimacy in turn is key to ensuring that the Fund can serve as an appropriate forum for members and that the Fund's policy advice is heeded. Canada fully supports Mr. de Rato's planned reforms, including the initial *ad hoc* increase for four highly underrepresented countries—China, Korea, Mexico and Turkey just approved by the Board of Governors. We view this *ad hoc* quota increase as a meaningful “down payment” on more comprehensive reform. Looking ahead, we see considerable merit in a second round of ad hoc quota increases that would follow agreement on a new quota formula in the second stage of reforms. We remain committed to making meaningful changes in the quota formula to better reflect global economic realities, and we are committed to doing this in the two-year timeframe proposed by the Managing Director.

The IMF's legitimacy and effectiveness also requires a stronger voice for low-income countries. Accordingly, we support at least a doubling of basic votes and an amendment to the IMF Articles that will introduce a mechanism to safeguard the share of basic votes in total voting power against erosion in the future. As the IMF reforms its governance structure to better reflect the global economic weight of its members, we must all remember that IMF membership entails shared responsibilities and obligations. Indeed, as a member's role and voice in a global institution increases, it is reasonable to expect that the scrutiny placed on its responsibility to its partners and the stability of the international system will increase as well. This point also has relevance for the reforms we are undertaking on surveillance.

Surveillance is the IMF's core business. The Managing Director has taken an important and very welcome step toward strengthening the effectiveness of IMF surveillance through the recent launch of a multilateral surveillance exercise aimed at promoting high-level dialogue among key members of the global economy to address global imbalances. I am encouraged by the progress being made in these consultations and look forward to a report on their outcome at the next meeting of the IMFC. This multilateral consultation mechanism could provide an effective and useful forum in which to consider other issues critical to the smooth functioning of the global economy. Indeed, we believe that consultations led by the IMF with selected capitals on key global economic issues should become a regular feature of Fund surveillance, with partner countries selected in a flexible and pragmatic manner linked to critical issues affecting the global economy.

The effectiveness of multilateral consultations, and of the IMF's surveillance activities more generally, will depend on an approach that

combines the strong analytic competence of the IMF staff with a clear recognition of the underlying objectives of the consultations. This will require priority setting and accountability for results on the part of the Fund's membership. This, in turn, requires a number of steps.

First, it will be important to define in a more rigorous fashion the principles upon which IMF surveillance should be based. Up to now, while imbalances and distortionary economic policies have often been highlighted in Article IV reviews of member economies, the Fund's surveillance activities have been criticized for not being effective in reducing the likelihood of crises or in promoting stability. As well, the Fund has been reluctant to act forcefully when it identifies instances where countries failed to live up to their obligations, and, in particular, where countries are engaging in policies that negatively affect other members or even the stability of the international monetary system. A challenge of more effective IMF surveillance is, certainly, for the Fund to find the right balance between its role as a "trusted advisor" to governments, and its core responsibilities to support to a well-functioning global economy.

Second, the Fund needs a clearer operational approach—specific rules to clarify how the Fund will discharge its responsibilities by undertaking surveillance of fiscal, monetary, exchange rate and financial sector policies, and identifying cases where domestic economic and financial policies can have adverse international spillovers. These rules should clarify the steps to be taken when countries are found to be engaging in currency manipulation and/or competitive devaluation—activities prohibited by the Fund's Articles of Agreement—and should provide a firm basis for actions to address the situation. In this context, I welcome the on-going work by Fund staff and Executive Directors to re-visit the 1977 Decision on Surveillance over Exchange Rate Policies, which should lead to a clearer and more effective understanding of IMF members' responsibilities and the Fund's role in supporting the international financial system.

Third, there must be clear accountability for results, based on the priorities agreed and endorsed by the Fund's membership. In this respect, an important step forward was the agreement at the last meeting of the IMFC on a new annual remit for both bilateral and multilateral surveillance through which the Managing Director, the Executive Board and the staff would be accountable for the quality of surveillance. We look forward to working with other Fund members, as well as the Managing Director and IMF staff, to develop a first remit that identifies key priorities for Fund surveillance in the year ahead. This approach, implemented in the Fund's on-going multilateral and bilateral surveillance activities, together with effective use of innovative mechanisms such as the current exercise on global imbalances, will

make a major contribution to strengthening the IMF's role in promoting the stability of the international system.

The World Bank—Focusing on Effectiveness

Canada is strongly committed to reach the MDGs by the 2015 target. Meeting these goals requires that developing countries manage their economies effectively and follow through on national poverty reduction strategies. For their part, donor countries must increase the effectiveness of their aid. Ensuring predictability of aid flows is critical to allowing developing partners to commit to essential reform and capacity building measures. Developing countries also need to receive longer-term commitments to core areas of funding, especially for the provision of services to the poor.

Donors must reduce the aid management burden, particularly on the poorest and smallest states, in line with commitments under the Paris Declaration on Aid Effectiveness. Progress on these issues is important to secure stronger results on the ground. The Bank should draw on its recent experience in Africa and continue to promote stronger donor alignment, harmonization and coordination. In this regard, we encourage the expansion of recent efforts by the World Bank to prepare Joint Assistance Strategies with other donors based on national development strategies, such as poverty reduction strategy papers (PRSPs). In addition, because the collection of accurate and timely statistics is critical to gaining an accurate understanding of progress achieved and the challenges that remain, national statistical capacity should be routinely appraised in the context of World Bank Country Assistance Strategies.

Strong governance is key to effectiveness. Aid must be delivered in ways that support our partners' capacity to govern and promote accountability for the use of public resources. The World Bank has demonstrated that it is a leader in governance and anticorruption. We welcome the Bank's efforts since we met last Spring to articulate a broad strategy to promote a more coherent, transparent and results-oriented approach. Going forward, we need to deepen our understanding of the challenges that weak governance and corruption pose for the development process and address more specifically how the Bank can meaningfully address these issues. As well, there remains a need for clear operational guidelines to better understand how decisions should be taken on World Bank support in situations where weak governance and corruption present real risks.

In countries where corruption is a challenge, we need to have clearer rules on the Bank's terms of engagement. We continue to urge the Bank to remain engaged even in countries where corruption represents a

significant challenge, because without the Bank's efforts, there may be little progress forward. But the World Bank cannot tackle these issues on its own, and we look to continued progress in developing a common approach to tackling corruption, involving other donor partners as well as other Multilateral Development Banks.

In effect, we all need to engage in the fight against corruption. International institutions must ensure that their in-house operations meet high integrity standards and that their interventions in member countries promote good governance. Developed countries must lead by example by trying to ensure that the operations of their governments and corporations are models of transparency and accountability.

Fragile states present special challenges. Canada welcomes the World Bank's ongoing support for fragile states, including in post-conflict situations. Canada is actively involved in assisting a number of fragile states, with large development assistance programs, for example, in Afghanistan and Haiti.

While it is clear that the Bank has made considerable progress in its involvement in fragile states over the past four years, more needs to be done. Canada is working with the Bank to set up a Fragile States Partnership and Knowledge Initiative to develop and strengthen knowledge about effective approaches in fragile states. One area for further work is the Bank's aid allocation system. While we support a performance-based allocation system to determine IDA aid volume, we believe that there is scope to refine the system to be more effective in responding to the special challenges of state fragility. In this area, the IDA 14 Mid-Term Review provides an opportunity to make real progress as we prepare for the upcoming IDA 15 exercise.

CHINA: ZHOU XIAOCHUAN
Governor of the Fund

We are happy to see the global economy continues to grow at a brisk pace. Global growth is more broadly based and more balanced. The momentum of economic growth in the United States remains strong; the economic recovery in the euro zone is on track; Japan, which has moved out of deflation, has a more solid growth; and the major emerging market economies in Asia and Latin America are on a fast growth path.

But it should be noted that intensifying geopolitical conflicts have led to elevated and fluctuating oil prices, adding to inflationary pressures in leading advanced and emerging market economies. Concerns over rising inflationary pressure and tighter monetary policy have caused larger volatility of asset prices in some of these economies; and, confronted with rising inflation pressure and the possibility of an eco-

conomic slowdown, countries face critical policy challenges. In addition, protectionist pressures are mounting. Trade friction has spread from goods to services trade and investment. The Doha Round negotiations are in a stalemate. All these cast a shadow over the prospects of sustainable global growth.

We wish to make the following appeals. First, all relevant parties should work together to resolve international and regional disputes through consultation and dialogue, create a stable international environment for energy security, and prevent additional oil price shocks. Second, the major economies should, as soon as possible, establish a policy framework for mutual respect and coordination to stabilize market expectations through prudent and orderly adjustment and prevent massive turbulence in the financial markets. Third, all countries should share the responsibility, strengthen dialogue, and contribute to an orderly unwinding of global imbalances.

In 2006, the Chinese economy is maintaining its rapid growth momentum while inflation remains moderate. In the first six months, China's GDP increased by 10.9 percent y-o-y; CPI rose by 1.2 percent. Policies to boost domestic consumption have been effective. In the first eight months of 2006, retail sales increased by 13.5 percent. Overall, the Chinese economy is expected to grow at a fast pace. At the same time, the Chinese government is conscious of the issues and risks it faces, such as excessive investment and credit expansion, further disequilibrium in the balance of payments, and rising inflationary pressures.

To address these issues, prudent fiscal and monetary policies have been taken to prevent overheating. The People's Bank of China pursued its open market operations flexibly, raised both the benchmark lending rate and the reserve requirement ratio twice to contain the fast growth of credit. Further steps have been taken to improve the exchange rate regime to allow more flexibility. We are convinced that the impact of these policies will be felt over time.

The medium and long-term challenges to China's economy include the need to address the economic structural problems, environmental concerns and job market pressures. Although significant progress has been made in financial reform, there is a long way to go in improving the governance of financial institutions. We shall pursue our efforts to accelerate economic restructuring and modify our economic growth model, and widen economic liberalization to achieve balanced and sustainable development.

Boosted by buoyant economic development in the Mainland, the momentum for growth in the Hong Kong and Macao Special Administrative Regions remains strong. In Hong Kong SAR, GDP grew 8 percent in the first quarter and registered a real growth of 5.2 percent in the second quarter. Employment keeps improving. Domestic demand is

expanding and investment expenditure is rising steadily. In the meantime, inflation remains moderate. The GDP growth in 2006 is expected to be in the range of 4–5 percent while the CPI increase will be 2 percent. In the first half of the year, Macao SAR's economy grew as much as 17.7 percent, led by flourishing tourism, rising fixed-asset investment, and growing private consumption; the government recorded a fiscal surplus; the unemployment rate dropped to below 4 percent; and exports grew over 40 percent. Economic growth in Macao SAR is expected to remain strong for the rest of the year.

We commend the Fund and the Bank for their efforts after the Asian financial crisis in strengthening surveillance, improving governance, and promoting economic growth and poverty reduction in the developing countries. To meet the challenges of globalization, Managing Director Rodrigo de Rato has proposed a medium-term strategy framework, drawing up a detailed strategic plan for the institution's future development.

Governance reform is a key element of the medium-term strategy. We support Managing Director de Rato's suggestion that the reform should seek not only to make the distribution of quotas better reflect changes in members' economic positions in the world economy, but also to enhance the voice of low-income countries. These two objectives are equally important and indispensable. We are pleased to note that progress has been achieved in reform of the Fund's quotas. Ad hoc quota increases for a small group of countries are a good beginning. With regard to the second-stage reform plan, we support the reform package proposed by the Managing Director. We call on the Fund to strengthen its efforts to examine the second-stage reform plan, particularly on issues related to the quota formula and basic votes. We believe the new quota formula should be simpler and more transparent, that the basic votes should be increased by a significant margin, and a mechanism should be in place to keep the basic votes at appropriate levels. We support the Managing Director's proposal to provide additional resources for strengthening the capacity of the offices of the African Executive Directors. We continue to call for the establishment of a more transparent procedure for the selection of the Managing Director.

We welcome the Managing Director's proposal to strengthen surveillance and improve its effectiveness in helping the Fund adapt to the globalization process. I would like to emphasize the following points. First, in all forms of surveillance, the Fund should always adhere to its purposes of promoting global exchange and macroeconomic stability, and respect the autonomy of member countries in choosing their own exchange rate regime as stipulated in the Articles of Agreement. The Fund's surveillance should seek to ensure that the macroeconomic policies adopted by its members are consistent with the objective of pro-

moting economic and financial stability at the national and global level. Surveillance over a member's exchange rate policy should focus on whether the adopted exchange rate regime is appropriate and consistent with a member's macroeconomic policies rather than on the exchange rate level.

Second, the Fund should focus its surveillance on the systemically important countries issuing major reserve currencies. The fundamental weakness of the existing international monetary system lies in its undue reliance on a single currency. The excessive fluctuation of the major currencies, the abrupt reversal of capital flows, and the lack of effective preventive and assistance mechanisms are the major reasons for the frequent outbreak of crises since the collapse of the Bretton Woods system. The Fund should enhance its surveillance over the macroeconomic policies of countries issuing major reserve currencies, prevent their excessive fluctuation, and urge the relevant countries to strengthen hedge fund regulation so as to avoid sudden shocks on the financial markets.

Third, the Fund's surveillance should fit in with the actual conditions and be conducted within the framework of the Executive Board and the IMFC. In order for any new surveillance mechanism to win the consensus of its members and be effectively implemented, full consideration has to be taken of the applicability and limits of the theories and methodologies used as well as the diversity of member countries' specifics. Dialogue and consultation on an equal footing are the basis of surveillance. A "command-style" surveillance may be counterproductive and even cost the Fund its credibility in the eyes of its members.

As for the Governance and Anti-corruption Strategy of the World Bank, we believe that improvement in governance is an integral part of a country's development process. Development promotes good governance, and good governance supports development. Whether the Bank is able to achieve progress on governance and anti-corruption hinges on its strategy and approach. In promoting good governance and anti-corruption, several principles should be observed. First, abide by the principle of non-politicization as required by the Bank's Articles of Agreement. Second, always regard development as the Bank's core mission. Third, respect a borrowing country's own decisions on development. Fourth, evaluate the effectiveness of the Bank's governance and anti-corruption with facts on the ground. Fifth, focus on areas where the Bank has comparative advantages. Sixth, lead by a good example through improved internal governance.

Ensuring global energy security and containing global climate change not only has a bearing on economic growth and people's livelihood in each individual country's policies, it is also vital for maintaining world peace and stability, and promoting common development. The

international community should push for substantial progress in the proposed Investment Framework for Clean Energy and Development.

Through years of effort, the international community has achieved encouraging progress on the issue of development. Nevertheless, the developing countries still face many challenges in promoting economic and social development. We call on the international community, particularly the developed nations, to take more active and effective steps to fulfill their promises with respect to financial assistance, debt relief, and market access, and conduct the necessary reforms to make the international economic system and rules more equitable and fair, so as to provide more opportunities for the developing countries to achieve the Millennium Development Goals.

As a developing country, China has provided assistance to other developing countries within its ability under the framework of South-South Cooperation, thus contributing importantly to the development of these countries. When providing assistance and concessional loans to other developing countries, China fully respects the needs and ownership of these countries. Assistance and loans from China are welcomed by these countries because such financial support has played a positive role in addressing the shortage of funds in these countries, promoting their economic and social development, and enhancing their strength for self-sustained growth.

CROATIA: BORIS VUJCIC

Governor of the Fund

It is my pleasure and privilege to address the 2006 Annual Meetings of the Boards of Governors of the World Bank and the Fund here in Singapore, a country in East Asia which took advantage of globalization in the early days, and a country which could serve as a prime example of how globalization and free trade can bring prosperity. We are aware, however, that universal sense of global economy working for all is not entirely there yet. Moreover, we are witnessing these days rising protectionism in some of the countries previously known to promote globalization. In addition to that we observe continued existence of global imbalances which remain a key risk factor for the world economy. These lead us to a simple conclusion—promoting international economic cooperation remains a challenging task. Given the importance of Bretton Woods institutions in promoting international cooperation, my warm appreciation goes to Messrs. de Rato and Wolfowitz for their dedicated service to our institutions, and I wish them much success and wisdom in steering the institutions in years to come.

In my statement, allow me first to outline the major economic developments related to Croatia. Thereafter, I will touch on Croatia's rela-

tions with the Fund and the Bank, and finally I intend to discuss a couple of policy issues relevant for the Bank/Fund business.

To start with economic developments, let me note at the outset that the Croatian economy has been doing fairly well despite adverse external developments over the past two years (oil hikes and rising interest rates). The economy is expected to grow by 4.5% this year, which is slightly better performance in comparison to 2005, unemployment is heading down to below 13% (the lowest level in the recent history), and inflation is to remain within last year's range of 3.3% to 3.5%, given persistent increases in energy prices. Budget deficit is expected to come down to 3.0% of GDP in 2006, following its July's revision, thanks to continued consolidation efforts and better than expected revenue performance. Nonetheless, large fiscal contraction (approx. 1.2 percentage points of GDP) that is envisaged this year will not have such a large impact on broader economy, given a partial counter effect of a start-up of pensioner's debt repayment (not included in fiscal accounts). Given the higher energy prices and strong credit growth, current account deficit is likely to deteriorate to about 6.8% of GDP in 2006, despite strong export performance. And in the similar vein, external debt is to deteriorate further to about 85% of GDP (from 82% of GDP in 2005), mainly thanks to continued and strong private sector borrowing.

No doubt, macroeconomic policies have limited impact on private sector borrowing. Hence, narrowing the domestic savings-investment gap (in order to stabilize foreign debt) through stronger fiscal consolidation continues to be the objective of the current policy stance. This policy is supported by ambitious privatization plan, as well as by several central bank measures aimed at curbing credit growth. In particular, the central bank has already strengthened existing measure—marginal reserve requirement—which is increasing the cost of commercial banks' foreign borrowing. At the same time, the central bank has introduced a set of supervisory measures that should encourage prudent lending practices of commercial banks. However, curbing credit growth in an environment characterized by major foreign ownership of banks is more than a challenging task, especially if "parent" banks are trying to earn extra dividend through their "daughter" banks (given the existence of interest rate differentials). Hence, although central bank stands ready to introduce additional measures to curb credit growth, one should underline again only the supportive role of central bank's measures to curb credit growth in the context of the country's overall ambition to improve external imbalances.

In linking Croatian credit growth experience with recent GFSR discussion, I fully share the majority of concerns that GFSR raises while discussing the rapid growth of household credit in emerging markets. Nonetheless, in my view, one should be more cautious when expressing

desirability of recent credit expansion in EM in light of the fact that credits are not starting from a low base in all EM economies. In addition to that, it is uncertain whether reforms in the area of securitization can help mitigate risks arising from high credit growth, as securitization brings additional liquidity that could be used for “new” loans, and hence increase household’s debt exposure further on.

Turning to my second point—Croatia’s relations with the Fund and the Bank—I want to stress first that Croatia continues to have open and fruitful discussions with the Fund/Bank staff. The Stand-by Arrangement, which has been supporting our macroeconomic policies over the past two years, is about to successfully end in mid-November. Following its expiration, the authorities’ plan is to switch only to Article IV Consultations, which should send an additional signal of maturing on the way towards the EU. Fulfillment of EU accession criteria and successful EU integration have been calling for intensive structural and institutional reforms especially over the last couple of years, and the Bank’s Programmatic Adjustment Loans (PALs) have been supporting Croatia in that effort. The First PAL was successfully approved in fall 2005, and Croatia is committed to fulfill all the prior actions under the Second PAL before end 2006. The main aim of the PALs is to support Croatia in improving its investment climate and reducing the size as well as improving the efficiency of its public sector. In addition, Croatia has still been benefiting from the Bank’s investment lending focused primarily towards the improvement of social welfare, enhancement of economic competitiveness, protection of the environment, improvement of trade and transport infrastructure, and advancement of Croatia’s knowledge-based economy.

Besides program arrangements, Croatia has been participating in a number of the Fund/Bank initiatives aimed at strengthening the architecture of the international financial system. I may quote Financial Sector Assessment Program and Financial Soundness Indicators Coordinated Compilation Exercise for instance. Also, in light of the still existing precautionary Stand-by Arrangement, the Fund staff has recently completed an updated Safeguards Assessment, which confirmed previous positive findings. In close cooperation with the authorities, the Bank is about to finalize Living Standards Assessment and Public Finance Review. In addition, I wish to thank both the Fund and the Bank for providing us with expertise technical assistance, which is very much appreciated.

Finally, let me touch on a couple of policy issues relevant for the Fund/Bank business. First, regarding the Fund’s reform package, I support the ad hoc quota increase for the most underrepresented countries (China, Korea, Mexico and Turkey). Also, I believe that Executive Board will come up with a new quota formula in due time, which would

adequately take into account both the size of countries and their openness. And with regard to the issue of the voice, it is somewhat unfortunate that there has been insufficient support for doubling of the basic votes already now at the first stage of the reform. Second, I welcome the multilateral consultation on global imbalances that the Fund is currently undertaking with the US, Japan, China, Saudi-Arabia and the Euro area. This exercise should help pave the way to orderly unwinding of global external imbalances, which is particularly important for emerging market economies, as they tend to be the most vulnerable to changes in investor sentiment. Third, regarding the Bank, Croatia, as an upper middle-income country, has made extensive progress in transforming its economy, achieving economic growth and moving toward the EU, also in collaboration with the Bank. Therefore, Croatia welcomes the continued Bank's presence in middle-income countries, both in investment and adjustment lending as well as in technical assistance. However, the Bank's presence is to be purely demand-based, and is to focus more on transferring knowledge and ideas, especially in helping find solutions for specific problems that are to be addressed in a custom and country fit format. In order to be able to provide such advice, the Bank needs to strengthen its local capacity and to cooperate more with local experts and institutes, especially in countries like Croatia, where EU accession continues to be the main goal over the medium term. Fourth, Croatia, like all EU countries, also fully supports strengthening the Bank's strategy on governance and fighting corruption that should be addressed from a development perspective and within the Bank's mandate. The principal objective of the Bank's governance work should be to help build capable, accountable and responsive states that deliver services to the needy, promote private sector-led growth and tackle corruption effectively and firmly.

Allow me in concluding to thank our hosts for their warm hospitality and outstanding organization of these meetings. We will definitely remember a sincere smile citizens of Singapore welcomed us with. I wish the Fund and the Bank well in their future undertakings and thank them for the assistance provided to my country.

CYPRUS: MICHAEL SARRIS
Governor of the Bank

The global economy has continued to enjoy rapid economic growth and expanding trade in 2006, despite higher oil prices. With economic growth in Europe and Japan much stronger, fast growth in Asia continuing, and growth in North America still satisfactory, the benefits derived from high economic growth, have been more evenly dispersed across regions. However, there was a further widening of global

financial imbalances as deficits in the USA remained high and as surging energy prices contributed to the very large current account surpluses of the major oil exporters.

Even though the risks of a significant global economic slowdown have now increased the main challenge for governments is still to pursue policies, both domestically and in concert with other countries, which are conducive to growth in both the short and long term, and that will help to eliminate global imbalances. In the meantime, there should be an orderly recycling of surpluses. In Europe policies must be geared to continuing structural reform and implementing measures to raise the potential growth rate in view of the need to adapt economies to benefit from globalization and to cope with the ageing population problem.

To this end, Cyprus supports the EU's emphasis on sound fiscal policies and the sustainability of public finances in the long term, backed by the sound implementation of structural reform policies to attain the goals of the re-launched Lisbon strategy.

The economy of Cyprus is maintaining its good performance in 2006, where growth is forecast to be around 4 percent and inflation is set to edge up to just over 2½ percent. The government of the Republic of Cyprus continues to rigorously implement its fiscal consolidation plan as set out in its Convergence Programme of 2005. Accordingly, the budget deficit will fall to 2 percent of GDP in 2006 and to around 1½ percent in 2007, while the government debt to GDP ratio will keep declining steadily toward 60%. Maastricht convergence criteria, have been achieved over the last three years, except for the exchange rate criterion which stipulates a two-year period of exchange rate stability following the entry of Cyprus to ERM II on April 29, 2005. Attainment of all the Maastricht criteria will allow Cyprus to remain on course to adopt the euro by January 1, 2008.

The Government of the Republic of Cyprus is working for a just and viable solution of the Cyprus problem, and for reunification of the island so that all Cypriots may enjoy the benefits of EU membership, and prospective euro adoption. An economically viable solution is key for the long-term economic success of the island, and the Government of the Republic of Cyprus continues to aim toward the reunification of the island, and will support all efforts towards this end.

Cyprus welcomes the IMF Managing Director's strategic review and in this connection supports the Board of Governors' resolution on Quotas and Voice in the IMF. Countries which are clearly underrepresented in the Fund should be assigned ad hoc quota increases, while the voice of low-income countries must be strengthened through a substantial increase in basic votes.

The details of the second stage of quota readjustment will depend importantly on the parameters of the new quota formula. In choosing

this formula Cyprus would argue that sufficient weight be given to “openness, both in trade and in financial terms”, so that adequate account can be taken of the participation of members in international trade and financial flows. Indeed, members that have successfully pursued open and export-oriented policies should be rewarded commensurately in their representation in the Fund.

Cyprus supports the initiatives of the Managing Director and staff of the IMF to enhance the focus and effectiveness of the Fund’s surveillance activities. As increasing global integration means that spillovers from domestic members’ policies have a greater impact on other members, surveillance should focus more on multilateral issues. It is important also that the Fund provide more in-depth coverage of financial sector and capital market developments in both its bilateral and multilateral surveillance activities.

Cyprus supports efforts to accelerate debt relief to the poorest countries, but believes that debt sustainability should be ensured in countries receiving debt relief. Where there is a high risk of external debt distress, restraint should be exercised by lending countries in extending loans on concessional terms. Furthermore, donors should help borrowing countries develop their debt management capacity with technical support provided by the Fund and Bank where needed. In sum, all actors involved must make intensified and coordinated efforts to break through the vicious circle whereby countries borrow, acquire unsustainable debts, receive debt cancellation, and then borrow excessively again.

Cyprus recognizes the importance of Aid for Trade in helping many developing countries benefit from trade and supports the EU commitment to deliver on Aid for Trade independent of progress in the Doha Round.

Cyprus is strongly committed to strengthening the international fight against money laundering and the financing of terrorism—in particular according to the 40 Recommendations and the 9 Special Recommendations of the Financial Action Task Force (FATF)—and supports efforts by the IMF and World Bank to achieve this goal.

FIJI: SAVENACA NARUBE

Governor of the Fund

Firstly, let me congratulate you for your appointment to the Chair for this annual meeting. It is a privilege and an honor for my delegation to be part of this year’s annual meeting of the International Monetary Fund and the World Bank Group.

I also would like to congratulate and thank our gracious host, the government and people of Singapore for the excellent arrangements

and warm hospitality extended to all of us attending this meeting. It is always a great pleasure to visit Singapore, because it showcases a modern economy which is characterized by its multicultural society, rich ethnic character, open economy, and strong commercial tradition. We look forward to a fruitful exchange of ideas and positive outcomes over the next few days.

We are meeting at a time of heightened uncertainty about the outlook for the global economy. Growth in the US is expected to slow modestly and the global economic prospects are heavily dependent on the extent of this slowdown. These prospects are further clouded by inflationary pressures and persistent global imbalances. This environment will pose new global challenges and will require effective global coordination among major economies if the imbalances are to be reduced and growth to be sustained.

The economic prospects on the domestic front remain stable but below potential and supported by strong domestic demand. This year, Fiji is expected to continue its sixth year of consecutive growth with favorable outlook in the medium term. This growth can be enhanced by strengthening our export performance which has been below potential while our import grows, widening our current account deficit. Inflation remains low and anchored by our fixed exchange rate regime.

Structural reform is an on-going challenge for small economies such as ours but we are nevertheless committed to move forward in this important area. At the same time we are placing more emphasis on reforming key sectors that underpin our export potential, particularly the resource based sectors through a combination of initiatives in the sugar industry, fisheries and forestry. The Government's medium term Strategic Development Plan (SDP) places special emphasis on increasing our exports and raising efficiency and productivity, particularly, in the public sector.

The rise in oil prices poses severe risks to the growth prospects of small economies like Fiji and we look to multilateral institutions to assist us in managing these risks. In this regard we commend the Fund for introducing the Exogenous Shock Facility (ESF) and would like to see that the ESF is effective. We call on the Fund to ensure full use of this facility and avoid weaknesses of past shock facilities. On the same note, we urge the Bank to enhance its facilities that support the development of non-renewable energy resources, specifically research funding and technical assistance.

Our financial system remains robust. We are pleased to announce that we have completed our first Financial Sector Assessment Program in July this year. This extensive assessment confirmed that our financial system is generally sound and we are implementing the recommenda-

tions of the FSAP, which will further strengthen the ability of the financial system to withstand shocks.

Recently, the FSAP concluded that Fiji's compliance with international financial sector standards and codes is satisfactory. We have met most of the Basel Core Principles for Effective Banking Supervision, IMF Code of Transparency in Monetary and Financial Policies, and the International Association of Insurance Supervisors Core Insurance Principles.

Fiji supports the reforms on the structure of governance of the Fund and the proposal to reassess the quotas of several member countries of the Fund. We also call on the Fund to review the quotas of all member countries. A fair formula, in our view, should reflect the increasing prominence of developing member countries in the world economy. In supporting the review, we also call on more commitment from countries with increased quota to shoulder greater responsibility in amicably addressing global issues. We commend the Fund for introducing its new framework for multi-lateral consultations to ensure an orderly unwinding of the current global imbalances.

On the Bank side, we are encouraged by the proactive steps taken to strengthen engagement on governance and anticorruption at global, country and project levels. We pledge our full support to the focused and comprehensive three-pronged approach being proposed. At the global level we believe that the Bank is the appropriate institution to play a major role in strengthening partnerships and co-ordination with bilateral, multilateral and private sectors to promote good governance and fight corruption. At the country level, improving governance is critical in building effective, transparent and accountable states, all of which are integral to reducing poverty.

At the project level, we support a stronger partnership arrangement with better monitoring approaches by principal stakeholders. In this regard, we feel that reliable indicators of governance would sharpen the interpretation of governance standards and increase the consistency of Bank treatment across countries. We believe that this will enhance understanding and partnership between the Bank and client countries. While we support the strengthening of governance we urge the Bank not to use governance to the exclusion of providing development finance to member countries.

We welcome the focus of the Bank in the medium term to strengthen partnership with Middle Income Countries (MICs). We believe that this increased emphasis will strengthen the flexibility and responsiveness of the Bank to client needs. Even though some MICs have consistently performed well economically, most still face development challenges, such as insufficient capacity in public institutions, lack of access to

private finance, large income inequalities, underinvestment in infrastructure and low level of competitiveness—all of which drag our progress towards meeting the millennium development goals. Therefore, we call on the Bank to swiftly implement facilities tailored to meet country specific needs.

We acknowledge the measures being put in place over the years to increase the Bank's responsiveness, and view the recent pilot initiative driven by IFC and the Bank to lend directly to sub-national levels without a sovereign guarantee, as a significant leap in the right direction. We encourage similar synergies between World Bank Institutions and the Fund.

We also subscribe our support to the initiative of unbundling the Bank's products and services into key areas including providing knowledge and strategic and financial lending products and services. With its comparative advantage in knowledge and strategic services we believe the Bank should continue to provide cutting edge development solutions that would drive the modality and effectiveness of financial products and services that it provides to client countries.

For vulnerable small island economies like ours, intensifying the links between the Bank's research work and partnership with our governments can better identify where respective comparative advantages lie, and these can be enhanced by using local expertise. At the same time, we strongly support the intention in the medium term strategy to expedite progress in financial services innovations that would eventuate in financing vehicles for qualified borrowers with strong macroeconomic fundamentals and effective development programs, not only for MICs but also for small island states.

As in the case of Fiji, we do not qualify for concessionary funding from IDA or any multilateral funding institutions. Yet, we face severe vulnerabilities of the global trading environment, due to our smallness and isolation. Some of these vulnerabilities can impose severe damage to a substantial component of our economy. Yet, we have attempted to adopt many orthodox policy advices of the Bank and the Fund. Fiji would, therefore, like to see a framework developed to acknowledge these achievements and allow greater grant element to assistance programs and even allow us a blend of financing assistance.

Fiji supports the call to review the mandate of the World Bank as a development institution. The Bank, in our view, should return to the original mandate of supporting economic development and in particular building the infrastructure that are critically important for economic growth.

We view the suspension of the Doha round discussions as temporary as the failure of progress will adversely impact global economic prospects and in particular growth of small island states. We, therefore,

urge the Bretton Woods Institutions to play a convening role in the resumption of the trade talks. We welcome the progress reports on the review of trade-related assistance by the Bank and Fund and options to support trade related regional projects. This includes the implementation of the recommendations to strengthen Integrated Framework for trade-related technical assistance.

We call on the international community, in particular, the Bretton Wood Institutions, to take the lead role in facilitating the move to improved rules and market access for all developing countries and quota free and duty free access for least developed countries, in particular small island states.

Finally, I'd like to acknowledge the assistance that has been provided to Fiji by the Bretton Woods Institutions in promoting economic development and we wish them well in their future endeavors.

FINLAND: EERO HEINÄLUOMA

Governor of the Bank

(on behalf of the Bank Nordic countries)

I am honoured to address the 2006 Annual Meeting on behalf of the five Nordic countries. Let me begin by thanking the government of Singapore for hosting the Annual Meetings here in the beautifully green Singapore. We appreciate the work and resources that you have invested in making the meetings a success. We would like to highlight the importance of an open and inclusive dialogue with the civil society and trust that in the future we can maintain this dialogue at these meetings.

We are all gathered here to assess and discuss further efforts to reduce global poverty and, in particular, to reduce poverty in the poorest developing countries. Let me start by confirming that the Nordic countries remain strong supporters of the international development agenda. Some of the Nordic countries have for long exceeded the agreed ODA target of 0.7% of GNI. The others remain committed to reaching that target and we urge donors that have not yet done so to follow. We also urge all donors to deliver on the commitments to the Multilateral Debt Relief Initiative.

Although many people have been lifted out of poverty during the last few years, the challenges of sustainable development are formidable, particularly in Africa. They include, among others: access to clean energy, climate change, rapid population growth, and gross inequalities in opportunities within and among countries and regions. In order to confront these challenges the global community needs to formulate and implement well co-ordinated measures. Let me offer some Nordic views on three related issues of high importance for achieving sustainable development: governance, equity and aid effectiveness.

The discussion on the governance and the anti-corruption strategy by the Development Committee on Monday demonstrated that while we all agree on the importance of good governance, there are different opinions on how best to strengthen it. The Nordic countries believe that sound economic policies and democratic institutions, which respond to the needs of all people, are the basis for sustained economic growth, employment creation and poverty eradication. Peace and security, respect for human rights and rule of law are thus crucial elements for achieving poverty reduction. Moreover, we are convinced that broad consultation within societies is needed for achieving good governance and sustainable economic growth that benefits the poor. We believe in the importance of civil society and free media as promoters and watchdogs for good governance.

The recent World Development Reports have highlighted crucial elements of the development agenda, such as basic service delivery, accountability and the role of equity in enabling people to lift themselves out of poverty. Indeed, the 2006 WDR points out how in societies with substantial inequality of opportunities growth will be negatively affected. The WDR 2007 highlights the role of young people in development and points out the problem of increasing youth unemployment and its grave potential consequences. Here we would like to emphasize the importance of decent work and applaud IFC for mainstreaming ILO's core labour standards into its operations. We strongly encourage the Bank to further incorporate the recommendations of the World Development Reports in Bank operations.

Let me offer a view of the development path of my own country Finland, which has been the subject of a case study in two World Bank publications this year. The lessons learned and potential implications for the developing countries include policies for implementing cohesiveness and equality. The studies point out how the educational system, in particular, has played a most critical role in the rapid restructuring of the economy. Here we particularly emphasize efforts to put an end to the gender disparity in primary and secondary education. While the basic education forms the solid basis it is necessary to develop country specific knowledge strategies and pay appropriate attention to various kinds and to all levels of education.

The need for gender equality is in our view an area that needs stronger attention in our efforts to fight poverty. Despite indisputable progress, women and girls still suffer from extensive discrimination in many countries around the world. Thus, we applaud the World Bank for its effort to formulate an action plan that seeks to advance women's economic empowerment and are looking forward to its full implementation.

While the ultimate responsibility to achieve results rests with the partner countries, we as donors are, at the same time, responsible to our

own citizens for achieving sustainable results with the increased aid flows. The Nordic Countries welcome the strong role the WB Group has played together with other institutions, especially with the OECD-DAC in the recent work on “scaling-up” of aid and aid effectiveness, including an increased focus on evaluation. The Paris declaration with its focus on harmonization and results is in our view an important joint framework for ensuring sustainable development.

Furthermore, we recognize the overarching importance of developing a favourable investment climate as a precondition for increasing investments both from domestic and international sources and consequently boosting economic growth and creating more productive jobs and employment opportunities. We commend the work carried out by the Bank, for example the Doing Business analysis, as a concrete example of important knowledge services.

To conclude, let me emphasize the view of economic development as a promoter of political stability in a world facing conflicts. The Nordic Countries welcome the outcome of the recent evaluation of the Bank’s strategy on Low Income Countries Under Stress, which highlights the value of concentrating on its comparative advantages and increasing cooperation efforts at the country level. We welcome Banks active role in providing its valuable expertise and assistance in various global protection and reconstruction exercises, including the forthcoming reconstruction of Lebanon.

FRANCE: CHRISTIAN NOYER

Governor of the Fund

The reform of the Bretton Woods Institutions is progressing, reflecting many months of debate. Today, I would like to discuss briefly what I regard as the correct approach to ensuring that our efforts can endure and thereby allow the IMF and World Bank to continue standing together as the guarantors of sustainable growth, international financial stability, and poverty reduction. In my opinion, these reforms should focus on collectively strengthening the legitimacy, effectiveness, and universality of the Bretton Woods Institutions.

In strengthening the legitimacy of the Bretton Woods Institutions, our top priority should be to reform their governance to reflect more closely the realities of the world economy.

With particular reference to the IMF, a major watershed has recently been achieved with the quota increases for several emerging countries. As a result, member country representation now more closely reflects the change in global economic balances. Above and beyond this initial increase, however, further progress will be needed over the next two years: first, an increase in representation for poor countries, specifically

through an enhancement of basic votes. This is a vital issue; and France—which was one of the countries behind this reform—will be especially vigilant in ensuring its timely implementation. The review of the quota calculation formula is next. We know that this exercise is technically and politically challenging, with no member caring to see its relative importance diminished under the new calculation formula. We must all work hard to achieve a result within the time allotted, in other words, by the fall of 2008.

All in all, the developing countries and emerging countries will be the main direct beneficiaries of this reform of IMF governance, and legitimately so. In our opinion, this reform is a prerequisite for ensuring the institution's credibility in the eyes of all its members. The results we have achieved should also prompt us to engage in the same kinds of discussions within the World Bank. Solutions appropriate for the IMF are, of course, not necessarily ideal for the World Bank, for the two institutions have their own cultures and perform distinct functions. However, World Bank stakeholders cannot ignore the reforms being undertaken at the IMF to ensure that poor countries have a greater voice.

Strengthened political governance for the Bretton Woods Institutions, in the case of the IMF, will also require changes to ensure that the BWI Governors, when they meet, adopt meaningful decisions on strategic issues, not mere guidelines.

Second priority: We must strengthen the *effectiveness* of the actions of the IMF and World Bank.

While strengthening the legitimacy of the IMF and World Bank, we must also strengthen the effectiveness of their instruments.

At the IMF, in the context of the strategic review, we should focus our efforts on two areas: the IMF's surveillance function and strengthening the insurance role of the Fund.

Ambitious reforms of the IMF's surveillance function are in progress. The effectiveness of Fund surveillance depends on the expertise of Fund staff and on the political legitimacy of the IMFC and the Executive Board. France would like to see the ongoing reforms quickly lead to more effective and efficient Fund surveillance through improved coordination between macroeconomic surveillance and financial surveillance, on the one hand, and between multilateral surveillance, regional surveillance, and bilateral surveillance, on the other hand, as well as through more careful consideration of the spillover effects of economic policies. It is also important for the discussions on the revision of the 1977 decision on exchange surveillance to continue and lead to the rapid implementation of a broader approach to policies conducive to external macroeconomic stability.

Furthermore, the IMF's role in the prevention of financial crises should be strengthened. The current international economic and finan-

cial context is a favorable one, and for that we should be grateful. Yet we should not jump to the conclusion that the danger of financial crises is permanently at bay. For this reason, France favors the development of tools to enable the Fund to take on a larger crisis prevention role vis-à-vis its members, some of whom seem to be currently pursuing self-insurance or regional insurance strategies. The IMF recently outlined the salient features of a new crisis prevention instrument; we fully support its implementation at the earliest opportunity, but no later than the 2007 Spring Meetings.

Beyond the short-term solutions found, we need to pay close attention to funding the IMF for the medium term. In that regard, I have every confidence that the committee chaired by A. Crockett will weigh all the options, without any prior agenda, including the idea of selling a portion of the Fund's gold stock, provided that the proceeds are reinvested in some other way. It is essential to safeguard the Fund's financial base to preserve the effectiveness of its actions.

Effectiveness has also become a key word for the World Bank. Although much has been accomplished, the Paris Declaration adopted in 2005 provides us with a very clear roadmap. France is very concerned that it be followed, in particular with regard to the coordination and harmonization of donors and lenders, as resources are too scarce for us to do otherwise. By making the most of synergies, the internal organization of the World Bank Group should contribute to that process.

Third priority: we must continue to defend the universal mission of the Bretton Woods Institutions.

I am thinking in particular of the IMF: universal in its membership, the IMF should also have universal policy instruments. In addition to the major advances made in 2005 with the creation of the Exogenous Shocks Facility (ESF) and the Policy Support Instrument (PSI), the implementation of the Multilateral Debt Relief Initiative (MDRI), and the decision to provide appropriate financing for the PRGF Trust for the period 2007–2011, we must recognize—as the Managing Director advocates—that Fund intervention in poor countries is needed to achieve the Millennium Development Goals. Indeed, the IMF has a vital role to play in managing the consequences of the debt cancellation initiative and the increase in aid flows to poor countries.

As for the World Bank, the universality of its missions seems self-evident. Created to help rebuild Europe after the Second World War, the Bank is today at work in over 140 countries, approves financing totaling nearly \$20 billion each year, and manages more than 100 regional offices. Nonetheless, the universality of the World Bank is not a given. It is a mission that requires maintenance on an ongoing basis by increasing the Bank's proximity to its customers and ensuring that it responds in the best way possible to their needs. The strategy presented

yesterday to the Development Committee for strengthening the Bank's action in middle-income countries is but one example. The Bank must expand and renew the range of its products and it must help its customers tackle new challenges, such as combating climate change, sub-sovereign financing, and promoting clean energy sources. Like any bank or organization, the World Bank must be prepared to change, to maintain its competitive edge and attractiveness.

The requirement of universality must, of course, also be viewed in light of the constraints the Bank faces, especially when it is operating in difficult circumstances or is exposed to the risk of misappropriation or misuse of its resources. Indeed, proximity to its customers does not absolve the Bank of responsibility to its shareholders, who ultimately decide whether the best use has been made of its funds and whether expenditure has been effective. Therefore, the Bank must combat corruption more effectively, guided by a clear, consistent, and equitable strategy in support of development. This is the World Bank's priority, and the outcome could not be positive if the Bank's efforts left some countries out of the picture. All people are entitled to development. Reducing or eliminating the Bank's support for any of those who need it would not only be an injustice, it would be a clear contravention of the Bank's mission.

However, as our ministers emphasized yesterday, the World Bank is first and foremost a development bank whose priority must be to reduce poverty and promote growth in the developing countries. It is designed specifically to intervene in difficult, uncertain circumstances, and yet, despite this, it must never diminish its involvement. These objectives must guide the strategy that the World Bank has undertaken.

Ensuring these three conditions—legitimacy, effectiveness, and universality—will enable the Bretton Woods Institutions to accomplish their missions fully.

GERMANY: PEER STEINBRÜCK
Alternate Governor of the Fund

I welcome the continued strong, broad based global expansion. I am confident that global growth remains on track. I am aware, however, that risks to the forecast are clearly tilted to the downside. The US economy continues to look healthy, even with the possibility of a moderate cooling of economic activity further down the road. The broad upswing in Japan is solidly rooted. In Europe, prospects for domestic demand continue to strengthen. In Germany, GDP growth is accelerating considerably and a number of important reform projects are taking shape. I see some upside potential to the outlook in emerging market economies, notably China. Together, this points towards more balanced

global growth this year. This in turn would support the orderly adjustment of global imbalances.

Nevertheless, the risk of a disorderly unwinding of these imbalances cannot be ruled out. Measures for an orderly adjustment include: budget consolidation and higher national savings in the US, more exchange rate flexibility and a boost in domestic demand in Asia, a continuation of the reform process in Japan and Europe, and increased investment spending in oil producing countries in line with their absorptive capacity and cyclical position.

Let me add: All countries including those in East Asia should allow sufficient exchange rate flexibility. Otherwise, countries and regions with market determined exchange rates will have to bear an unduly large share of the adjustment burden.

The impact of higher energy prices on growth and inflation is still muted. However, further supply disruptions could prove more serious. Therefore, we are well advised to pursue joint efforts to foster energy efficiency and to promote clean and sustainable energy technologies, in particular renewable energy, not only in industrial but also in developing countries. Stable access to affordable, clean and sustainable energy, although not mentioned in the Millennium Development Declaration, is an essential element in enabling sustainable economic and social development. In this respect, I appreciate the World Bank's efforts to help oil-importing developing countries adjust to rising energy prices and to help oil exporting countries to manage windfall profits in a way which guarantees sustainable development.

I share the widespread disappointment about the suspension of the Doha negotiations. I am convinced that trade liberalisation on a non-discriminatory basis remains the best way to stimulate global growth and to alleviate poverty. Therefore, I sincerely hope that an agreement can be reached in the foreseeable future. I urge all member countries to step up efforts to reinvigorate the process of multilateral trade liberalisation. This would help to mitigate risks of trade disputes and to forestall a renewal of protectionist trends. After all, the proliferation of bilateral trade agreements is only a second best solution.

Developing countries are amongst those for which most is at stake in the negotiations. We need to stick to our commitment and conclude a Development Round, as foreseen in the Doha Ministerial Declaration. I acknowledge the importance of Aid for Trade as essential in helping many developing countries benefit from trade. Our commitment to technical co-operation in the area of Aid for Trade is not linked to the pursuit of the negotiations. The World Bank and the Fund should continue to strengthen their support for member countries with adjustment needs arising from trade liberalisation. This support should be granted within their respective mandates and core areas of expertise,

i.e. the Fund should concentrate its assistance on trade-related macro-economic and financial sector issues, whereas the Bank should focus on structural adjustment needs.

I welcome the steps already taken by the IMF's Managing Director in the context of the Fund's Medium-Term Strategic Review and the intensive debate on important issues. With regard to the IMF's quota reform I am pleased about the adoption of the Board of Governors' resolution.

A fair and adequate representation of all members reflecting their relative position in the global economy is indispensable to the Fund's legitimacy. The Board of Governors' resolution is an important step to achieve these goals, including an initial limited round of ad hoc quota increases for the clearly under-represented countries, namely China, Korea, Mexico and Turkey.

Germany is also ready to work constructively towards reaching an agreement on a new quota formula as part of the second stage. The new quota formula should be as simple and transparent as possible. It should be based on verifiable and clear economic criteria to reflect the relative economic position of each member country in the world economy. In this respect, GDP and openness (both in trade and in financial terms) should play an important role in the new formula.

Once a new quota formula has been agreed, additional ad hoc increases should be based on that formula in order to adjust the quota shares of the most under-represented members, including under-represented EU countries. It is important that the principles of equal treatment and fair burden sharing amongst all IMF members are strictly applied in the second stage. The extent and the pace according to which the new quota formula will be used to adjust quota shares should be guided by the Fund's liquidity situation. A demonstrated need for additional Fund liquidity is an essential precondition for any general increase in quotas.

While a fair and adequate representation of all members is unquestionable, adjustment of quota shares should be linked to more financial commitments accordingly. In particular, this would mean higher contributions for instance to the PRGF Trust Fund and IDA.

With a view to enhancing the voice and representation of low-income countries, Germany is ready to support an increase in basic votes in the context of a global agreement. A mechanism for safeguarding the share of basic votes might also help to enhance IMF legitimacy and relevance.

I support the Managing Director's objective to complete the second stage by the Annual Meetings 2008.

Beside the IMF's reform of representation and voice the Fund and the Bank need to adapt to other challenges, such as global imbalances

with a growing accumulation of reserves in many countries, unprecedented global capital mobility and a fall in income from lending operations.

I agree with many of Rodrigo de Rato's proposals in this respect, notably to focus the Fund more on its core mandate, to streamline activities and to improve the division of labour with the World Bank. In particular, the Fund should continue to advice and support its members in strengthening their economic resilience and in becoming more attractive for stable private capital inflows. This should increasingly allow members to overcome times of economic stress without Fund financial assistance.

I agree with the Managing Director that it is particularly important to give IMF surveillance a stronger emphasis on issues of global relevance and international spillovers. In this regard, I welcome the multi-lateral consultations on global imbalances and the exploration of their potentials. Moreover, a review of the 1977 Surveillance Decision can help to ensure that surveillance continues to meet the challenges of today's international monetary system. Subject to further work on the issues involved in setting a remit, I support the aim of a remit to clarify medium term objectives and operational priorities of surveillance.

I welcome the ongoing work of the Fund on crisis prevention, including precautionary arrangements and country insurance. While welcoming the Fund's proposal for a Reserve Augmentation Line as a first concrete proposal, I see a need for further work on the unresolved key issues in the design of a potential new liquidity instrument for market access countries. Any new financing instrument will have to be thoroughly checked against indispensable features of the Fund's systemically desirable support mechanism, including conditionality, uniformity of treatment, existing Fund instruments and the revolving nature of Fund credit.

I also welcome the Bank's new strategy in IBRD countries. The Bank has to be more responsive to the needs of Middle Income Countries with a view to helping them reach the Millennium Development Goals, fight poverty and provide regional and global public goods. The Bank is a global institution and will only be able to fulfill its role as a knowledge bank and a transmission belt for development experience if it is able to cater to all eligible countries across the spectrum of income levels.

Since the IMF's and World Bank's role in monitoring debt sustainability is crucial, I look forward to the review of the present debt sustainability framework. Ensuring debt sustainability in countries that have benefited from comprehensive debt relief is of utmost importance; the re-accumulation of unsustainable debt should be prevented. In this regard, the debt sustainability framework should be refined, widely

accepted, forward-looking, and it should seriously deal with non-concessional borrowing. In particular, the framework should incorporate measures to prevent inappropriate lending by free riders. These measures must reinforce reporting obligations for debtors and address both borrower and creditor sanctions. The Bank and the Fund should continue to provide technical support for countries to develop their debt management capacities.

GREECE: GEORGE ALOGOSKOUFIS
Governor of the Bank

The Global Outlook

The global expansion remains on track, with world growth projected to remain around 5 percent in both 2006 and 2007—higher than previously forecast. The expansion is broad-based and is becoming more balanced as growth is picking up in the Euro-area and Japan. The contribution of emerging economies is increasingly significant to the global economy. However, the risks to the global outlook appear one-sided. Inflation concerns, tighter financial market conditions, persisting global imbalances and high oil prices highlight some of the risks ahead. The stalemate in the Doha Round of trade negotiations and a weakening of global housing markets also constitute key risks.

Sustained high growth rates globally have absorbed spare capacity and led to incipient inflation pressures. Nevertheless, inflation remains subdued despite large increases in energy and other commodity prices. Central bank credibility and global economic integration have contributed to this outcome by keeping inflation expectations low while expanding global supply. The pass-through of commodity prices may increase as the degree of slack recedes and labor markets tighten. Central banks have therefore been raising policy rates preemptively.

Economic growth in the Euro-area is recovering. The recovery is supported by domestic demand, structural reforms and fiscal consolidation plans in all the Euro-zone economies.

Greece's Economic Performance

Greece's growth performance has been relatively strong over the past couple of years, exceeding the Euro-area's average by a significant margin. Growth has been underpinned by private consumption and investment as well as exports of goods and services. GDP growth amounted to 3.7 percent in 2005 and is expected to accelerate slightly in 2006 and 2007. GDP growth reached 4.1 percent in the first half of 2006. Improved competitiveness is the key to increasing Greece's growth

potential. To this end, the government has introduced a series of structural reforms, which have been instrumental in sustaining the growth momentum after the Olympics. These include

- reforms in product markets and simplification of bureaucratic procedures
- reform of corporate taxation and of the investment incentives law
- improvements in public procurement
- a new framework for public-private partnerships
- extensive privatizations
- pension reform in the banking sector
- rationalization of the operation of Public Sector Enterprises
- liberalization of retail shopping hours
- more flexibility in working hours and reduced overtime pay.

Our next step is the reform of personal income taxation, in order to simplify the system and reduce the tax burden, mainly on middle incomes. In addition, a comprehensive social dialogue is under way, on the reform of the pension system.

Fiscal consolidation remains the key priority. Having already achieved significant progress in 2005, the government is committed to correcting the excessive deficit by end-2006 and making further progress towards its medium term objective for a budget that is balanced or in surplus by 2012 at the latest.

Quotas and Voice

We welcome the important agreement reached on a two-year program of fundamental reform of the Fund's governance and quotas. The ad hoc quota increases for the four most underrepresented countries is only a first step. Further steps are needed to achieve a distribution of quotas that reflects developments in the world economy, including the growing importance of Asia. At the same time, the commitment we made to at least double basic votes will help increase the voice of low-income countries in the Fund's decision-making process. We look forward to further progress in enhancing the credibility and effectiveness of the Fund, in line with the specific goals spelled out in the Resolution we adopted.

INDIA: P. CHIDAMBARAM
Governor of the Bank and the Fund

We meet at a time when global growth has exceeded expectations. While growth has become more broad-based, the sustainability of the current growth phase is a matter of concern. While most countries have seen benign core inflation, there is strong evidence of an upswing with

fuller pass through of oil and commodity prices. Further, tightening of the monetary stance in advanced economies in the face of an inflationary threat could impact emerging markets and retard future growth.

I would like to remind ourselves of the need for continued attention to the Millennium Development Goals (MDGs). While there has been encouraging progress on the poverty MDGs, there are serious concerns about attainment of the human development MDGs in all regions. We need to reaffirm the principle of mutual accountability of developing countries, developed countries, and the international financial institutions for making progress on this important agenda.

There are many important items on the agenda in this year's annual meetings. Let me focus on three.

Firstly, Surveillance

We note the new initiatives to strengthen the bilateral, regional and multilateral surveillance process. We need to remain focused on the Fund's area of core competence, namely rigorous macroeconomic analysis, while continuing to improve the tools of analysis within the provisions of Article IV.

Given the persistent perception of a significant section of members that the Fund's surveillance is not 'even handed', we should use this opportunity to restore confidence among both borrowers and lenders.

Fund surveillance should take into account country-specific political, social and institutional differences. There is a wide diversity in the level of financial sector development across Fund membership; hence, a one-size-fits-all approach would not be appropriate.

Secondly, Governance and Anticorruption

We recognize the importance of this issue in the development dialogue. But I would say there is a disproportionate focus on it in the Bank's strategy, with suggestions to integrate it into the operational policies of all the Bank's affiliate institutions. The Bank's mission is "a World Free of Poverty", and we would be unhappy if the new focus tends to obscure or negate the Bank's historical development-centric approach.

We encourage the Bank to work on monitorable, consistent and agreed governance indicators. The proposal to customize Country Assistance Strategies on the basis of governance grading of a country, including extreme options like break in lending, I am afraid, is bound to hurt the development process in countries that need Bank assistance

the most. Mr. Chairman, at the Spring meetings, many of us had clearly expressed the view that we do not support the approach of ‘zero tolerance leading to zero development’. We would, therefore, urge that the strategy on governance must be further developed with the full involvement of and oversight by the Executive Board.

The suggestion in the agenda papers relating to Bank’s involvement with non-executive institutions must be approached with caution. The Bank’s relationship with its development partners is based on trust, and this must be respected. We do not favor the position that the Bank may deal directly with such non-executive institutions—all interface of the Bank must invariably be through country governments and be limited to matters of transparency in project implementation.

Finally, Quota and Voice

What is at stake here is the credibility and legitimacy of the IMF. Bridging the ‘Voice’ deficit requires fundamental reforms in the quota structure, which are long overdue. We were, therefore, not in favor of any *ad hoc*ism including the proposed two-stage process based on a hopelessly flawed formula. We believed that all reforms—new quota formula, realigning country quotas, and increase in basic votes—could have been adopted simultaneously as a package.

The two-stage process will mean that some developing countries will be asked to yield a portion of their quotas in favor of some other developing countries. Let me make it clear that we support the increase in quotas of the four countries that are in the reckoning, or for that matter of any under-represented country. But we would have been happier if this increase was the result of a comprehensive reform that reflected accurately the economic weights of member countries and required countries that are over-represented to yield ground.

Now that the vote has been done, let me say that the 23 countries—many of them large, emerging and well-performing economies—that voted against the Resolution may have lost the vote but have not lost the argument. We promise to work with the Management and other Member Countries. At the same time, we would hold the Management of the IMF and the countries that supported the Resolution to their promise—that the second stage will begin *now*; that the criteria for a revised formula will be determined and defined; that there will be a second round of *ad hoc* increase for some more underrepresented countries which we believe included India; that the Articles will be amended; and that, in the end, the quotas and voting rights will reflect the relative economic strengths of countries in the 21st century. And all this will be done in a time-bound manner.

In conclusion, the actions of the global development community are being closely compared against the promises repeatedly made. The development challenge facing us is daunting and we need to focus on global priorities. We are collectively answerable to the poor and the under privileged of the world. Through the Millennium declaration, we gave them hope. Let us all strive by our actions to convert that hope into a reality.

INDONESIA: SRI MULYANI INDRAMATI

Governor of the Bank

We appreciate the on-going efforts to address change at the International Monetary Fund and to increase the role and voice of developing countries. This change is overdue and should improve both policy and results. I would also emphasize the need to move more quickly and coherently on global macroeconomic imbalances and the need for the Fund and major relevant countries to press this agenda more forcefully.

We very much support the Doha Development Agenda and regret the current impasse. All sides need to press ahead and to be prepared to make concessions, but I request that industrial countries reflect on the fact that this is a *development* agenda. We appreciate the role that the Bank and Fund have been playing here and would urge them to continue.

Governance

We welcome the World Bank's new strategy on governance and anti-corruption. In Indonesia we need no convincing that good governance and the fight against corruption are central to achieving our goals. Our citizens know this too. They want better services, more jobs, and greater security. They know that unless government is accountable and transparent, their hopes will not be met.

The demand for better governance is the reason that President Yudhoyono received more votes in a Presidential election than any person in history. He promised to make governance reform the centerpiece of his administration, and we are working hard to deliver.

We have received a lot of media attention for the large number of high-level corruptors that we have prosecuted. But our plan goes way beyond these headlines. We are tackling the incentives and the opportunities to engage in corruption by introducing new systems to manage public funds, reduce burdensome regulations, and build public-private partnerships based on transparent competition.

And we want to go further to address the real incentives that shape the behavior of our civil servants—low pay and the weak linkages between pay, responsibilities and performance.

We greatly appreciate our partnership with the World Bank and the Fund in this effort. But we can do even better together. I have four suggestions:

First, back up your words with real financial support *when we need it*. Governments that are trying to undertake difficult governance reforms are fighting all sorts of interests. Financial assistance can make a difference, but only if it comes at the right time. The World Bank needs to stay engaged financially with countries to make a difference, even in the most difficult cases.

Second, support our plans, not ideal plans. Like many governments we have a comprehensive plan to improve governance. It is not perfect. It reflects the real, messy politics of development, especially in newly democratic systems like Indonesia. Please assess the Government's commitment to reform in a consistent and transparent manner and support our momentum for reform. Don't tie support to narrowly defined conditions from an ideal plan.

Third, give us the technical expertise—in country and on our schedule. There are no simple solutions to governance problems and we are all learning by doing. International experience can help enormously. But the era is over when big missions are needed to fly out from Washington to diagnose our problems and suggest solutions all within 2 weeks. We need more people on the ground, who can work with us, side by side, at our pace, meeting our deadlines, and facing our pressures. And we need different sorts of people—specialists on public financial management, public procurement, civil service reform, and anti-corruption. If you want to help us improve governance, start by changing the way the Bank works on the front lines. I'm happy to say this is now happening in Indonesia, with a full time governance team in Jakarta.

Fourth, act as partners, not preachers. If you want us to be open about corruption, the World Bank needs to be more open with us about your own corruption investigations. When corruption is found in Bank-financed projects, let's use this as an opportunity to target the systems that gave rise to that corruption. But to do this, we need to work together on joint investigations and on joint solutions. The Bank should work in partnership with our own institutions to share information on corruption investigations in a timely manner. We also need to work together on asset tracing and asset recovery. And we need to send a powerful message to investors that bribery will bring few advantages and serious risks.

We are already putting these ideas in place in Indonesia, working together with the World Bank and IMF teams on the ground. The new governance strategy provides an excellent opportunity to deepen this engagement on the critical issues our Government is facing.

Key Developments

In closing, a brief word on Indonesia. It's been another challenging year, with a severe earthquake in Yogyakarta and Central Java, and another tsunami in West Java. While less dramatic than December 2004's Tsunami in Aceh, these disasters killed thousands and displaced hundreds' of thousands of people. And once again we thank the Bank and Fund as well as all our development partners for their assistance.

At the end of last year we doubled domestic fuel prices to remove distortions, and introduced a cash compensation scheme to prevent real incomes of the poorest 60 million people from falling. These measures have been successful, but necessarily resulted in a slowdown in the first half of 2006. This year should see growth around 5.8% with momentum carrying into next year where we expect to see 6.3% growth.

We have recently announced two new national poverty initiatives to help meet our MDG goal. First, a scaling up of the highly successful Community-Driven KDP program (to be expanded from 40,000 villages today to all 72,000 villages in the country). Second, the introduction of a Conditional Cash Transfer system that will be designed to help finally break the pernicious transfer of poverty from one generation to the next.

Let me close my remarks by once again pledging my support for our mission to improve governance and reduce poverty.

IRAN: DAVOUD DANESH JA'FARI

Governor of the Bank

It gives me a great pleasure to address this august gathering. At the outset I express my gratitude to the Government and people of Singapore for their very warm hospitality in this very beautiful city of Singapore.

At this juncture of time, the world is struggling through difficult challenges and we hope the collective efforts of the international community in this struggle will lead to a peaceful and secure world for all. Undoubtedly, a world free of poverty, ignorance and injustice can prevent many of the conflicts that we have witnessed especially after the turn of the millennium. It is therefore, incumbent upon all of us to redouble our efforts to meet these challenges. The World Bank Group is the largest source of official funding for middle income countries. Alleviating poverty at global level necessitates that the World Bank continues and enhances its financial assistance to the middle income countries which are the home for more than 70% of people living with the income of less than \$2 a day. Furthermore, financial sustainability of the Bank depends heavily on the operational income from the loans

extended to the middle income countries. Therefore we urge this institution to boost its partnership activities with the middle income countries as well as to continue to provide them with its analytical and advisory assistance on no-fee basis in the future. We also encourage the management of the Bank to complete its study about the use of the country systems in its operation as soon as possible. This will certainly simplify and accelerate the smooth implementation of the projects leading effectively to the reduction of the costs.

There is no doubt that the issues of good governance and fighting corruption are important elements for economic efficiency, accelerating growth and poverty alleviation and the World Bank Group can play a constructive role in this regard.

However, in doing so, the Bank ought to be mindful to operate only within its economic mandate and in the framework of its Articles of Agreement. Nevertheless, these should be taken into account in a way not to hinder the provision of financial and technical assistance by the World Bank, which are vital for the development and poverty reduction. In this direction, all sorts of technical assistances can be helpful, provided that they are demand driven and does not add to the conditionalities and shall not slow down the flow of financial assistance in the anticipation of resolving first the corruption issue.

Moreover, since there is hesitation that such an initiative can be influenced by non-economic factors therefore it is important to note that the adverse effects of such strategy by the Bank shall undermine economic certainty and destabilize investment climate in developing countries rather than being in line with development process and poverty reduction strategy which are the main goals of this institution.

We welcome the progress report on Investment Framework on Clean Energy prepared at the request of the Development Committee last spring. This is in fact a very vital issue that needs to be dealt with seriously, considering the significant risk of climate change due to increased carbon emissions and other greenhouse gases.

Therefore, we urge the World Bank and other MDBs to furnish adequate financial and technical assistance to the developing countries so as to facilitate their access to the clean energy technologies without adverse impact on their economic growth and efforts to alleviate poverty.

In this direction, we believe that it is incumbent upon the developed economies, which have been the major source of carbon emissions on per capita basis to observe their differentiated responsibility in this regard and shoulder the major cost of development of clean energy technologies in developing countries. This will in end be beneficial for the people of the whole world.

We also urge the Bank and other MDB's to facilitate investment in all sorts of clean and low carbon energy technologies such as: greater

use of natural gas; integrated combined cycle; advanced renewable energy; and nuclear energy.

On the issue of the IMF reform, it is important to recall that the debate regarding the crisis of governance and legitimacy of the IMF has been centered on the necessity of enhancing the voice of developing countries in the decision-making process. The Monterrey consensus underlined the commitment of the international community to this objective. It is universally acknowledged that faulty quota formulas have been at the heart of this governance and legitimacy crisis. Thus the search for a less politically based and analytically defensible quota formula should have been the first step in any reform process designed to resolve this crisis. While we strongly support the ad hoc increase for the four countries involved, unfortunately, the Resolution on quota and voice takes a step backward in the governance reform process as it takes away from the relative shares of the developing countries to give ad hoc quota increases to only four countries in the first stage. This is not what the governance and legitimacy crisis debate has been all about. The Resolution does not resolve the crisis. On the contrary, there is a strong chance that it may lead to further erosion of the already inadequate global share of the developing countries. A fair and judicious selection of an analytically defensible quota formula is needed which takes account of GDP at purchasing power parity, variability, and reserves held by developing countries against capital account crises. Otherwise, this Resolution may mean further weakening of the voice of the developing countries and the associated governance and legitimacy problems for this global institution, in which we all have invested so much. We, therefore, hope that through its time-honored tradition of consensus-based, decision-making and inclusiveness, the Executive Board could design an appropriate formula that would garner the support of all members of the IMF.

Another important point which I would like to refer to is manipulation and politicization of international trade and payment systems, in this regard ministers of the Group of 24 in their communiqué expressed their regret regarding “recent attempts at inappropriate political interference in the smooth functioning of the international trade, banking, and financial systems.” We hope that the international community and institutions would act against this kind of behavior that ultimately threatens the smooth operation and the stability of the international payment system, in which we all have shared responsibility.

I would like now to say a few words about the new developments in the economic policies of my country. In early July 2006 a major step has been taken by the ratification of a new initiative in support of private sector development, whereby it is approved that up to 80% of the share of the large and strategic state owned industries will be sold to private

sector. This initiative will promote the economic efficiency and social equity of my country as well as reducing substantially the direct involvement of the government in economic activities.

Furthermore, promoting capital inflow particularly in terms of foreign investment in the country by offering necessary guarantees and facilities are duly implemented by the government. Extension of social and economic justice, expansion of the role of private sector, as well as decentralization is the main economic reforms undertaken. Creating appropriate ground for rapid economic growth, establishing proactive relation with the global economy, enhancing economic competitiveness, promoting the development of SMEs, improvement of living standards are among the main objectives of our Fourth Five-Year Development Plan which will provide Iran with a more active participation in the International Economy.

IRELAND: JOHN HURLEY

Governor of the Bank and the Fund

We would very much wish to thank the people and government of Singapore for their welcome. Asia is well on the way to meeting the Millennium Development Goal targets and has also shown the way to other countries in offering very different, but usually successful, paths to economic and social prosperity for their citizens. The approaches to economic development on this side and on the other side of the Causeway differ, but both create jobs and prosperity. China too offers a different vision. The Asian model warrants close study by those who are in search of the MDGs. As the newest members of the Asian Development Bank, Ireland looks forward to assisting in the future development of this region.

Turning to the business before us, this year has seen a renewed focus on the role of some of the international institutions that were established in the aftermath of the Second World War. What is the future direction for the BWIs? What role can the IMF and World Bank play in an increasingly interdependent international economy? Where should they focus their efforts to make best use of their strengths? Can we ensure that they continue to play a role consistent with the changing needs of their members, who are mostly but not always, far more prosperous and much more inter-connected than when the BWIs, were first founded?

Surveillance

At the IMF, Mr de Rato has produced a carefully prepared Medium Term Strategy setting out his vision as to the future direction of the organisation.

Ireland fully subscribes to much that is set out in the Strategy. We welcome the emphasis on strengthening the role of the IMF in multilateral surveillance; it is an appropriate role for the organisation in light of developments in the modern global economy. We also support consideration of a possible framework for assessing the effectiveness of surveillance with a view to streamlining and improving the focus of the process, building on the existing strengths of the IMF. There is also a strong case for looking at the Article IV process, with a view to seeing how it can be enhanced.

Quota Voice and Governance

We agree that it is time for a review of the issues of quota and voice and support the resolution. Not that these are the only problems to be addressed and there may be a tendency to over emphasise quota changes as a route to better decisions.

Ireland fully supports the proposition that the voice of weaker member states should be strengthened. We do support an increase in basic votes.

On the question of an ad hoc increase in quota, clearly we understand the need for movement. But it is also to be recognized that, if countries, like Ireland, already substantially and demonstrably under-represented, are to accept a further decrease in their quota, while others currently over-represented remain so, the under-represented countries are effectively being asked to shoulder a disproportionate share of the burden. Against this background, we very much hope that during stage two the substantial under-representation of countries that fail to benefit from an increase in quota in the first stage will be seriously addressed.

We would also emphasise that in matters relating to future critical decisions to be taken by the BWIs, such as decisions to withdraw support from some countries, the Boards of the institutions must be fully involved in that process.

Debt Cancellation Issues

If the MDRI process is to be meaningful, it must result in a reduction in poverty.

It is important that the MDRI results in increased useful development expenditure in the beneficiary countries. We need to ensure that IDA is fully compensated and in a timely manner for the costs of MDRI implementation and that this is in addition to maintaining our aid flows to countries receiving relief. We have always had reservations about the uncertainty that overshadows future IDA income streams from donor

countries, though we know that many donors will make good on their promises. Forty years, however, is a long time for donors to maintain payments to IDA? Governments change, economic conditions alter. Ireland has decided to address this issue by opting not to use the ‘pay as you go’ approach.

We have now paid our entire share of the MDRI costs, up-front, as a once off payment of 58.6 million euros to the World Bank. Thus we have thus now fully met upfront and in total our obligations in relation to the MDRI. We are glad to do so because we have long supported debt cancellation as one of the necessary measures to achieve the MDGs.

As for the recipients, failure to manage well the MDRI windfall could have profound implications with donors. We must be alert to the danger of re-accumulation of unsustainable levels of debt by countries that have benefited from HIPC in the past and the MDRI in the present. Several actions are needed here.

In particular MDRI beneficiaries should be encouraged not to engage in future unwise non-concessional borrowing. Taxpayers will wish to see their funds well used, in making swift progress towards the MDGs. This is a major test case of debt relief and upon the success, or failure, of the MDRI initiative much depends.

Increased net resource flows to HIPCs for poverty reduction will be the measure of success of the MDRI. Reporting on MDRI implementation should include the impact on the resource flows—volume and terms—to individual MDRI beneficiary countries from IDA and other official sources.

IDA

Lending through the IDA arm of the Bank has brought about notable successes in terms of poverty reduction. IDA loans are crucial to the attainment of the Millennium Development Goals. However, the trend towards grant financing has called into question the longer-term security of funding for IDA when coupled with weak contributions to IDA by certain donors. Ireland has voiced concern about this in the past. It is imperative that, in future IDA replenishments, appropriate steps are taken, and donors step up to the mark. While the level of grants may have increased, we must ensure that IDA will be in a position to continue to also provide interest-free loans to the poorest of developing countries.

For the poorest and weakest countries, the MDRI may well not always free-up the expected additional resources for the beneficiary countries to use in their efforts to achieve the MDGs. The review of Debt Sustainability Framework in the context of the IDA 14 Mid Term

Review should address this issue to ensure that such a situation does not arise. And steps must be considered to limit opportunities for creditors to free ride on debt relief.

We commend the continuing achievements of the IFC and we would favour having recourse to their continuing profits as a source of finance for IDA.

Conclusion

It is time to say farewell formally to Marcel Massé, our Executive Director at the World Bank, and before that at the IMF, who will leave us shortly. Ireland has always valued your advice and admired your diplomacy. We wish you well and we look forward to working with your successor in future.

ISRAEL: ABRAHAM HIRCHSON *Governor of the Fund*

It is an honor and a great pleasure for me to participate in the 2006 Annual Meeting of the International Monetary Fund and the World Bank, here in Singapore.

I would like to share with you a few points concerning the remarkable progress that Israel's economy has made over the last few years.

After three years of recession, Israel's economy has experienced three consecutive years of rapid growth and improvement in almost all economic indicators.

- From a negative growth rate of one point two percent in 2002, we boomed to an impressive five point two percent in 2005.
- Our budget is nearly balanced.
- We have a surplus in our current account.
- our debt to GDP ratio is shrinking
- employment is growing
- inflation is under control
- and foreign investments are at a record high.

This remarkable turnaround did not come from itself. It was possible only due to responsible fiscal management and the implementation of a large number of reforms.

In the last three years alone, the State of Israel has privatized its last two government owned banks, its communications network, its air travel industry, and many other government owned companies.

It was not easy—but it had to be done.

I am sorry to say that Two months ago some things changed.

As you all know, Hizbullah committed an unprovoked act of aggression against our country. Hezbollah crossed our border, kidnapped two of our soldiers, killed others and began firing thousands of missiles into our northern cities and towns. No doubt, this war made a significant impact on Israel's economy.

- Physical damage was caused
- Business activity slowed down
- and incoming tourism almost stopped.

All in all, these effects and others cost the State of Israel nearly 15 billion shekel.

I'm happy to say that our economy was prepared to absorb this shock. We responded quickly and responsibly.

We used excess tax revenues to structure a new budget for 2006, within our fiscal limits.

Our response was effective. Both the Israeli stock market and the shekel-dollar market, essentially maintained their pre-war values.

I truly believe that we have the power to fully overcome this crisis.

We are obligated to continue on leading a responsible fiscal policy which includes structural reforms.

Despite the situation we will maintain positive financial growth. I believe we can emerge from this war even stronger.

But we are not alone. Sound fiscal policy is not enough and should be reinforced by sound monetary policy as well.

Israel is fortunate to have one of the finest central bank governors in the world—Professor Stanley Fischer—whom most of you know well.

With Professor Fischer behind the wheel, the citizens and investors of Israel can be assured maximum inflation control and capital market stability.

But the real key to Israel's future is our people. We have more scientists, engineers, high-tech start ups and R&D spending per capita than any country in the world.

Our engineers have proven, time and time again, that almost anything is possible.

They are the true reason Israel was, and will continue to be so attracting to foreign investments.

I intend to do everything I can to encourage investors to invest in the State of Israel.

To strengthen our contribution, Israel has decided to increase its direct bilateral foreign aid to poor undeveloped countries by assisting them in achieving the millennium development goals.

Our aid will focus on education, health, and agricultural projects.

In conclusion, I would like to emphasize again Israel's commitment to execute a responsible fiscal policy and to maintain growth in the years to come. We intend to implement a clear and consistent economic policy that will continue to uphold Israel's place at the forefront of the global economy.

ITALY: TOMMASO PADOA-SCHIOPPA

Governor of the Fund

The Global Economic and Financial Outlook

This year's Annual Meetings take place at a crucial moment for the global economy. Although growth remains robust and the outlook positive, downside risks have increased. The pace of the US economy has decelerated towards its potential and inflation remains above the long-term objectives of the monetary authorities. Growth has accelerated in the Euro-area, with domestic demand progressively replacing exports as the main driving force of the recovery. However, it is too early to say whether this improvement is the result of conjunctural factors or the beginning of a sustained upturn. The economic expansion also continues in Japan, albeit at a lower rate than expected.

The largest emerging market economies have continued to grow at a rapid pace, providing substantial stimulus to the global economy. In recent years, a number of emerging market economies has been able to address important sources of vulnerabilities, thus increasing their resilience to shocks. Fiscal positions have improved, inflationary pressures have been broadly kept in check, and the implementation of structural reforms has accelerated. Nonetheless, some of these countries remain susceptible to turbulences in financial markets.

In Africa, economic expansion has been robust in both oil-producing and oil-importing countries, although individual performances vary substantially. Improved governance and increased aid flows have strengthened the potential of these economies and their resilience to external shock. Despite the recent good performance, growth rates in Sub-Saharan Africa are expected to remain below 7 percent, the minimum rate necessary to meet the Millennium Development Goals. Further reforms to strengthen domestic policy so as to improve the business climate and foster private investment, particularly through foreign direct investment, are of fundamental importance to raise the potential and to expand the absorptive capacity for further increase of aid flows.

Although the outlook for the global economy remains favorable, downside risks have increased in the past few months. These include the

possibility of a sharper decline in the US housing markets and the disorderly unwinding of global imbalances as they continue to grow.

Addressing global imbalances is a shared responsibility of all major players in the world economy. We welcome the efforts of the IMF to promote a better understanding of these issues with the launching of the first round of multilateral consultations. Although the process is only at the beginning, it looks promising and we look forward to some concrete results in the near future.

The EU's greatest contribution to reducing global imbalances is its commitment to a rapid implementation of the Lisbon Agenda. The completion of the internal market should foster competitiveness and thus enhance private consumption. At the same time, greater productivity should raise the potential growth and increase the area's contribution to the global economy.

Although the US fiscal position has improved recently, structural measures are needed to tackle the challenges stemming from the aging of the population. The recovery of the Japanese economy should lead to an acceleration of structural reforms, which are necessary to ensure growth and fiscal sustainability in the long term.

The largest Asian countries and the oil-producer countries should take advantage of the current favorable conditions to modernize their economy and become more resilient to future shocks. Greater exchange rate flexibility and structural reforms to enhance domestic demand will contribute to an orderly unwinding of global imbalances.

Implementing the IMF's Medium-Term Strategy

Surveillance and Crisis Prevention

Surveillance should remain at the core of the IMF's activities; however, it should be revamped to meet the new challenges of the global economy and the growing integration of financial markets. Providing the membership with appropriate and timely policy advice to deal with existing vulnerabilities and growing regional and global spillovers is the IMF's key responsibility.

We welcome recent efforts to expand the scope of surveillance and develop a new framework for its implementation. The new approach of a multilateral consultation has been launched to provide a forum for discussions to achieve a broader mutual understanding of global issues and foster agreement on policy actions.

The bilateral surveillance framework needs to be revised to promote prioritization, selectivity, and a closer link between domestic policies and external stability, including exchange rate policy. Revising the 1977

Decision on Surveillance over Exchange Rate policies will help establish a new framework to provide unifying guidelines, clarify priorities, and improve procedures.

Financial market and exchange rate issues should regain their central role in the surveillance process. The recent progress in upgrading the IMF's analytical capability on financial issues is a step in the right direction. The key challenge is to develop a consistent framework where financial and traditional macroeconomic assessments are fully integrated.

Despite the recent improvements to stabilize their economies and reduce vulnerabilities, the emerging-market countries remain exposed to significant global risk. While surveillance remains central to the task of fortifying domestic policies, different ways to improve the Fund's facility array to prevent crisis in countries with a strong macroeconomic framework might be explored.

We believe, however, that precautionary arrangements and the exceptional access framework are already effective tools to assist members in signaling the strength of their policies and provide them with significant IMF resources. Thus, we remain skeptical about the possibility to design a new facility able to address the shortcomings of the CCL and to reconcile a full insurance instrument with the necessary safeguards for IMF resources.

Quotas and Voice

A continuous effort to ensure a full involvement of the whole membership in the decision-making process is essential for a universal institution to preserve its credibility and effectiveness in facing the new challenges posed by the global economy.

The resolution of the Board of Governors is of fundamental importance to strengthen IMF governance. The immediate ad-hoc quota increase in favor of the most underrepresented cases, identified on the basis of robust and objective criteria, is a first step that confirms the commitment of the institution in that direction.

In the coming months, a new quota formula should be agreed upon in order to guide a second round of ad-hoc quota increases, aimed at addressing the other critical cases of under-representation. The new quota formula should be simple and transparent and should reflect appropriately the position of member countries in the economic and financial system while taking into account the different functions of quotas.

An essential component of the agreement is a sharp increase of the basic votes that will substantially lift the low-income countries' quota share, thereby helping reverse the current erosion trend of their voting

power. In the future a mechanism to preserve the weight of basic votes on the total voting power will help further protect low-income countries' voting share.

The Role of the IMF and the World Bank in Low-Income Countries

The IMF and Low-Income Countries

The IMF has an important role to play in low-income countries (LICs), namely supporting their efforts to achieve macroeconomic stability and implement pro-growth structural adjustment. These are essential steps towards achieving the MDGs.

A set of new instruments has been created to strengthen the role of the IMF in LICs, including the Policy Support Instrument and the Exogenous Shock Facility. In addition, debt relief under the HIPC and MDRI initiatives has contributed to improve the financial position of LICs and has freed resources that can be dedicated to poverty-reducing expenditures. We share the view that the sunset clause of the HIPC Initiative should go into effect at end-2006, while grandfathering all countries that are assessed to have met the income and indebtedness criteria based on end-2004 data. We ask the IMF to explore alternative options to finance HIPC and MDRI debt relief for these countries.

Looking forward, the IMF should remain closely engaged with LICs through surveillance, capacity building, and financial assistance, focusing on the areas of its core expertise. In particular the IMF should continue to strengthen its policy advice with a view to assisting LICs in the design of a sound policy mix aimed at (i) effectively managing increasing aid flows and the fiscal and balance of payment space created by debt relief, and (ii) preserving debt sustainability. In this regard, we welcome the ongoing work to refine and enhance the Joint Debt Sustainability Framework (DSF), which is, in our view, an essential tool for borrowers and creditors alike to reach consistent financial decisions and avoid the accumulation of new unsustainable debt, particularly in post-MDRI HIPCs.

Governance and Anti-corruption

We strongly support the World Bank's efforts to strengthen its work in promoting good governance and in tackling corruption seriously, effectively, and firmly. This is a critical development issue that is conducive to the achievement of the Millennium Development Goals (MDGs). The Bank, as a multilateral development organization, should remain engaged with all its members and must address governance and anti-corruption from a development perspective and within its

mandate. We believe that the principal objective of the World Bank Group's governance work should be to help build capable, accountable, and responsive states that deliver services to the poor, promote private sector-led growth, and tackle corruption effectively and firmly where this is an issue that needs to be addressed.

Country ownership is a core principle underpinning development and should be maintained. The Bank's new strategy should aim at supporting developing countries in proposing and developing their own solutions to their distinct national challenges and then helping them deliver on their governance commitments. The implementation of this strategy should not result in any trade-off that may lead to a dilution of important priorities, in particular the achievement of the MDGs, the Bank's consistent engagement across its membership, the reference to alignment and harmonization principles, the implementation of the results framework, and a willingness to take risks.

The World Bank's Engagement with IBRD Partner Countries

The relationship between the World Bank Group and its middle-income partner countries (MICs) is crucial and at the heart of the Bank's financial model, which is very dependent on the ability to generate business in MICs, on the attractiveness of its products (financial and non-financial), and the quality of its policy advice.

The Bank should devote more analysis regarding the differentiated demand of Bank products among MICs, which differ substantially from each other. Some of these countries still demand bundled services (financial products, plus knowledge and policy advice services), while some others prefer unbundled products. To the extent that MICs are increasingly expected to demand unbundled products, the Bank will need to diversify its revenue sources and achieve greater transparency by identifying them distinctly.

The IBRD partner countries will also increasingly demand International Public Good-related products and services. The provision of collective goods is an area the Bank must explore thoroughly and with an innovative spirit. We feel that the Bank is especially well-placed to take a global leadership role in matching demand in these countries.

Finally, we look forward to the work of the External Review Committee. Defining an effective division of labor between the Bank and the Fund, based on their comparative advantages, and enhancing coordination are key to improving the quality of the assistance that the two institutions can provide to low-income members in their ongoing efforts to achieve the MDGs.

JAPAN: KAZUYOSHI AKABA

Temporary Alternate Governor of the Bank and the Fund

Introduction

At the outset, I would like to welcome and congratulate yesterday's adoption of the Resolution on Quota and Voice Reform by the IMF's Board of Governors. The international community has changed dramatically over the years, but this change has not been reflected in the IMF quota share. Japan has insisted that the IMF must change itself to be able to continue to play an effective role in the global economy by changing its governance structure so that members' quota shares are realigned with their economic weight in the global economy. The IMF management, the Executive Board, and all member countries should continue to endeavor to cooperate in carrying out the full package of the reform efforts within the specified time period.

Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

World Economy

I welcome the continuation of a broad-based expansion of the global economy, which has kept its highest pace in the last three decades. I am especially delighted that the Asian economies, including our host country, Singapore, have taken the lead in this growth. I expect this expansion to be sustained but concurrently we must all remain vigilant to the possible risk of rising inflationary expectations in some member countries, a further increase in already high oil prices against the background of ongoing geopolitical uncertainties, and a disorderly unwinding of global imbalances. Under these circumstances, each member should persist in striving vigorously to address its economic challenges and remaining vulnerabilities by taking advantage of the present favorable environment, while paying due attention to these risks.

In this connection, I commend the latest World Economic Outlook for analyzing the strong growth performance in Asia and identifying several key lessons drawn from the Asian experience over the past 60 years. Those lessons would be useful both for Asian countries themselves and for middle and low-income countries in other regions, who are expected to be the future leaders of the global economy. It is both timely and appropriate to consider the experiences and prospects for Asia during the meetings held in this region this year. Taking into consideration the strong growth in Asia during the past 30 years, the report

concludes that a strong surge in productivity and a rapid accumulation of human and physical capital resources, fostered by the robust institutional and policy environment, have been the major sources for strong sustainable growth. At the same time, along with the self-help efforts of the Asian economies themselves and the private sectors' initiatives in the area of trade and foreign direct investment, I am also convinced that development assistance by the developed countries, including Japan, focusing on infrastructure development provided in a coherent manner, has been effective and instrumental in bringing about sustainable growth in Asia.

Japan's Economy

Japan's economy has finally recovered and is expected to continue its sustainable growth, primarily supported by domestic private demand. Our economy has stagnated for nearly ten years after the burst of the bubble economy, suffering from bad loans in the financial sector. Persistent efforts were made toward progress in structural reforms under the premise, "No growth without reform." With these efforts, the target for a reduction in bad loans has been achieved, the corporate sector has strengthened, the financial system has stabilized and economic resilience has increased. This has enabled us to enjoy a steady recovery led by domestic private demand without relying on fiscal stimulus. Looking ahead, strong performance in the corporate sector has been spreading to the household sector amid a benign labor market, and the economic recovery is expected to persist.

Improvements in our economic circumstances have given us the opportunity to accelerate structural reforms to raise productivity that would bolster the growth potential of our economy that faces the challenges of a declining population and intensified global competition. In this regard, fiscal consolidation is a top priority, given the current severe fiscal conditions. The government will continue its efforts in this direction and make sure that the consolidated primary deficit of the central and local governments turns from a deficit of 3.3 percent of GDP in FY2005 into a surplus in FY2011. Moreover, after achieving the target for the primary balance, fiscal consolidation efforts will continue with a view to generate primary surpluses so as to attain a stable reduction in the debt-to-GDP ratio for these governments.

On monetary policy, in July, the Bank of Japan raised its operating target for the policy interest rate for the first time in six years. The Bank intends to formulate future monetary policy by carefully assessing economic circumstances and prices, and will continue to underpin Japan's economy toward realizing sustainable growth under price stability by maintaining an accommodative monetary environment.

IMF's Medium-Term Strategy

Following the sixtieth anniversary of the Bretton Woods Institutions, we are witnessing a growing momentum toward strategic reform of the IMF. Since its foundation, the IMF's fundamental objectives have been to stabilize the global economy and international monetary and financial systems. In order to continue its meaningful contributions to international society, the IMF needs to further strengthen its efforts in improving its institutional capabilities and streamlining and prioritizing its operations in response to the dynamic development of the global economy. Moreover, reform of its governance structure has become a prerequisite for reforms in other areas.

In this regard, I am glad to observe achievements which reaffirm concrete steps toward substantive implementation of the IMF's Medium Term Strategy (MTS), especially in the areas of governance and surveillance. I would like to express my sincere appreciation for the strong leadership shown by the Managing Director Rodrigo de Rato, who has emphasized the importance of quota and voice reform in the MTS and made strenuous efforts to reach agreement on this issue at the Board before the Annual Meetings. I would also like to express my thanks to those member countries that share a common interest in pursuing this reform, which will benefit the entire membership and the global economy as a whole.

At this opportunity, I would like to comment on the following three issues that are of particular importance regarding the implementation of the MTS.

Quotas and Voice Reform

First, on governance reform, especially on the quota and voice issue. Quota reform is a strategically important issue with global implications to improve the governance structure of the IMF, enabling it to play an effective role in the global economy. At the same time, in Asia, where so many emerging market economies are growing rapidly, quota reform has its own meaning in regaining and strengthening the IMF's relevance and credibility in this region during the post-crisis years. As the momentum for strategic reform of the IMF gained its strength, Japan, along with other members who share the view that there is urgency in addressing this issue, promoted the idea of granting ad hoc quota increases for member countries whose quota shares are significantly underrepresented. I am happy to note that, following extensive discussions at the IMF Board and elsewhere, a broad consensus has emerged to place this idea at the core of the total package of quota and voice reform.

The resolution is truly epoch-making. It clearly states its objectives and the specified timeframe for the steps to be taken to implement this reform. The IMF management, the Executive Board, and all member countries should endeavor to cooperate in carrying out this reform within the specified period. Japan supports this resolution wholeheartedly and emphasizes the following points:

The Executive Board should begin discussions on a new quota formula soon after the Annual Meetings in Singapore and report progress made to the next IMFC meeting. The new quota formula should properly reflect members' relative positions in the world economy, and I believe that GDP should have significantly larger weight than in the current formula.

Based on a new formula, significant second stage ad hoc quota increases should be granted to a large number of underrepresented countries, with the aim of achieving meaningful adjustments in the quota share to properly reflect members' relative positions in the world economy, when the quota reform is finally completed. In order to ensure the voices of low-income countries in the IMF's decision-making process, the Board needs to discuss the issue of increases in basic votes concurrently with the second ad hoc increases. As for the increase in the basic votes, Japan supports an increase that is significantly more than the doubling of the current votes.

Agreements on both the second stage ad hoc increases and increases in the basic votes should be reached by the 2007 Annual Meetings, and no later than those in 2008. With this timetable in mind, the Board should initiate its discussions on these issues as soon as possible.

Strengthen Surveillance

Second, on IMF surveillance. Globalization has brought both opportunities and challenges to all nations. Bilateral, regional and multilateral surveillance are the fundamental functions of the IMF, with its deep knowledge and analytical ability in the area of macroeconomics. The IMF is expected to continue to make every effort to strengthen its ability, as well as streamline and prioritize its activities in this area in order to improve its effectiveness in surveillance.

In this respect, I welcome the progress made to date in realizing a new surveillance framework in the following aspects, having been initiated by the MTS and gaining momentum through the last IMFC Communiqué.

- To clarify the objectives and priorities of surveillance every few years;
- To initiate multilateral consultation;
- To assess the effectiveness of the surveillance function with regard to exchange rate policies, as well as the analytical capability of the IMF,

and to review the 1977 Decision on surveillance over exchange rate policies including its possible revision.

Moreover, in redefining the area of surveillance, I believe it important to take into account the need to strengthen analyses in such areas as international capital flows and financial markets, which have not been included in the traditional expertise of the IMF. I also encourage the IMF to promote regional surveillance that appropriately reflects unique developments and characteristics of certain regions.

To follow up on all of these issues, I call on the Executive Board to report concrete progress made in this area to the next IMFC meeting.

Providing Crisis Prevention for Emerging Markets

Third, on a new instrument for crisis prevention in emerging market economies. These countries have been growing rapidly, enjoying the benefits of globalization and increases in international capital flows. At the same time, they remain vulnerable to the rapid changes in these flows. The IMF needs to increase its credibility in these upcoming economies by broadening its toolkit so as to prevent capital account crises triggered by a large and rapid reversal of international capital flows, and also to respond appropriately and quickly to a crisis that has actually occurred.

In this context, I welcome the Board discussion on the well-balanced proposal on a new liquidity instrument for market access countries. I urge the Executive Board to expedite the discussions on this issue after the Annual Meetings and report further concrete progress to the next IMFC meeting.

Development Issues

In the field of development, Japan will continue to proactively contribute to achieving the Millennium Development Goals (MDGs) by steadily fulfilling the commitment to double the country's ODA to Africa in three years, as announced last year at the Asian-African Summit in Indonesia.

At the Annual Bank Conference on Development Economics (ABCDE) in Tokyo this May, which was the first ABCDE in Asia, we shed new light on the theme of "Rethinking Infrastructure for Development", namely infrastructure assistance in the future. As seen in Asian countries, infrastructure assistance as well as improvement in investment climate is important for developing countries to achieve sustainable growth and poverty reduction. I hope the discussion at this year's ABCDE that brought together cutting edge knowledge, both

from theoretical and practical aspects, would foster further deliberation on infrastructure assistance, thus contributing to sustainable growth and poverty reduction in developing countries.

That said, in my remarks on development, I would like to focus on three issues that were discussed at the Joint Development Committee held yesterday.

The Bank's Engagement with IBRD Partner Countries

In view of the fact that 70 percent of the world's poor live in middle income countries (MICs), it continues to be critical for the Bank to be actively engaged with MICs for poverty reduction. On the other hand, MICs have recently become more and more diverse. To respond appropriately to such diversity, the manner in which the Bank is engaged should be differentiated.

We have seen some MICs that have stable access to capital markets and ample domestic savings. These advanced MICs should seek to finance projects for poverty reduction and balanced growth primarily with resources they can acquire by themselves. In engaging with MICs with stable market access and a means to satisfy their own financing need, the Bank needs to bring their graduation in view and focus on non-lending services that supplement the recipient's own efforts, while lending services, if necessary, should be directed exclusively to climate change and other global public goods or to projects in a poverty area that would have a significant impact on poverty reduction.

Some MICs, that have been borrowers from the Bank, are getting positioned as lenders and donors to other lower income countries. I strongly urge them to act as responsible members of the international community, by collaborating with other lenders and donors and respecting internationally agreed frameworks.

For example, we have started to implement the Multilateral Debt Relief Initiative (MDRI) in which the International Development Association (IDA) and other multilateral institutions will cancel 100% of their debt claims on countries reaching the completion point. For this international financial support to remain effective and debt sustainability problems of developing countries not to recur, international coordination among all lenders, including emerging lenders, is essential so that no lending will be made without taking debt sustainability issues into account. Increased transparency of assistance by the emerging donors is also important.

The Bank is expected to share sufficient information with the Fund and to play an active part in ensuring that emerging lenders and donors take debt sustainability issues into account in all lending practices,

increase aid transparency, and respect other internationally agreed frameworks, through strenuous discussions for Country Partnership Strategy (CPS) and other policy dialogue.

Strengthening Bank Group Engagement on Governance and Anti-Corruption

I welcome the initiatives to which the World Bank has committed to strengthening governance and anticorruption measures, based on the lessons learnt from its experience. Good governance of developing countries, which would be reinforced through the Bank's engagement, contributes to enhance effectiveness of aid and to improve the aid environment, and, thus, is in Japan's interest as a major bilateral donor. It also contributes to maintain our trust in development aid. It is apparent that in the long run good governance and anticorruption measures will have a positive impact on economic growth and poverty reduction. I hope the Bank will make these initiatives truly effective by respecting the ownership of recipient countries and promoting dialogue with broad stakeholders.

Investment Framework for Clean Energy and Development

For decades, Japan has actively addressed global environmental issues. First, it was in response to serious environmental issues faced during the 1950s and the 1960s, then to the so-called oil shock in the 1970s. More recently, Japan has been trying hard to achieve the Kyoto Protocol targets.

Climate change is a global issue with an impact that transcends national boundaries, and efficient use of energy is also indispensable, particularly to development. Thus, clean energy and development need to be discussed from a practical point of view and beyond national-level interests by all countries, whether developed or developing. In this respect, the Bank is expected to play a vital role both in financial and technical assistance.

That said, I would like to comment the three pillars of the Investment Framework for Clean Energy and Development.

First, regarding the issue of energy for development and access to the poor, I welcome the approach putting an emphasis on infrastructure for poverty reduction, which Japan has been consistently advocating.

When discussing the action plan for electricity access for the poor in Sub-Saharan Africa, not only grant but also utilization of multilateral and bilateral loans and private capital needs to be elaborated, in view of its expected contribution to growth and substantial funding needs. If assistance which utilizes loans combined with proper energy sector

reform consulted by donors is successful, it will contribute as well to enhance credit culture in this region.

Second, regarding the transition to a low-carbon economy, development of new technology is admittedly one of the key aspects of achieving a low-carbon economy. However, in view of the limited resources available to the Bank, it is imperative for the Bank to focus on deployment of existing commercially available technology, particularly for energy efficiency, so that the Bank can maximize use of the resources. I believe such an approach will eventually lead to a shift to a low-carbon economy. Based on this, it is necessary to have discussions focusing on how to make the most of private capital and existing financing instruments. Mainstreaming efficient use of energy in CPS and other policy dialogues while utilizing knowledge of other institutions such as International Energy Agency (IEA) is also important, particularly for emerging economies which are major gas emitting countries as well.

Furthermore, when discussing the subject from the perspective of beyond 2012 towards the ultimate goal of the Framework Convention on Climate Change, it is essential not to fix the current framework, under which only certain developed countries are obliged to mandatory reductions of carbon gases. We need to have discussions leading to the establishment of a more effective future framework, which would not only facilitate maximum effort of major green house gas emitting countries for its reduction, but also encourage all countries to contribute in line with their ability for the ultimate goal of Framework of Convention on Climate Change.

Let me also add that Japan has the world's highest levels of expertise and experience in the field of energy saving. When measured by carbon dioxide emissions, for example, Japan's GDP per capita emissions are almost half the average of OECD countries. Japan stands ready to make the best use of such expertise and experience for the transition to a low-carbon economy, by fully cooperating with improvements in energy efficiency.

Third, regarding the challenges for climate change adaptation, Japan has made active contributions as a bilateral donor to help prevent disasters, such as floods and droughts. Japan would like to share the expertise that has been accumulated through these activities with the Bank and other donors. Japan would also like to continue to proactively contribute in this field.

Conclusion

Since the establishment of the IMF and the World Bank sixty-one years ago, the economic and social environment has experienced a dra-

matic change particularly in the process of globalization. Because what is taking place is dynamic and structural, the reforms to be taken by these institutions need to be comprehensive. A piecemeal and ad hoc approach will not work and would not meet the concerns and requirements held by the member countries, who are both customers and shareholders. Efforts should be made to keep our institutions relevant to all members. It will be a challenge but one that I am confident we can meet. Both institutions need to clarify their responsibilities based on the central objectives of their institutions. They need to strengthen their effort to improve their institutional capabilities and streamline and prioritize their operations, such as surveillance, crisis prevention and development assistance. The governance reform will promote these efforts.

I would like to conclude my remarks by extending my best wishes to both institutions in making continuous endeavor to play a significant role in promoting the stability and sustainable development of the world. The challenge ahead of us calls further efforts by management, staffs and member countries' wisdom, persistence and cooperation.

KOREA: OKYU KWON
Governor of the Fund

First of all, let me express my deepest appreciation to the Government of Singapore for hosting the Annual Meetings.

It is truly an honor for me to address such a distinguished audience today at the IMF and the World Bank Annual Meetings as Governor for Korea.

When the IMF and World Bank were first established, the Asian region was heavily dependent on international aid.

However, Asia today has emerged as one of the major players in the world economy, and is receiving more attention than ever in the global community.

Therefore, it is all the more meaningful that this meeting is taking place in Singapore, which is the financial and logistical hub of Asia.

High demand for education, trade liberalization, and strong entrepreneurship were major contributors to the rapid transformation of Asia. However, without the support of the IMF and the World Bank, Asia could not have become what it is today.

Therefore, let me take this precious opportunity to express my deepest gratitude to the IMF and the World Bank for the support they have rendered to the Asian countries.

The world economy is constantly changing. Globalization and the increased flow of capital provide not only opportunities but also various challenges to the prosperity of the global economy.

This calls for the IMF and the World Bank to constantly change along with the evolving global economy.

In this sense, I highly acknowledge the reform efforts these two agencies have made during the past year, and I would like to add a few comments to the future role of these two institutions.

Let me first talk about the role of the IMF.

First of all, I greatly welcome the Fund's decision to give top priority to its governance reform.

As Managing Director de Rato once mentioned, if the Fund intends to maintain its leading role and legitimacy, the voice of each member country should be fairly represented in its decision-making process.

In this sense, I sincerely thank the Fund and its members for supporting the ad hoc quota increase for four emerging market countries, including Korea.

I have no doubt that the initial increase will send a strong message to the global community that the Fund is on the right track to achieve its governance reform.

However, there is still much to be done. Many countries' quotas still need readjustment to properly reflect their changing economic weight.

Further, the new quota formula should be established based on the consensus of all members, and the voices of low-income countries should be strengthened.

Against this backdrop, I call upon all members to join the efforts to reach a consensus on the second stage reform, building on the momentum created in the first stage.

Most importantly, efforts should be made to redistribute the quotas of some Asian countries according to their improved positions in the global economy, and I expect similar efforts to be made in the Bank as well.

The Korean government strongly supports the Fund's recent efforts to strengthen its surveillance role for crisis prevention.

I also welcome the introduction of Multilateral Consultation as a means to resolve global imbalances.

However, in order for multilateral consultation and strengthened surveillance to successfully contribute to stabilizing the global economy, the IMF's capacity must be further enhanced.

On top of improving its analytical skills, the Fund should be able to coordinate the diverse interests of its member nations, so that the Fund's policy measures can be acceptable and trustworthy to all members.

Let me now move on to talk about the World Bank's poverty reduction efforts.

As you know, the World Bank's efforts in various fronts to reduce poverty and to achieve the Millennium Development Goals have been remarkable.

I also agree with the need to intensify the Bank's anti-corruption and governance reform efforts in order to improve its aid effectiveness.

Taking this opportunity, I would like to express Korea's strong commitment to achieving the Millennium Development Goals.

As part of its efforts, Korea has decided to establish a 30 million dollar fund in the IBRD and a 1.5 million dollar fund in the IFC within this year.

The Korean government will also triple the ODA to Africa by 2008, according to the Africa Initiative that our president Roh Moo-Hyun announced this spring.

We will also invite one thousand Africans to receive vocational training in Korea within the next three years.

Moreover, Korea will continue to share with developing nations its unique development experience of transforming itself from a recipient country to a donor nation in one generation. In this context, I would like to highlight three major factors that contributed to our rapid economic development.

First, trade liberalization paved the way for the export-led economic growth of Korea. Therefore, I strongly believe that the DDA negotiations that recently stalled must be restarted with a new momentum. Also, aid for trade should be continued regardless of the resumption of the talks.

Another contributor to Korea's rapid development was active investment in human capital. In this sense, I hope the Bank's Fast Track Initiative can achieve successful results.

Confucianism, which highly values the importance of education, laid the groundwork for the remarkable economic development of the East Asian economy.

Therefore, encouraging the developing nations to put higher priority on education would be as equally important as providing financial aid to these countries.

Third, after realizing at an early stage that reducing corruption was a major determinant of successful economic development, Korea has been making continuous efforts to build a transparent society.

We also came to a conclusion that supporting the establishment of an anti-corruption system is much more effective than imposing sanctions against corruption.

Before I close my remarks, I once again extend my sincere appreciation to the Singaporean government for organizing this important occasion with excellent arrangements and warm hospitality.

I hope the global efforts to achieve our shared objective of poverty reduction and strong world economy produce successful results, under the excellent leadership of the IMF and the World Bank. I also pledge Korea's strong commitment to participate in these efforts.

LAO, PDR: CHANSY PHOSIKHAM
Governor of the Bank

It is an honor and a great pleasure for me to represent the Government of the Lao People's Democratic Republic (Lao PDR) at the 2006 Annual Meeting of the Board of Governors of the International Monetary Fund and the World Bank.

Let me join my fellow Governors in congratulating the Chair, the President of World Bank, Managing Director of the IMF and the Government and people of Singapore for the excellent arrangements made for this important meeting and for the very warm hospitality extended to our delegation.

I am also pleased to have the opportunity to visit this very beautiful country of Singapore, one of the most advanced countries in Asia, a country that is rich in culture and harmonized society.

I would like to take this opportunity to inform the meeting on the Lao PDR's current economic situation. In the first ten months of the fiscal year 2005–2006, The macro –economic situation continued to be stable, the economic growth rate was 7.5%, inflation was at a single digit level, and there was limited fluctuation of the exchange rate.

The Government continues to emphasize on strengthening the public revenue and expenditure management by revising the existing legislations such as the budget laws, the decree on the National treasuries, the thrifty measures, and the decree on the management of the public expenditures. In addition, the Government will put more efforts in educating the officials, the business entities and public to have better understanding on these legislations.

The payment for the public servants' remuneration is the highest priority on the expenditure list of the Government, and in the first 10 months of the fiscal year, the Government was able to make up to 78.62 percent of the year's target.

Both domestic and foreign investment have been significantly increased and one likely to grow in the future, The main factors contributing to this growth were the adoption of the single window process for approving foreign direct investment (FDI), which has further facilitated and streamlined FDI; the start of the construction of the Nam Theun 2 hydropower project; and the start of a copper mining project. These two big projects have helped to increase foreign investors' confidence in the Lao PDR.

The start of fiscal year 2005–2006 is also the start of the sixth 5-year social and economic development plan (2006–2010). The main economic targets for 2006 are an economic growth rate of 7.5% to 8%, and a GDP per capita of US\$529. The Government will also continue

to support export-oriented policies in order to achieve export growth of 15%.

In addition, the Government will continue to pursue appropriate fiscal policies, with the aim of increasing revenue collection and strengthening expenditure controls in order to maintain the stability of the economy as well as preparing for the implementation of the Nam Theun 2 revenue management mechanism by working closely with the World Bank in preparing this mechanism in order to ensure the revenue will be used transparently and toward poverty reductions and environment protections. These actions are important Government's priority stated in the National Growth and Poverty Eradication Strategies.

The maintaining of one single digit inflation rates and stable exchange rates are considered very important by the Government in order to promote the investment and economic growth. For the promotion of the investment, the Government gives the priorities to the investment that will provide the technologies transfer to the Lao PDR, while also ensure the environment protections are well in place. Further more, the Government will mobilize all of its efforts to achieve the social-economic developments goals for 2006–2007 as adopted by the National Assembly.

As everyone may be informed, the Avian Influenza outbreaks has recurred in the middle of 2006, for the Lao PDR, the Government has exercised the cautions measures long before the recurrence of the outbreak by setting up the National Committees on the Avian Influenza diseases control and prevention. In July 2006, an Avian Influenza case was identified in Laos, and the Government took prompt action to limit the outbreak. The Government is continuing the public education on the Avian Influenza, and urges the public not to consume the poultry at risk, as well as banning importation of poultry into Laos.

In implementing these surveillance and cautions measures, the Government has received the significant technical and financial assistance from the World Bank, Government of Japan, the UNDP, and the European Union.

From 2005, the World Bank has changed the forms of assistance from credit to the grant aids in order to support the development of the Lao PDR, starting from the capital investment of the Lao PDR in the Nam Theun 2 hydroelectric project, the Poverty Reductions Support Operations, Health Services Improvement. The Lao Environment and Social Programs and other projects. Although the annual support of the World Bank to Laos was reduced to around 20–40 million US Dollar. We understand that this reduction was the result of the performance-based allocations, however, we are concerned that this mechanism may

have the negative implications on the social-economic of the Lao PDR, therefore, I urge the World Bank to reconsider this issue.

I again, on behalf of the Lao PDR, would like to take this opportunity to express our sincere thanks to the World Bank for being a good development partner with the Lao PDR. I would also like to thank other International Finance Institute, bi-lateral and multi-lateral donors in supporting the development of Lao PDR. This assistance is very important in contributing to the social-economic development of the Lao PDR, and to transform Laos from being a 'Land-Lock' to be a 'Land-Link' country.

In additions, we also highly praise the efforts of different donors in aligning their assistance strategies and to be in line with the social-economic development plan of the Government. These efforts will help to streamline the assistance as well as increasing its effectiveness and better assist the Lao government in achieving its development goals.

Finally, I would like to wish this meeting to be very successful.

LATVIA: IRENA KRUMANE
Governor of the Bank and the Fund

I find it a great honor to address the 2006 Joint Annual Meetings on behalf of the three Baltic States—Estonia, Latvia and Lithuania. I would like to thank the authorities of the Republic of Singapore for their hospitality and the excellent organization of this important event. In my speech, I will focus on the main agenda items of the Development Committee and the current status of our cooperation with the Bank.

*Strengthening the World Bank's Engagement with IBRD
Partner Countries*

Let me start with issues related to IBRD support to Middle-Income-Countries (MICs), a topic that we feel most strongly about, given that it is not too long ago that the Baltic countries were still borrowers from the Bank.

We recognize and are supportive of the pivotal role of the World Bank in fighting poverty and promoting sustainable development, be it in the poorest parts of the world or in the Middle-Income-Countries. Concerning the Middle-Income-Countries, in addition to the objective of fighting poverty, we see that the key rationale should be the work on the large agenda of unfinished reforms, putting special emphasis on sustainability of reforms. To that end, and based on experience with EU pre-accession aid, we consider that use of country systems is an important entry point and a very efficient way to strengthen legal systems and administrative capacity of recipient countries.

We also highly appreciate the Bank's efforts to establish a new paradigm in its relationship with IBRD partner countries. As we know, the Middle-Income-Countries have substantial variations in income, economic and administrative performance, market access and incidence of poverty. That creates the need for specifically tailored products and services, and hence, challenges the Bank. Therefore, we believe that the new IBRD strategy for its engagement in MICs and the updated Action Plan will address efficiently the remaining reform challenges in countries concerned and will enhance a new pragmatic cooperation approach that takes into account specific circumstances and structural differences of emerging market economies.

Governance and Anti-Corruption

Speaking of the Governance and Anti-Corruption agenda, we welcome and highly commend the Bank for strengthening efforts in this area, since weak governance and prevailing corruption could be a major impediment for poverty reduction and development in a country. The Baltic States have undergone substantial institutional reforms and we know from our own experience to what extent the overall country performance and progress depend on the institutional integrity and good governance. We think that the approach demonstrated by the Bank in the outline "Strengthening Bank Group Work on Governance and Corruption" can be put in practice and help to tackle specific governance constraints. If properly implemented, the Bank's strategy would reinforce the ongoing fight against corruption. In addition, we believe that anticorruption work is an integral and important part of the concerted efforts undertaken by both the donor community and the developing world to reduce poverty and promote growth.

Becoming Donors

The Baltic States show inspiring macroeconomic performance and continue to be the most dynamic and growing region of the European Union. As the economic and structural conditions have changed dramatically over the past decade so have the modalities of our cooperation with the Bank. Estonia, Latvia and Lithuania are at the final stage of graduating the IBRD. As all of you know, graduation is a sign of success, but also an indication that we have reached a level of development, which enables us to increase our help to worse off countries. We hope that future cooperation with the World Bank will help to strengthen our role as donor countries and valuable partners in development.

Latvia is already a subscribing country of the International Development Association (IDA). Estonia and Lithuania are considering IDA

membership as new donors in the nearest future. Besides, in line with EU efforts to increase Official Development Assistance financing, the Estonian, Latvian and Lithuanian governments have made commitments to progressively increase the share of development aid in state budgets.

Cooperation with Other Countries

We believe that our countries possess valuable knowledge and experience in implementing reforms that could be useful for the other middle and low-income countries, and we would be glad to share all the lessons we have learned with any interested governments. Therefore, I would like to use this opportunity and encourage the Bank, in line with the MICs strategy paper, to actively explore concrete options on how to ensure a better and more systemic ways in using the experience of successful MICs. Such an approach would help to enrich the development thinking of the Bank and address more efficiently structural challenges faced by those Bank clients that are still lagging behind.

I would like to conclude my speech by thanking the Bank's Management, staff and the Board of Directors for their dedication and efficient work on the global development arena.

MALAYSIA: TAN SRI NOR MOHAMED YAKCOP

Governor of the Bank and the Fund

Global Economic Outlook

We are heartened over the revised economic forecast by the IMF that the global economy will grow by 5.1 percent in 2006 and 4.9 percent in 2007. This optimism is backed by vibrant and steady growth expansion in China and India as well as economic dynamism generated in the other developing countries in Asia. Emerging Asia is forecast to grow by 7.3 percent and about 7 percent in 2006 and 2007, respectively.

While the IMF's revised forecast for global growth does partly allay our concerns over downside risks, we share the view that we should remain vigilant and are prepared with appropriate strategies to meet any possible faltering of the global growth momentum. The possibility of sustained higher oil prices, rise in inflation and interest rates, the slowdown in global demand, as well as increasing protectionism, cannot be totally sidelined.

Malaysia's Economy

Growth of the Malaysian economy continues to be supported by robust export growth as well as sustained strong domestic demand. The

economy is forecast to grow at 5.8 percent in 2006 and 6 percent in 2007. Private investment and consumption have regained primary importance in the context of the Government's policy stance to consolidate its finances. The Malaysian Government continues to push for reform in its delivery system with the view to making the country an attractive place to invest and conduct business. Removing red tapes and streamlining rules and regulations are some of the initiatives undertaken to reduce cost of doing business and to improve investment climate. Fresh strategies are also being introduced to promote new sources of growth, especially in the services sector, biotechnology and finance. The role of education and training in providing the required skills is also strongly emphasized.

The services sector, which now accounts for about 58 percent of GDP, is seen as a major driver of future growth. Agriculture will be revitalized through modernization and the promotion of greater wealth-creating downstream activities. Manufacturing sector will be encouraged to engage in higher value added activities and focused more on sophisticated and technology-based activities to maintain its position as the second largest contributor to economic growth.

The Ninth Malaysia Plan, a five-year development plan, which was launched recently focuses on five key thrusts, namely: moving the economy up the value chain, raising the country's capacity for knowledge and innovation, addressing socioeconomic inequalities, improving the standard and quality of life, as well as strengthening the institutional and implementation capacity of the country. An overriding objective of the Plan is to ensure that economic growth leads to higher income and living standards of all Malaysians.

To operationalize the Ninth Plan, we subsequently launched the Budget 2007 early this month. The Budget has put in place various incentives and tax measures to accelerate the growth of the private sector. Efforts have also been undertaken to enhance and expedite the transformation towards a technology and knowledge-intensive economy which requires more competent and skilled workers with the necessary skills sets required by industry. In this regard, efforts will be intensified to improve access to quality education and training at all levels.

IMF's Quota and Voice Reform

We note the outcome of the resolution with regard to the IMF Reform on Quota and Voices. We were concerned with this exercise because the stage one ad-hoc increase was limited to only four countries and failed to address the significant under representation of many other members. However, we support the resolution in the interest of consensus building, just like many other member countries, believing that

this could ensure speedy progress and resolution of the entire reform agenda.

However, the real test of international cooperation is in the second stage. In this regard, Malaysia calls for a stronger commitment from advanced economies to limit their claims for higher quotas to allow emerging market economies to have greater voice representation. In addition, we share the majority view that the new formula should be simpler and more transparent, unlike the present one. More importantly, we should avoid prejudging that GDP would be the predominant factor in the new formula. Malaysia is of the view that all four variables, that is GDP, openness, variability and reserves are important indicators of a country's relative influence within the global economy as well as members' ability and willingness to contribute and play a larger role within the international financial community. In order to reach agreement of a new formula at the 2007 Annual Meetings and to provide sufficient time for the completion of the entire reform agenda by the 2008 deadline, there should be a firm commitment by all for an expeditious implementation of the second stage.

World Bank's Engagement with MICs

Malaysia supports the proposal for the World Bank partner countries to engage in a collaborative and cooperative partnership as it would be most beneficial for the Middle Income Countries (MICs), especially those which have not fully utilized Bank's resources. As such, the World Bank must be prepared to become more pro-active in delivering a flexible, high quality and cost-effective menu of services for all clients to assist them in achieving development result. For the Bank to meet this challenge, it will have to focus on strengthening four key activities, namely, integrated development solutions, strategy and coordination services, financial services as well as knowledge and capacity building services.

Finally, it is important for the Fund and the Bank to adopt an open approach in its engagement with the MICs to synergize on each others' strengths and expertise. In this regard, countries should be allowed greater flexibility in determining policy priorities and options in charting their own development paths.

MALTA: MICHAEL C. BONELLO
Governor of the Fund

It is a pleasure and an honor for me to address the Annual Meetings of the International Monetary Fund and the World Bank in this magnificent setting of Singapore. On behalf of the Maltese delegation, I

wish to thank the Singapore Authorities for the excellent organization of these meetings and their warm hospitality. I take this opportunity as well to express our appreciation to Ms Anne Krueger, who relinquishes the post of First Deputy Managing Director of the Fund, for her very valid contribution to the work of the Fund in recent years. We are confident that Mr. John Lipsky will continue to build on her achievements and wish him all success in his new post.

The International Economic Outlook

While the economic background to this year's Annual Meetings is generally benign, the global economy continues to face uncertainty and downside risks. These steer in particular from the high level and volatility in oil prices, which have negative repercussions for inflation and growth. The persistence of global economic imbalances and the possibility that these could unwind in a disorderly fashion represents another downside risk amid signs of growing protectionist pressures.

This notwithstanding, world growth has continued to accelerate at a fairly robust pace with the rise in world output estimated at 5.1% this year compared with 4.9% last year. Growth in many of the major industrial countries has been accompanied by a pick up in inflation, mostly due to the second-round effects of higher oil and commodity prices. These have led to a gradual rise in interest rates as monetary conditions continue to be tightened. There is no doubt that the main threat to price stability comes from the rise in oil prices, which is being driven by a combination of supply-side constraints and persistently high demand. Increasing tensions in the Middle East have exacerbated the situation.

For a small open economy like Malta's, which is totally dependent on oil imports for its energy needs, these developments have had severe repercussions. The large increase in Malta's oil bill over the last year has been reflected in a sharp widening of the current account deficit. It has also had a significant impact on energy prices, leading to a year-on-year rise in inflation of over 3%. As the Maltese economy continues to face the challenges of international competition and seeks to consolidate its integration with the European Union through the adoption of the single currency, a persistently high rate of inflation, driven by escalating oil prices, is complicating the country's efforts to achieve the Maastricht inflation criterion.

Nevertheless, economic activity in Malta has gathered momentum over the last year underpinned by buoyant, investment and consumption. In this regard, Malta's fixed exchange rate policy has contributed to macroeconomic stability, including in the area of government finance. Over the last three years the Government has consolidated its fiscal position following the expansionary stance of previous years. In

line with the medium-term fiscal program, the fiscal deficit has been substantially reduced, so that from a deficit/GDP ratio of 5% in 2004 this is expected to decline to under 3% this year. The Government expects to achieve its targets through higher tax revenues and better control of recurrent expenditure.

IMF Reform Strategy

We note with satisfaction the first steps the Fund will be taking to implement its reform strategy. We are all aware of the need for the Fund to respond to the dynamic shifts in economic power that have taken place over the last decade. We have supported the recent IMF resolution calling for an increase in quotas for a selected number of countries and laying down an outline for the second stage of the reforms which foresees further changes in the Governance of the Fund, including a further *ad hoc* quota increase, a simpler quota formula and a doubling of basic quotes. We hope that in depth discussions on these issues will commence soon so that the necessary work can be finalized as scheduled. We feel sure that these reforms will lead to a stronger voice for low income countries. They should also ensure a better representation for other under-represented countries, including a number of emerging economies that are now well integrated in the global economy and thus more vulnerable to external shocks. In this regard we would like to express our support for the proposal that in the new quota formula increased weight should not only be given to GDP, but also to indicators of countries' openness.

We are also pleased to note that the IMFC proposal for a new framework for IMF surveillance focuses more effectively on multilateral issues, especially the impact that economic developments and policies in individual economies could have on others. In the light of the persistence of global imbalances, it is therefore encouraging to see that the Fund has commenced multilateral consultations with a number of countries. Here it has to be emphasized that the effectiveness of this role will, to a large extent, depend upon the Fund's ability to demonstrate its independence in its surveillance work. Thus in exercising firmer surveillance on systemically important countries it has to maintain the independence of its analysis in the face of possible pressures from such countries.

Trade Issues

Global growth and the expansion in international trade have over the last year contributed significantly to the positive performance of

low-income countries. In this regard, therefore, we are concerned about the suspension of the Doha Round trade talks. There is a danger that a prolonged interruption in these negotiations could lead to a rise in protectionism and a shift to bilateral trade arrangements, which would weaken multilateralism and result in trade discrimination. We urge the major parties involved in the discussions to resume their discussions in order to conclude the Round so that both industrial and developing countries will benefit from the boost in trade, in goods and services that a successful outcome would deliver.

Fund/Bank Collaboration

We are also pleased to note the decision to set up a Joint Fund/Bank Task Force to make recommendations on the working relationship between the Fund and the Bank. A rational division of responsibilities between the two institutions is important to ensure that they complement each other. However, better Fund/Bank co-ordination should not be interpreted as a means of Fund disengagement from development. There are many common areas of economic development that necessitate expertise in both macroeconomic aspects and structural issues. In effect, therefore, both the Fund's expertise in macroeconomic analysis and policy formulation and the Bank's experience in the areas of social policy and poverty reduction should be harnessed to promote more rapid and sustainable development.

One such area where both institutions should continue to work closely is in the financial stability field. By ensuring that member countries adhere to high standards and codes, financial crises may be prevented both at the domestic and international levels. I am pleased to say that after having successfully undergone a FSAP three years ago, Malta invited a statistical mission from the Fund to prepare a Report on the Observance of Standards and Codes (ROSC) in the area of macroeconomic statistics. The mission prepared a final report in the early part of this year and its recommendations are now being implemented.

Here I would like to say that Malta strongly welcomes the Fund's efforts to assess the feasibility on a new mechanism with high-access contingent liquidity support for those countries with strong macroeconomic policies, sustainable debt and transparent reporting; providing this incorporates appropriate conditionality. These countries may still face potential weaknesses in their economic and financial structure. The availability of timely liquidity would enhance their ability to weather financial crises and should also reduce the risk of contagion to other economies.

Poverty Eradication

In the area of poverty eradication, much progress has been achieved but a lot still remains to be done if the Millennium Development Goals are to be reached within the planned time frame. There is a need for additional resources to finance development aid and in this regard the developed countries have to strengthen their efforts to achieve the internationally agreed ODA targets. In this regard Malta is striving to sustain its ODA/GNI contribution above the 2005 level 0.18% in line with the targets set by the EU for the New Member States.

In addition to ODA, such countries should benefit from increased aid flows aimed at reducing their debts, thus enabling them to release resources for their own development. In this regard, we welcome the progress achieved in the implementation of the Multilateral Debt Relief Initiative launched by the IMF, the African Development Fund and International Development Association. Such initiatives contribute to the eradication of extreme poverty in the low income countries. Here I would like to draw attention to the illegal immigrant phenomenon currently affecting my country, which is a reflection of the lack of opportunity and extreme poverty in a number of countries in Central and Eastern Africa. Malta is playing its part in providing food and shelter to a regular influx of illegal immigrants, but this is placing a considerable burden on its limited resources.

Conclusion

I would like to conclude by expressing our appreciation to the Boards, management and staff of the Fund and the Bank for their continued support and co-operation. Both institutions are making important contributions to the promotion of global macroeconomic and financial stability and the alleviation of poverty in developing countries. We wish them continued success in their work.

MYANMAR: HLA TUN

Governor of the Bank

I have much pleasure to have the opportunity to represent Myanmar and address the 2006 Annual Meetings of the International Monetary Fund and the World Bank.

Let me begin by congratulating you, Mr. Chairman, on your election as Chairman of these important meetings. It is very rare that the Annual Meetings have been held in South East Asia, only twice before had they been held: the first time in Manila in 1976; and the second time in Bangkok in 1991, and therefore, I, on behalf of Myanmar, am proud

and pleased to attend this auspicious occasion which is now being held in this very modern and developed ASEAN member country, Singapore.

I express my sincere appreciation to Prime Minister Mr. Lee Hsien Loong for his thoughtful observations in his address. I also thank the Government and the people of Singapore for hosting these very important meetings and as well as for extending us their warm hospitality since our arrival.

It is heartening to know that the global economic outlook is encouraging. However, we should not be complacent, as there still remain risks and challenges that need to be overcome. Although oil and commodity prices, especially gold prices, have come down from their near record highs, they still remain high and there are uncertainties about their medium term trend and as such, upward drift in inflation is likely. Geopolitical tensions have heightened while the renewed threat of terrorism is also looming very large. The global economy would be fluctuating in time to the changes and developments of these factors.

I would now like to brief you on the recent economic developments in Myanmar. I would like to stress that Myanmar's economy has continued to progress. In order to build a more stable and diversified foundation for sustained economic growth, successive short term plans have been formulated and implemented. In the Third Five Year Short Term Plan, from 2001–2002 to 2005–2006, significant growths have been achieved. Agriculture, livestock and fishery, energy and processing and manufacturing sectors are the main sectors which attributed to high growths of the economy.

As Myanmar aims to become a modern industrialized economy, measures have been undertaken to expand heavy industries, agro-based and agro-supportive industries and import substitution industries as well as export promotion industries. (18) industrial zones have been established and plans are also underway for the establishment of Special Economic Zones with the Special Economic Zone Law in the final drafting stage.

Development for transport and communication has also been given priority in order to strengthen the economy. For ensuring progress and prosperity as well as to fully achieve the Millennium Development Goals (MDGs), special emphasis has been placed for the development of the social sectors, as well as the development of human resources.

Myanmar has been diligently working towards establishing an effective anti-money laundering regime. As such, relevant laws, rules and regulations have been enacted, the latest one being the Anti-Trafficking of Persons Law which was promulgated in September of last year. Severe actions have been taken against organizations, enterprises and individuals who are found to operate money laundering activities. Due

to its relentless efforts, Myanmar has become a member of the Asia and Pacific Group on Anti-Money Laundering (APG) since March of this year.

Myanmar abhors and opposes any act of terrorism and thus has fully implemented the UN Security Council Resolutions relating to the prevention and suppression of financing of terrorism. Currently, Myanmar legislation draftsmen are in the process of drafting two anti-terrorists laws, namely: the National Aviation Security Law; and the General Anti-Terrorist Law. Myanmar is fully committed to engage further in establishing effective AML/CFT regime. We are in the final stage of discussions with the FATF Review Group in order to be removed from the list of NCCT. The FATF On-site Visit Mission will be coming to Myanmar during the last week of this month in order to assess the progress Myanmar has made in the area of AML/CFT.

We do not want to repeat again and again on the same issue year after year. However, it should be noted that Myanmar is a long and legitimate member of both the Fund and the Bank as it joined both institutions in 1952. Therefore, both institutions should not discriminate Myanmar on grounds, unrelated to its economic activities. Myanmar should be treated in the same manner as other members, without any discrimination whatsoever. As Myanmar is also an active member of various regional organizations, we are always trying our best to have normal relations with the organizations in which we are members. Therefore, we are still looking forward to resume normal relationship and to have close cooperation and coordination with the Fund and the Bank.

Resumption of normal relations with multilateral organizations would greatly support Myanmar's efforts at maintaining its growth momentum while at the same time upgrading the living standards of its populace and reducing poverty. No country can and need to stand alone. It is only by striving together with mutual trust, understanding, respect and coordination that global stability and prosperity could be achieved.

We remain committed to continue with our development efforts not only for our benefit but also for the benefit of the world community. However, our efforts, made with our own resources, have resulted in continued deficits in the fiscal sector. In order to reduce the deficits and to finally balance the budget, necessary actions, such as cutting unproductive expenditure, prioritizing expenditure and broadening the tax base, in order to increase revenue, have been taken. Needless to say, our efforts, if supplemented by international support, would have resulted in better and faster economic performance.

We are lucky as Myanmar is endowed with rich natural resources, with no natural disasters, and adequate skilled labor. However, without

doubt, resumption of normal relations with financial institutions and the donor community is essential for Myanmar for continuation of the momentum of its rapid growth. We would say that we are on the right track to achieve our goals of attaining sustainable growth, reducing poverty effectively and resume normal relations with the international communities.

I would like to urge the Fund and the Bank, to speed up their efforts on the issue of equal voice and representation of developing countries in the decision making process of the respective institutions. I would also like to reiterate that there is still lack of continuity in the composition of the yearly Article IV Consultation mission members, which should be seriously considered and addressed as continuity would enhance understanding between both sides and thereby benefit both parties.

Finally, I would like to once again thank the people and Government of Singapore for their warm hospitality and also thank the Fund and Bank for the excellent arrangements made for the success of this year's Annual Meetings.

We look forward to having closer collaboration with both institutions and wish them all the success.

NEPAL: RAM SHARAN MAHAT

Governor of the Bank

It is a great honor for me to address the 2006 Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund in this gorgeous city of Singapore. On behalf of the Government of Nepal I would like to put on record our sincere appreciation to the people and the Government of Singapore for their warm hospitality, and thank the Bank and the Fund for the excellent arrangements made for the meetings.

We have noted that the economic growth of world was encouraging in 2005. It was driven by favorable global financial market and structural macroeconomic policies. We are expecting the global expansion in 2006 by 4.9%, slightly higher than the 2005 level of 4.3%. Among industrial countries, the US economy has played a key role but its economy is expected to slow modestly to a more sustainable pace amid cooling housing market, high oil prices and rising interest rates. The growth of ever expanding Japanese economy, driven by strong private domestic demand is expected to slow down a bit as well. In the Euro-area, the momentum of recovery is expected to be sustained this year, despite signs of unexpected weaknesses in Germany. The high economic rates of the emerging economies of China and India are expected to remain strong this year too. As a neighboring country, Nepal can take the

geographical advantage of being between two of the world's emerging economic powers, and encompass our policies and priorities towards this direction.

On the other hand, the world has experienced escalating petroleum prices caused by political instability in the Middle East Asian Countries and natural havocs like Katrina in the US. It has become a real concern for oil importing countries that oil prices have hit new highs and future markets suggest that oil prices will remain high for the foreseeable future, resulting inflationary pressure and potential serious consequences.

As 2015 is approaching closer, it still remains a challenge for many developing countries like Nepal to achieve MDGs targets. This is not only because of the exogenous challenges being faced by such countries but also due to inadequate concessional resources to scale-up pro-poor growth and human development efforts. We would like to urge rich countries to bolster aid levels in line with the commitments made at the 2002 Monterrey Conference devoting 0.7% of their gross national income to aid. We support the version mentioned in World Development Report 2006 that "Aid should not be undermined by Debt".

Hundreds of millions of the world's poor live in countries where crushing debt stands in the way of lasting poverty reduction. This situation demands that the Fund-Bank should be proactive and take leadership in safeguarding the interests of the poor countries. We appreciate the debt relief proposals of the G-8 Finance Ministers in Gleneagles last year and welcome the progress made in this direction. We believe the initiative would support the heavily indebted poor countries to get rid of debt burden undoubtedly. However, we are of the view that this initiation should not hamper the IDA flows to developing countries and should not replace the existing potentiality of scaled up concessional resources flows.

We are facing opportunities as well as challenges by joining World Trade Organization. To benefit from the global opportunities, the LDCs should be given effective and proportionate share to voice for their interest, while the developed countries should think seriously of reducing protections like subsidies to their exports and encourage value-added processing in developing countries. We support the recommendation made by the UN Millennium Project 2005 for the total removal of barriers to merchandise trade, a substantial and across-the-board liberalization of trade in services, and the universal enforcement of the principal of reciprocity and non-discrimination.

Suspension of Doha Trade negotiation is a matter of disappointment. Let us hope it will be back on track with encouraging results in the days to come. We encourage the Bank to continue engaging in Aid

for Trade agenda despite the Doha suspension. This is helpful in providing technical assistance and capacity building to the developing countries so that these countries would really benefit by the free trade regimes. We welcome the initiation of the Bank on regional co-operation, particularly in infrastructure, and would like to see further development to materialize it.

We welcome the World Bank engagement on good governance and anti-corruption actions. This is crucial towards attaining poverty reduction and MDG goals. While recognizing the recipient countries' obligation in this respect, the external dimension of this problem—the role of international suppliers of goods and services to developing countries—can hardly be ignored. It would be naive to believe that the recipient countries have the capacity to control such bribes. We, therefore, urge that the dimensions of the problem also be looked into, and enforcement of anti-bribery and anti-malpractices conventions in countries where such institutions are based, be strictly monitored.

Now I would like to briefly dwell upon current economic situation of my own country.

Nepal's economy has been in crisis for over half a decade. The country achieved annual average economic growth rate of 5.1 percent in the 1990s following the political change. Trade liberalization and practical economic policies contributed to this. The political stalemate and escalating conflict since 2000 had a negative impact. The real GDP growth during 2000/01–2004/05 has hardly kept pace with the population growth. The economy is now looking for a new momentum with the peaceful resolution of armed insurgency in sight. In spite of rise in petroleum prices, the inflation rate remained at a moderate level. Despite this, our economy is able to maintain macro economic stability due to budgetary discipline and adoption of prudential monetary policy.

At this juncture, the foremost need of the country and people of Nepal is to create an environment conducive to the deprived population, where there are low level of inequalities and plenty of opportunities for livelihoods, which assures sustainable peace and creates space for growth and development.

We cannot afford the repetition of insurgency—again and across generations. We do not want our young children to carry guns and explosives instead of pen and book in their delicate hands. It is well understood that the conflict in Nepal is not only political but it is fuelled by deep-rooted disparities, exclusiveness, inequality and deprivation. Improving the situation gradually and at a faster pace calls for a huge amount of resources and firm commitment.

After the historical events and the political changes that followed the peoples' movement in early 2006, Nepal is pursuing important

initiatives to achieve sustainable peace and peoples' welfare. The nation is heading toward economic and social transformation toward defining a "New Nepal"—a new state that is prosperous, inclusive and peaceful. Following the political changes, the democratic institutions are reinstated, and avenues for a lasting peace are opened up, new prospects of opportunities have emerged, and the economic activities that were suspended are now revived.

As indicated in the budget of this fiscal year, the national debate right now has centered on the future political system and process to achieve sustainable peace. This does not mean that the issue of economic development should be pushed back to the back burner. Democracy can not flourish on the foundation of a weak economy.

Reconstruction and rehabilitation are urgent needs. The economic activities, suspended during the period of conflict, insecurity and absence of peoples' representatives, are waiting to pick up. The rural area seeks new opportunities for employment and income generation. Crisis-ridden industrial, trading and tourism sector is yearning for industrial peace and investment climate. Damaged and destroyed physical infrastructures are in need of reconstruction. People displaced due to conflict want to return home and live a normal life. Socially excluded and oppressed people want a fair share. The budget of FY 2006/07 tries to get this process started to lay the foundation and build the momentum for the future.

It is against this background that I would request the World Bank to support Nepal to solve the immediate budgetary crunch and support the Government's plan to execute economic reconstruction by releasing the second tranche of the PRSC, without any delay. Similarly, I would like to request the IMF for extending the PRGF facility beyond November 2006, since this is based on country ownership and linked up with the country's poverty reduction strategies. We consider this as the macro-economic support vehicle of the Fund for low-income countries. Nepal would like to see the Paris Declaration on Harmonization, Alignment and Aid-effectiveness to fully materialize as to its spirits.

Peace and nation building are only possible when all concerned strive for bringing about an amicable settlement of conflict. And it can only be sustainable when we all tackle the reasons behind extreme and age-old human suffering and deprivation, especially for the disadvantaged population. It also means addressing the vast "infrastructure deficits" and improving the climate for investment. There is a clear and dire need to match between what we expect and what Fund-Bank offer. I am confident that the magnificent support by our development partners and well wishers will help Nepal in meeting these challenges.

NETHERLANDS: NOUT WELLINK

Governor of the Fund

Addressing this Joint Annual Meeting, I would like to focus on seven points. First, the challenges for the global economy. Second, Quotas and Voice. Third, surveillance and crisis prevention. Fourth, the role of IFIs in middle-income countries. Fifth, the Bank's strategy in the field of energy. Sixth, access to financing. And finally, countering terrorist financing.

The Challenges for the Global Economy

As regards the global economy, the outlook points to continued strong growth in most parts of the world, with the momentum of economic expansion expected to gradually shift from the US and emerging markets towards Japan and the euro area. This positive outlook gives us a unique opportunity for addressing some risks still present, three of which I would like to mention.

First, there still is the risk of a disorderly unwinding of global imbalances. In this regard, I would like to welcome the Fund's new initiative for multilateral consultations, the first of which is focused on global imbalances. This consultation should not lead to complacency and each actor should continue to take its own responsibility in helping to orderly unwind the global imbalances. In some countries policies should focus on increasing savings, while others should allow for more flexible and balances exchange rates, yet others should strive for increasing growth.

Second, especially for emerging markets, the current environment of low interest rates, low risks spreads and high commodity prices creates an opportunity for building resilience. This should include improving the profile of public debt, strengthening the financial sector or establishing a fund to preserve windfall profits from currently high commodity prices.

Third, a more long-term risk is the cost of population aging, especially in industrial countries. Preparing for these costs requires a strengthening of fiscal balances and, in many countries, reforms in pensions and healthcare systems.

Quotas and Voice

With respect to quotas and voice I welcome and support the outcome of the discussions and want to wholeheartedly compliment Managing Director De Rato and the IMF Board for their excellent work. I believe a historical step has been taken here in Singapore.

I fully endorse the decision to give an ad hoc quota increase to China, Korea, Mexico and Turkey. In addition, I am open to a discussion on the Fund's quota formula. Such a discussion should focus on a formula that reflects the Fund's mandate. I thus fully agree with the Resolution that a new formula should as a minimum capture the economic size of countries as well as their openness. The latter should be defined both in economic and financial terms. The IMF is basically about the relations between countries; variables catching that should figure importantly in a new formula.

Once agreement is reached on a new formula, it is natural to reflect this in actual quotas and I thus support a second round of ad hoc quota increases. I have, however, misgivings about the need to ex ante request certain countries to forgo part of a possible quota increase. This would weaken the legitimacy of any quota formula. In my view this prejudices an open discussion on a quota formula. Furthermore, I do agree that if general quota increases are deemed necessary because of liquidity considerations, we should use this opportunity to further realign quotas.

On the issue of voice, the Netherlands has persistently called for a meaningful increase in basic votes. I thus fully support the request to the Board to bring forward a proposal to at least double the basic votes and subsequently safeguard their relative share. I hope such a proposal will be brought to the Governors already at the Annual Meetings in 2007, in order to live up to our promises and strengthen the voice of low-income and transition countries.

Surveillance and Crisis Prevention

Turning to surveillance and crisis prevention. Given the increased importance of surveillance it is essential to improve the Fund's surveillance framework. I thus support the objective of strengthening exchange rate surveillance and am open to the possible amendment of the 1977 Decision on Surveillance over Exchange Rate Policies. At the same time, strengthening surveillance may well be achieved through alternative routes. Indeed other important initiatives are underway. For example, the Fund should bring its coverage of financial sector and capital market developments at par with other core areas of expertise in surveillance. In addition, Article IV consultations should be streamlined, and multilateral surveillance should be better integrated within these consultations. Fund-advise in this context has the most impact if Article IV consultations are discussed in the Board. As part of an improved framework, a surveillance remit could be helpful in setting priorities. We should, however, be careful to prevent this from becoming a complex bureaucratic process.

Lately, the IMF Board has had discussions on developing a new liquidity instrument, in which we take a constructive stance. Such an instrument should be effective in preventing crises and at the same time minimize challenging issues such as stigmatization, the exit problem, moral hazard and compromising on the level of conditionality. An instrument with a relative short duration, as proposed by staff, could be helpful in overcoming some of these challenges, especially the exit problem.

The Role of IFIs in Middle-income Countries

The World Bank is currently reviewing its role in middle-income countries. Over the last decade, net private capital flows to middle-income countries have increased strongly. Concurrently, IFI-lending to these countries has declined. This does not mean that the role of IFIs in fighting poverty and increasing macroeconomic stability in these countries has become less important. It does, however, mean that there is a need to adapt the role of IFIs to changing circumstances. An overarching objective for IFIs in this respect is to assure their value added, both compared to the market and compared to each other. When deciding on entering into a project, program or TA activity or not, IFIs should explicitly consider their value added. This can be found in financial support in countries that have limited access to capital markets, as well as in providing expertise and in catalyzing private investment in order to strengthen capital market access. As countries develop, IFIs should be less involved in direct financing and should focus more on non-financial activities and indirect financial instruments. Whenever possible, countries should turn to the private capital market to finance their development needs. In addition, to prevent unnecessary duplication among IFIs, a clearer division of labor between them is necessary. This should be based on IFIs' comparative advantages. Close cooperation and partnership among IFIs is essential to avoid competition on price, standards and safeguards.

The Bank's Energy Policy

I would like to devote some attention to the World Bank's energy policy. Within the investment framework for clean energy and development, we should strive for the right balance between access to modern energy services for the poor and the promotion of a low carbon emission economy. I support the framework's emphasis on Africa through a special action plan for this continent and invite African governments to also incorporate access to modern energy services into their development strategies.

Access to Financial Services

An important issue I would like to address is universal access to financial services. In this regard I welcome the efforts of the World Bank Group and the IMF in promoting micro credit through their financing and technical assistance programs and through inclusion in many *Financial Sector Assessment Programs*. Of the 16 FSAPs that have not been finalized in Africa, for instance, 11 covered micro credit. I hope this initiative will continue to widen in the future.

Countering Terrorist Financing

Last March the Netherlands organized a Conference on Countering Terrorist Financing. Representatives, of both the public and private sector, out of over 40 countries participated and underscored the need to step up efforts in the combat of terrorist financing. They agreed to strengthen co-operation between public and private sectors, by ensuring sufficient exchange of information. Another important topic was the assessment of low income countries' implementation of the recommendations of the Financial Action Task Force. This is currently being followed up in the FATF. We call upon IMF and WB to support the follow up action within the FATF. The Conference concluded that existing funds for technical assistance can be used more effectively. This could be achieved by means of customized technical support, including a needs assessment.

NEW ZEALAND: MICHAEL CULLEN

Governor of the Bank

Introduction

Fellow governors and delegates, it has been two years since I last had the opportunity to attend the Annual Meetings of the Bretton Woods Institutions and I am delighted to once again participate in this meeting.

This year's meeting is interesting in that it allows for self-reflection with reform of the institutions themselves on the agenda. I would like to offer some thoughts on what I see as a very positive process. But first, I would like to say a few words on what I see as a large roadblock to reaching the goals of these Institutions.

Over the past year, New Zealand announced that it would support the Multilateral Debt Relief Initiative (MDRI) scheme, making firm and indicative commitments totaling NZ\$68.93 million from 2007 to 2043. A clear goal of the initiative is to free up resources for countries

to meet the Millennium Development Goals (MDGs), and I am encouraged that there is some evidence that this is being achieved.

However, as I speak here, I am concerned that the spirit and principles of economic multilateralism that underpinned the formation of these two organizations is being challenged by developments in the international community following the stalling of the Doha Round.

It gives me a wry smile that the Annual Meetings are in Singapore which in the past few weeks, gently edged past New Zealand into the number one position in the World Bank's Cost of Doing Business report. The economic development that has taken place in Singapore over the past 30 years is testament, amongst other things, to the commitment of successive governments to a free-trade agenda.

On Doha and Its Impact on Development

From New Zealand's perspective, the suspension of the Doha Round is extremely serious. Failure of the Round would incur obvious commercial costs for all WTO members—not to mention the risks to global economic stability if the credibility of the WTO was undermined.

This Round offers a real chance to stimulate economic growth and reduce global poverty, not least because it is seeking major agricultural reforms. With the suspension of Doha, the prospect of lifting millions of people out of poverty has been diminished significantly. More than a billion people live on US\$1 a day, while OECD countries between them spend close to US\$1 billion per day on agriculture support. That fact is unlikely to change, unless we all make an effort to conclude the Doha negotiations.

The impasse lies in the most difficult and sensitive areas of the negotiations—namely real cuts in farm spending and real gains in market access for agriculture and industrials. It is clear that the big players—the United States and European Union—will need to show leadership in getting the show back on the road. But large developing countries, including India and Brazil, also have a critical role to play in deciding the fate of the Round.

The window of opportunity is narrow and some tough political decisions are needed. But we must persevere. At a minimum, we must ensure there is no backsliding from the commitments and progress already made.

It will come as no surprise to many of you to hear that New Zealand remains committed to a multilateral trading system and the pursuit of further liberalization. The stakes are very high and we hope that over the coming months, movement can be made towards a successful conclusion of the Doha Round.

IMF Reform

I am supportive of the IMF Managing Director's program of reform as I consider the elements of the medium term strategy are central in ensuring that the Fund is well placed to meet the demands of the global environment and also ensuring that the IMF remains relevant to all its members.

I strongly support the Fund's efforts to enhance and strengthen its surveillance activities, given that this is central to the Fund's success in ensuring the stability of the international monetary system. To this end, I consider the introduction of the multilateral consultation to be an encouraging development and see this as a positive first step in examining the issue of how to promote an orderly unwinding of global imbalances.

I see the multilateral consultation as an ambitious undertaking and, noting that this is a first undertaking by the Fund of such an initiative, would suggest that one needs to be realistic about expectations of results from the consultation. However, I have confidence that the Fund will learn from the experiences gleaned from the consultation. I commend the Fund's initiative in launching this exercise and I look forward to the results of the first consultation being made available at the end of the year.

I would caution that there exists a tension between the Fund as trusted confidential advisor and calls for "creating the political momentum" for policy change. However, I think it is also important to note that the Fund, cognizant of the need to improve traction and influence, is in the process of considering measures of enhancing public debate via further development of their communication strategy. I view this as a positive development.

For the same reasons, I am encouraged by the efforts of the Fund to consider ways of best adapting to support emerging markets. I acknowledge that the Fund has a challenging task in order to balance the preferences of members for flexibility, certainty, and a timely disbursement of resources with the need for the Fund to provide adequate safeguards to protect its shareholder members. However, I support the Fund's initiative to develop a new instrument for crisis prevention.

A large focus of these meetings has quite properly been on the debate on governance reform, that is to say "Quotas and Voice". This is entirely understandable, given the range of possible implications that could result from a change in the way shareholding is calculated and implemented.

New Zealand is committed to ensuring that the governance arrangements within the Fund are clear and transparent. We believe that economic weight should be the predominant determinant of

shareholding. We see this as a key point of principle as my expectation is that whilst New Zealand may lose actual quota share relative to our current allocation we will gain overall from having a Fund that is more representative of all its members. As I mentioned to the Managing Director in June, we see this as part of being a “good international citizen”.

We are committed to ensure that the voice of the world’s poorest nations is not lost and as part of a reform process would support a significant increase in basic votes. I would use this as an opportunity to remind my fellow governors that poverty is not exclusively an African issue, but rather one that is a global issue with two-thirds of the world’s poor living in Asia alone.

We believe that there is a need for a clear timetable for the delivery of a meaningful Stage Two reform of the Fund’s governance arrangements.

World Bank—Effective, Targeted Engagement

I have been encouraged to read comments from President Paul Wolfowitz that the World Bank are viewing the reform process being undertaken by its sister organization with a significant interest.

The Bank needs to examine closely its ability to deliver effective and targeted engagement. There are clearly issues relating to the internal organization of the World Bank and the operation of its Executive Board that can be improved to deliver quality interventions to those that are most in need of them.

New Zealand considers that there needs to be a much greater focus on fragile states issues as such countries are more likely than others not to achieve the Millennium Development Goals and, in extreme instances, require significant resources through humanitarian assistance.

The traditional performance indicators of Bank performance such as volume or size of loans approved is not appropriate in the fragile state environment. Instead, the Bank’s performance metrics need to be more directed to development as a goal, with staff incentive that make in-country location more attractive and stronger collaborative processes with other development partners when delivering assistance to fragile states. For example the Bank could work with the UN system on enhancing political governance in parallel with Bank work on economic governance.

In the Pacific, both the Bank and the Fund have a tremendous role to play in the provision of valuable expert knowledge and technical assistance to the small island states of the region. We understand many of the challenges that the Bank faces mobilizing resources into non-lending environments, but would welcome the opportunity to work with

new East Asia Pacific Vice President, Jim Adams, to find workable solutions.

I see this as part of the significant challenge that the Bank faces as it looks to define its role in middle income countries.

New Zealand has welcomed the recent paper from the World Bank staff on this matter and is encouraged by the level of debate that this issue has driven at the Executive Board. I believe that this is one of the key issues for the Bank over the next few years and look forward to the opportunity to continue our engagement with the Bank on this matter.

Much of the discussion on debt relief to date has been focused on highly indebted poor countries (HIPC) and is providing these countries with a much-strengthened financial base compared to other poor countries. We are concerned that some HIPC countries are already back-sliding significantly through the accumulation of new debt or continued poor economic performance.

It is therefore imperative that all IFIs maintain vigilance in monitoring the impact of both the HIPC and MDRI initiative and react to any back-sliding towards extreme indebtedness on the part of countries that have benefited from debt relief.

Fund–Bank Collaboration

Finally, on the external review of Fund and Bank collaboration, we would encourage the review team to put forward tangible and practical recommendations when it releases its report at the end of this year.

We would encourage the review team to clearly state where it sees the comparative advantages of both organizations lying and areas where it sees either lack of co-ordination or competition between the two sister organizations as limiting each other's effectiveness.

The prospect of better utilizing the skills and resources of both organizations offers the potential for improved macro-economic stability and significantly improved development outcomes.

I believe that there are likely to be a number of “quick wins” arising from the review and I look forward to beginning to see the results of this when we gather again in Washington in October 2007.

Concluding Comments

New Zealand values its partnership and engagement with the IFIs very highly. We look forward to continuing to work together with other members to achieve our shared goals of reducing global poverty and promoting economic development.

PAKISTAN: SALMAN SHAH
Governor of the Bank

I would like to express my gratitude to the Bank, the Fund and our hosts—the Government of Singapore for their gracious hospitality and outstanding arrangements for these meetings.

The Monterrey consensus, UN and Gleneagles Summits set the global framework of achieving Millennium Development goals (MDGs) and delivering development outcomes. In this context, implementation of debt relief plan has already been accomplished this year.

Debt Relief and Additionality of Resources

While we applaud the full implementation of the multilateral Debt Relief Initiative (MDRI) we urge our development partners to deliver on their commitments to make debt relief initiative truly additional to other aid flows.

This Additionality is not only critical for achieving the MDGs but also for the sustainability of IDA. We therefore, look forward to scaling up of IDA 15 replenishments next year.

Governance and Accountability

Good governance and accountable institutions are necessary to achieve economic development and realize our mission of poverty reduction. In this context, we welcome Banks proposed strategy to partner with member governments in their governance and anticorruption programs. Strong country ownership and consistent and equal treatment across member countries must, however, remain the guiding principles for implementing governance and anticorruption assistance framework.

We also welcome the Bank's recent sanctions reform and voluntary disclosure program to guard against any risk of corruption in its own operations. But in order to build more accountable and representative institutions at the multilateral level, enhancing the *Voice* and *representation* of developing countries in the decision making process of Bretton Woods Institutions is of critical importance. In this context we appreciate the enhancement of quotas for four specific countries as a small first step in the right direction. We look forward to the next steps that will take the governance of the Bank and the Fund towards achieving the goals that the leaders of the international community had set for themselves at Monterrey in 2002.

Engaging Middle Income Countries

Middle Income and Emerging Market Countries (MICs) have made important contributions to global growth and poverty reduction. At the same time, this group of countries also faces major challenges of poverty reduction.

We welcome Bank's initiatives to build partnerships with MICs in addressing these challenges. We also support mainstreaming subnational lending, competitive loan pricing and use of country system to broaden Bank engagement in these developing countries.

Energy Challenge and Infrastructure Deficit

The global community faces a major challenge in securing affordable and cost effective energy supplies while preserving regional and global environment. There are two dimensions to the energy challenges: the escalating oil prices which are posing fiscal and macro economic stability challenges in mostly oil importing countries; and the deficit of needed investment in energy sector. Closing the huge infrastructure deficit is critical to any efforts towards unleashing growth potential and attainment of MDGs in the developing countries. The Bank and the Fund have to play an active role in financing and assisting countries to accelerate needed investments in infrastructure.

Aid for Trade

While the global efforts such as MDRI are important, trade and market access for the developing countries remains the most effective way of sustaining growth and poverty reduction. We therefore urge an early resumption of Doha development round of trade negotiations, and would encourage the Bank to play a more active role in strengthening mechanism for Aid for Trade.

Pakistan: Economic Performance and Outlook

Before concluding my remarks, let me briefly review the event of last fiscal year (June 2006). Less than a month after the last Annual Meeting, the South Asian region was struck by massive earthquake on October 8, 2005, causing extensive damage to social and economic infrastructure along with the loss of thousands of human lives. Mr. Chairman, Pakistan witnessed massive destruction of infrastructure, private properties and a loss of over 70,000 human lives. This tragedy not only tested the resolve of Pakistani people but also put international humanity at work. The outpouring of sympathy and the commitment of

the international community to help Pakistan rebuild its affected areas were deeply appreciated by the people and the Government of Pakistan.

Pakistan's economy has delivered yet another year of solid economic growth last year in the midst of the extra-ordinary surge in oil prices and the devastation caused by the earthquake of October 8, 2005. With economic growth at 6.6 per cent last year, Pakistan's economy has grown at an average rate of almost 7.0 per cent per annum during the last four years and over 7.5 per cent in the last three years. Pakistan has thus positioned itself as one of the fastest growing economies of the Asian region. The growth momentum that Pakistan has sustained for the last several years is underpinned by dynamism in industry, agriculture and services, and the emergence of a new investment cycle with investment rate reaching a new height. Therefore, the pre-requisite for sustained economic growth have gained a firm footing during the last seven years.

The strong economic growth that Pakistan sustained for several years in a row has paid handsome dividend in terms of reducing poverty, unemployment and improving the country's social indicators. Pakistan's economy has succeeded in creating millions of new jobs and taking almost 13.0 million poor out of poverty in the last four years. I would like to state that a sustained high economic growth did play a critical role in reducing poverty but we did not rely exclusively on growth to do the job. We spent over Rs. 1300 billion on social sector and poverty-related program as part of our direct intervention to complement growth in reducing poverty and improving the country's social indicators. I would also like to point out that Pakistan is a large country of 160 million people that is relatively a very young country where more than one-half of the population is below the age of 19 years. This is our major asset and will drive our economy and markets for the next 50 years. Sustaining a growth of around 7-8 per cent per annum over the next decade is our primary objective to ensure that we gainfully employ our young people in an expanding job market. On our part, we are trying to maintain a stable macroeconomic environment where private sector would play the dominant role. We are also making efforts to further improve investment climate by removing impediments to private sector development. The outcomes of the effort made so far are highly encouraging. Both domestic and foreign investors are upbeat on the prospects of Pakistan's economy. Domestic and foreign direct investment have attained a new height. Foreign investors, in particular are taking keen interest in our country by seizing not only the opportunities of a rapidly growing economy with strong middle class taking firm hold but also taking the locational advantages of Pakistan. Mr. Chairman, Pakistan is serving as a bridge between the West Asia, South Asia and Central Asia and is emerging as a potential production base for these vibrant regions.

We are also building a network of energy corridors and linking these regions to achieve their potential. Mr. Chairman, the philosophy of our Government is that it is not the job of the Government to remain in the business. It is in this perspective that we are following an aggressive program of privatization, both through the strategic sale of assets and through the General Depository Receipts (GDRs) by listing some of our best scripts in international stock exchanges.

Reform is a dynamic concept. A country must continue to adjust itself with changing domestic and international environment. Pakistan is currently implementing its second generation reform to sustain the current growth momentum. These reforms include the areas that would further improve the country's business environment and governance; would further strengthen financial sector, would enhance economic efficiency and competitiveness, expand social protection, and most importantly, would help improve our resource mobilization efforts.

PAPUA NEW GUINEA: RABBIE NAMALIU

Governor of the Bank

I would like to thank the President of the World Bank Group, Managing Director of the IMF, and the Singapore Government for hosting the 2006 Annual Board of Governors Meeting and for the warm welcome that we have received. This is an excellent opportunity for all of us to share, and learn from, the wealth of experience and knowledge that organizers and participants bring to these discussions.

Papua New Guinea continues to be faced with many challenges imposed by difficult geography, extreme ethnic diversity, population dispersion, a serious HIV/AIDS epidemic, poor social indicators, and weak public service capacity.

To meet those challenges, we have drawn on assistance from others, such as our development partners, and worked hard ourselves to ensure that we build a strong and robust economy to support the development needs of our people. I am proud to report that the Government's persistent effort to adhere to our goals has reaped good results in our economic and fiscal performance.

We have achieved political stability, which is a necessary condition for macroeconomic and financial stability and for sustained economic growth. The current government has now been in office for four years and looks set to serve out its full term. Political stability has been enhanced by a range of measures including the introduction of Limited Preferential Voting and the enactment of the Political Parties and Integrity Act.

Political stability has enabled us to introduce more policy stability. The Government is conducting its fiscal policy within a framework of

clear medium-term strategies. These strategies—the *Medium Term Fiscal Strategy*, the *Medium Term Development Strategy* and the *Medium Term Debt Strategy*—lay out plans which the Government has followed and will continue to follow. To confirm this medium term strategic framework, the Government introduced a *Fiscal Responsibility Act*, passed in August 2006, which calls for regular and public reporting of the budget position, and adherence through the term of each government to a set of fiscal principles including balancing the budget.

The *Medium Term Fiscal Strategy* maps out an affordable and sustainable path of public spending, and the *Medium Term Development Strategy* sets out the Government's priorities for its spending. The *Medium Term Debt Strategy* maps out a path of debt rebalancing to provide reduced exposure to risk.

These strategies have been complemented by an ambitious reform agenda. The Government's public sector reform has been promoted under the *Strategies for Supporting Public Sector Reform 2003–2007*, and the *Public Expenditure Reform and Rationalisation* process which has received welcome support from our development partners including the World Bank. Trade and financial services liberalisation, and a range of other reform initiatives aimed at reducing business impediments, have created a more supportive environment for private sector growth.

We have also benefited from a supportive global economy. Global economic activity has grown strongly and the prices of the major commodities that we export to the rest of the world have increased sharply.

Together, prudent economic and financial management, and a supportive world economy, have started to produce results. There is now increased investor and consumer confidence in macroeconomic management and longer-term growth prospects for Papua New Guinea's economy. Investment has increased, profits are up and more jobs have been created.

Economic growth is now expected to reach 3.7 per cent in 2006. And the outlook for 2007 is even better, with economic growth increasing to 4.0 per cent. We expect next year to be the fifth successive year of economic growth equal to or above population growth of 2.7 per cent. In other words, we are seeing a steady improvement in GDP per capita. This is a more consistent performance, and a better result on average, than was achieved from the mid 1990s through to 2002.

Prices remain low, with an inflation outcome in 2005 of 1.7 per cent in year-average terms, the lowest annual outcome since Independence. Interest rates remain around historically low levels. The exchange rate remains stable, with a slight appreciation against the United States and Australian dollars in the first half of this year. Foreign exchange reserves have increased further, and are now at levels sufficient to serve

comfortably the role of managing short-term exchange rate volatility. The Government will continue with the floating exchange rate system.

On the fiscal side, the combined effect of expenditure control and buoyant revenues was that in our mid-year review we expected to find a substantial surplus in 2006. Accordingly, a Supplementary Budget was prepared and passed in August. The government has taken care not to spend temporary windfall revenue in ways that would place pressure on future budgets. The additional revenue was allocated to the priorities in our *Medium Term Development Strategy*, and to meeting outstanding state obligations.

Despite this good economic and fiscal situation we are not complacent. We recognize that the macroeconomic outlook is still open to risks, and that we could easily be derailed by adverse domestic or global shocks.

We also understand how easy it is for fiscal discipline to slip, especially when conditions appear to be improving.

We are well aware of the daunting challenges we face in getting our economy to work well at the micro level and in improving service delivery to the community.

We are also aware of the risks from the HIV/AIDS pandemic and our other problems of public health, and the difficulty of putting in place systems to manage these risks.

More generally, we recognize the ongoing challenge we face to grow the economy and meet our development aspirations. There remains much to be done.

Like other developing countries, we know we can not, and should not, face these challenges alone. The increased linkages between countries through trade and investment, and the commonality of interests in poverty reduction, health, security and a host of other issues, mean that cooperation and sharing solutions to shared problems are increasingly important.

We are fortunate to have the knowledge and expertise, and in many cases the financial support, of our development partners around the world.

We need to ensure that we are able to make use of this support most effectively. International institutions can help in this by ensuring their support is properly targeted and coordinated, and that it is provided in such a way that it complements our own institutional development and policy design.

More specifically, in Papua New Guinea's case, we wish to mesh the development support from our partners with our own medium-term management strategies and development priorities. National ownership, leveraged by international support, will be a potent force to sustain our momentum.

I look forward to our discussions at this meeting and the insights that participants will bring. We have much to discuss and hopefully much to learn.

In concluding, I would like to acknowledge and express my Government's sincere gratitude to the management and staff of the World Bank and the Fund for their continuous support in Papua New Guinea's development effort.

PHILIPPINES: MARGARITO B. TEVES

Governor of the Bank

Allow me first to thank the people of Singapore and their authorities for the warm hospitality and excellent arrangements for our meetings. Suntec Singapore is a world class convention facility that is reflective of the country's stature as a global city. It is also a symbol of how Asia and the rest of the developing world have grown tremendously in economic importance since the Bretton Woods Conference in 1944.

Despite these changes, developing countries still lack the proper voice, representation and participation in the decision making processes of the IMF and the World Bank. It is therefore imperative for the credibility, relevance and legitimacy of these institutions that the distribution of power reflects the realities of the 21st century—not of the last century. The recent ad hoc quota increases in the IMF for China, Korea, Mexico and Turkey is a welcome step in the right direction and we encourage everyone involved not to lose momentum.

I welcome and support the Bank's comprehensive strategy on governance and anticorruption as a means to advance the Bank's core mission of poverty alleviation and the attainment of the Millennium Development Goals (MDGs). Efforts to strengthen governance and anti-corruption activities should therefore be viewed from a developmental perspective. Fighting corruption is just one aspect of the governance agenda.

In implementing this strategy, the Bank should continue to respect the fundamental importance of country ownership and work closely with government authorities. This not only ensures sustainable outcomes but also strengthens accountability.

The experience of the Philippines in the area of procurement reform illustrates the need for the Bank to work closely with reformers within government. Prior to the reform initiatives, the procurement system in our country was shackled by outdated legislation and inefficient practices. Losses due to corruption in the procurement system were estimated to be about \$400 million a year. Reform-minded leaders within government took the lead in initiating changes in the procurement

system for greater transparency and efficiency. They carefully planned their strategy, building on diagnostic work from the Bank, recognizing fully well that streamlining the procurement system is a complex and politically charged issue. A strong communications strategy was also implemented while bi-partisan leadership and ownership of the procurement bill was secured from the legislature. The bill was passed into law in January 2003, more than three years after the whole effort began.

Governance reforms are helping the Philippines to improve tax collection. We have instituted bold programs to address tax evasion, smuggling and corrupt tax officials. The improving fiscal position of the Philippines is starting to engender a virtuous cycle of increased tax collections, more expenditures for social services and infrastructure, and reduced borrowing costs. We are deeply appreciative of the IMF and the Bank for extending technical assistance to enhance our tax collection capabilities.

Another area where I think progress has been made is the Bank's articulation of its enhanced strategy for assisting its client partner countries. During my remarks at the Annual Meetings last year, I talked about the need for the Bank to deepen its engagement with Middle Income Countries (MICs). I stressed that the Bank must offer innovative and flexible financial instruments; that creative ways must be established to provide infrastructure for MIC and that listening more closely to MICs entails adopting a more tailored approach to development.

I am happy to note that these three points are reflected in the Bank's strategy. The strategy now provides a clear description of the value proposition the Bank can offer to MICs. The strategy also reaffirms that continued close engagement with these countries is central to the Bank's development mandate, its financial health and its sustained role as a knowledge bank. To be successful, any enhanced strategy for MICs should be flexible, multi-pronged, and comprehensive, in order to be responsive to differentiated and evolving demands across these countries. Greater use of country systems should be promoted given its importance in reducing the non-financial cost of doing business with the Bank and in strengthening the countries' institutional capacities. The challenge moving forward is how to ensure that the articulated strategy is implemented expeditiously.

The Philippines has benefited from the Bank's role as knowledge bank in the area of judicial reform. Through the Bank, the Philippines learned about Guatemala's mobile courts and therefore launched its own version of "Justice on Wheels". It also learned about the case management system in Venezuela. Conversely, Russia is interested in the Philippine experience on judicial reform while Pakistan on judicial education. Clearly, the Bank is helping facilitate knowledge sharing among MICs.

Fellow Governors, we share the concern that official development assistance to low-income countries has not increased, despite the renewed pledge by the international community at the UN Millennium Review Summit in 2005 to help accelerate the progress toward achieving the MDGs. We cannot emphasize enough that success will require a significant scaling up of efforts on the part of both donors and aid recipients, in terms of increased resources, better policies, improved governance, and enhanced aid effectiveness. The Bank and the IMF have central roles in helping realize these efforts.

In closing, I would like to stress that an open and vibrant trade system is critical for sustained growth and prosperity. Many of us in the developing world have pinned our hopes on the Doha Round of trade negotiations. The recent suspension of the negotiations was a major disappointment. It is therefore imperative that negotiations resume as soon as possible. The World Bank and the IMF should support this effort, especially by highlighting its potential benefits and the costs of trade distortions and barriers, particularly from agricultural subsidies and tariff escalation schemes in advance economies.

POLAND: LESZEK BALCEROWICZ

Governor of the Bank

It is the last time I have the pleasure to attend the Annual Meetings in my capacity as the Governor of the World Bank for Poland. Therefore, I would like to use this opportunity to—personally—thank again the Bank, the Fund, and their staffs for assistance they provided in Poland's transition process that started in 1989. At the same time, I would like to wish both institutions every success in pursuing their important mandates in the future.

Today, Poland is a very different country from what we have inherited after the collapse of socialism in 1989. We are a market economy, member of the OECD and the European Union. With the average annual growth rate over the last 14 years close to 4.5 percent, Poland almost doubled its income level. The economy continues to expand—the most recent data indicates a 5.5 percent GDP growth in the 2nd quarter of 2006, inflation remains low, and the external balance is under control. However, much remains to be done to ensure sustained catching up with the developed countries. The achievements of the last 17 years must be preserved and strengthened while reforms such as the consolidation of public finances, deregulation, privatization and the improvement of the effectiveness of the judiciary system should be implemented.

The transition from central planning to a market economy offers some lessons that are of more general nature.

First, the performance of transition countries differs greatly with respect to both economic and non-economic indicators. What explains this differentiation? One is tempted to look for the differences in the initial conditions. However, according to thorough empirical research, unfavorable initial conditions should not become an excuse, as their negative effects decline over time. The differences in the longer-term growth are mostly due to different policies: the greater the extent of market-oriented reforms and the more successful the macroeconomic stabilization, the better the growth record. Countries that catch up with reforms tend to catch up with growth as well, as the cases of Lithuania, Slovakia and Armenia confirm.

Second, better economic outcomes tend to be associated with better non-economic ones, because some economic reforms are crucial to both. For example, market-oriented reforms increase, *inter alia*, the energy efficiency of the economy and health indicators of the population.

Third, despite a popular belief, it is not excess of market-oriented reforms, but a deficit of some of them, which is at the root of serious social problems, such as high structural unemployment. This is true both for developed and transition economies, as shown by the World Bank, EBRD and OECD research.

Fourth, empirical analyses deny the opinion that faster growth caused by reforms results in higher income inequality. The opposite is true. Empirical research shows that countries that lag behind with respect to market-oriented reforms have recorded both higher increases and a higher level of income inequality than the leaders of reforms.

Turning to the Bank and the Fund, let me note that it is crucial for them to remain focused on the stability and growth agenda. Other Bank operations, e.g. in health and social sectors, are very important for poverty reduction, improved living standards, and the achievement of the Millennium Development Goals. However, without solid economic growth, these operations would not be sustainable or there would not be enough resources to scale them up sufficiently to meet the needs.

Finally, may I suggest that both institutions strengthen their role of early warning systems with respect to individual countries. This may be their comparative advantage as financial markets by their very nature react only to the accumulation of bad policies and then they usually overshoot. The Fund and the Bank should, in my view, focus more on institutional underpinnings of stability and growth, improve their communication skills and address not only governments, but also the public opinion in their client countries.

PORTUGAL: MARGARITO B. TEVES

Alternate Governor of the Bank

It is a great pleasure for me to be here and I would like to start by thanking Bank and Fund Staff for all the effort put in organizing this year's Annual Meetings.

Recent economic forecasts point to the gradual recovery of the Portuguese economy, in a context of a more robust growth path in the EU and a favorable outlook for the world economy.

Our ultimate goal is to guarantee that this growth path is sustainable, and that the climate of macroeconomic stability is conducive to more investment—particularly in innovation—and more jobs.

In this context, we continue engaged to implement far-reaching structural reforms, also in the budgetary front—by means of a solid strategy of budgetary consolidation, aiming at both reducing public expenditure and raising the sustainability and the quality of public finances. This strategy has already started to bear its first fruits, as recognized by our European partners last July. In this context, our commitment remains strong in ending the excessive deficit situation by 2008 and in creating conditions to avoid the accumulation of pressures on government expenditure afterwards.

The robust expansion of world economic activity is taking place in a context of an unprecedented process of globalization, which enhances the potentialities but also the risks of economic integration at global scale.

In this context, the monitoring of macroeconomic imbalances, the surveillance for financial crisis prevention and the support for crisis resolution need be enhanced, just as the fight against the abuses of the international financial system need to be strengthened, namely through better targeted and coordinated technical assistance programs at international level. We therefore welcome the *ongoing review being conducted by the Fund* as regards its own role, functions and broad medium term strategy.

Portugal Remains Fully Committed to the Global Fight on Poverty

The partnership for development between developed and developing countries established during the Monterrey, Johannesburg and Doha summits reconfirmed in New York last year remains the only way to provide urgent, concerted and sustained action in order to make faster progress towards the achievement of the Millennium Development Goals. These are not only objectives but also a way to measure progress. The first of these goals—poverty reduction—has been the

World Bank's overarching objective for many years and it is also a top priority of the Portuguese cooperation strategy.

Portugal supports the renewed focus of the World Bank on governance and anti corruption as key development issues. Poor governance and corruption affect disproportionately the poor and a strengthened approach is welcomed to improve accountability, transparency and equal opportunity for all. This approach should go beyond traditional public sector management interventions to promote institutional reforms with a larger impact in the governance structures and practices. In this context, we call for the Bank to stay engaged with all its client countries and approach these issues from the developmental perspective that is part of its mandate.

Throughout these 60 years of existence, the World Bank has been a driving force for development in middle-income countries by providing financing, technical assistance and knowledge products. The Bank needs to remain engaged and competitive with middle-income countries in order to fulfill its mandate, but also to continue to feed its unique amount of knowledge on development issues that can be used in other developing countries like IDA countries.

Portugal strongly supports further synergies within the Bank, which envisages a strengthened cooperation between IBRD/IDA, IFC and MIGA. This is particularly relevant for the establishment of an enabling environment to facilitate the involvement of the private sector, acting as a crucial vehicle for growth. In this regard, let me share with you my Government's recent decision to establish a new financial instrument—*Financial Corporation for Development* (SOFID)—that is mostly aimed at supporting the private sector development, through partnerships between least developed countries and Portuguese investors.

We are aware that developed countries will need to provide stronger support to the least developed through increased market access. Portugal urges the international community to a renewed effort for achieving a successful closing of the Doha Development Round. We also strongly support the World Bank and the IMF efforts to step up the Aid for Trade agenda and, with special importance on today's more difficult environment, we commend the Bank and the Fund advocacy roles on the urgency of a positive outcome of the negotiations.

Regarding the Multilateral Debt Relief Initiative, Portugal committed itself to reimburse its share of IDA's lost proceedings and we have already sent the Instrument of Commitment that assures that we will, throughout all the period, play our part to maintain the financial integrity of IDA and other multilateral institutions affected. We welcome this initiative and think of it as a renewed opportunity for Africa.

I would like to finish by thanking the Bank's and Fund Staff and Management for their excellent work, the Boards of Directors, Manag-

ing Director Rato and President Wolfowitz, for their strategic view and guidance and the Singaporean authorities for their warm and kind hospitality.

RUSSIAN FEDERATION: ALEKSEI KUDRIN

Governor of the Bank and the Fund

The Global Economy

According to the IMF projections, the world economy will expand rapidly in 2006–2007, at a rate of about 5 percent per year. With the same strong rates posted in 2003–2005, the period of robust global growth is projected to span at least five years. It has been a quite some time since the global economy has experienced such a sustained period of rapid expansion. In this context, a legitimate question arises: how great is the threat of overheating of the world economy and of an abrupt slowdown in growth in the near future?

For a long period of time the advanced economies pursued an exceptionally loose monetary policy, which led to significant accumulation of excess global liquidity. Apparently this increase in global liquidity has provided a significant boost to the dynamics of the world economy. It is interesting that against the backdrop of globalization, for a long time such loose monetary policy in the advanced economies did not lead to higher inflation and interest rates in these countries. The growth in global liquidity, however, has manifested itself in overheating of the housing markets, in rapid growth in equity prices, especially in emerging market economies, and also in a sharp rise in commodity prices, particularly of oil and metals.

The advanced economies are currently experiencing a build-up of inflationary pressures and a tightening of monetary policy. The containment of inflation in these countries could require a further increase in interest rates, which represents one of the main risks for maintaining strong global growth. At the same time, in the situation when there are more and more signs of overheating of the world economy, achieving its “soft landing” is increasingly becoming a priority task.

High oil prices represent a serious threat to global growth in the near term. In this context, we attach great importance to the implementation of proposals put forward during the G8 meetings in St. Petersburg, such as broadening the dialog between energy producers and consumers, facilitating investment in the energy sector, improving energy efficiency, and promoting greater transparency in energy market data.

The rapid expansion of the world economy is now taking place against a backdrop of further increase in global imbalances. According

to the projections, in 2007 the current account deficit of the United States will continue to increase further, while the current account surplus of China and some other Asian countries will keep on growing. This means that the threat of a disorderly and disruptive correction of global imbalances has not receded. Therefore, we are still facing the task of providing for a gradual rebalancing of global demand through the coordinated actions of the largest economies aimed at addressing the global imbalances. In this connection, we welcome both some reduction of the budget deficit in the United States and some increase in flexibility of the exchange rate policy in China. These efforts, however, are clearly not sufficient to overcome the negative trend in the development of global imbalances. Further steps are needed aimed at increasing the level of national savings in the United States and enhancing domestic consumption in China. We also welcome the acceleration of growth in European countries and Japan, which is contributing to needed changes in the structure of global demand. The sustainability of strong economic growth in these countries will depend on further steps in the implementation of structural reforms.

We expect that growth in Russia this year will be in the range of 6.5–6.7 percent, with a fiscal surplus in excess of 8 percent of GDP. We are continuing to contain growth of public spending and to boost contributions to the Stabilization Fund. In August of this year Russia used part of the Stabilization Fund resources in the amount of US\$ 23.5 billion to pay off all its restructured debt to the Paris Club countries ahead of schedule. This operation allowed us not only to considerably reduce government's external debt, but also to significantly improve its structure. High international oil and gas prices lead to a large current account surplus in Russia, which continues to complicate the implementation of monetary policy. This year the Central Bank of Russia is pursuing a more flexible exchange rate policy. Since the beginning of the year, the nominal exchange rate of the Russian ruble to the U.S. dollar has strengthened by more than 7 percent. We expect that this policy will enable us to achieve a further decline in inflation.

Quota and Voice Reform at the IMF

We attach great importance to the quota and voice reform in the Fund. We believe that members' quotas should be aligned with their positions in the global economy, and also that the voice of low-income countries in the Fund should be enhanced. In our opinion, the best approach would be to carry out this reform in a single stage on the basis of a new formula for calculating quotas. Nonetheless, we realize that complexities in the development of a new formula have prolonged that

abnormal situation whereby a number of countries continued to be underrepresented for an extended period of time. For these reasons we have consented to a two-stage reform process, with the understanding that all the steps stipulated in the second stage will be carried out. We fully expect that the ad hoc quota increase at the first stage of the reform will be the last one to be based on the existing set of formulas. We believe that the development of a new formula is the key element in the entire package.

Ensuring greater voice in the Fund for low-income countries is an important element in the proposed reform. These countries are gradually becoming the primary users of the Fund's services and resources and should have the opportunity to participate in full measure in its work. Therefore, we fully support the proposal for an increase in basic votes held by all Fund members, and we also support safeguarding a proportion of basic votes in total voting power in all subsequent quota revisions. At the same time, we believe that the size of the increase in basic votes should be linked to the change in quotas at the second stage of the reform.

New Strategy for the World Bank's Engagement with Middle Income Countries

We are satisfied with the overall positive trend in the World Bank Group activities. For example, we are witnessing an increase in IBRD lending volume. This reflects, in particular, the growth of business in such key area of international development as infrastructure. IFC business is growing on an accelerated path, which proves a high demand for its services by the clients and its positive contribution to improving investment climate and private sector development. IDA started the implementation of an extremely important Multilateral Debt Relief Initiative (MDRI), which will cancel about 37 billion USD of debt of some of the world's poorest countries. The World Bank continues to play a leading role in addressing regional and global issues such as fighting contagious diseases, expanding education services in poor countries, providing post-conflict support and relief to the victims of natural disasters, and so on. In general we can say that the Bank remains the world's leading development agency.

We believe that the implementation of the renewed strategy for engagement with IBRD partner countries will provide additional positive impetus to the Bank's activities. We strongly support this strategy's main proposals, including enhancing in the menu of financial and advisory services, designing more flexible delivery mechanisms, further simplification of the Bank's rules and procedures, and a more active

engagement in global issues. Because middle income countries are home to 70 percent of the world's poor, a strong emphasis on this client group is indispensable to fulfilling the Bank's central mission—fighting poverty. It is also important to bear in mind that staying engaged in the middle income countries helps to strengthen the Bank's financial capacity.

New Strategy for the Engagement on Governance and Anticorruption

Recently the Bank has renewed its attention to the issues of governance and fighting corruption. It is clear that improvements in governance and enhanced quality of public policies in the areas of social development, economic and fiscal management, coupled with an uncompromising fight against any kind of corruption, are critically important for the achievement of the MDGs. As underscored at the G8 summit in Saint-Petersburg, corruption is one of the worst impediments to international development. While supporting Bank's efforts in this area, we believe that they will be especially productive if the Bank draws on its comparative advantages, including profound knowledge of the economic and socio-political processes and realities in the developing world, and remains predictable, transparent and unbiased.

The new strategy should be based on the main principles that reflect emerging consensus among the membership. The most important of these is that all governance and anticorruption activities should remain an instrument of achieving the overarching goal, i.e. the MDGs. Improved fiscal management should become a priority, and this work is well within the core competence of the Bretton-Woods institutions.

Bank and Energy Sector Development

Infrastructure development recently became a focal point of the Bank's work. This has been facilitated by the renewed understanding that infrastructure is a critical ingredient of economic growth and social development.

Electrification has a central place among infrastructure development issues. We cannot be serious about fighting poverty when a major part of the poor countries' population has no access to electricity. This year the G8 put a special emphasis on energy security and fighting energy poverty. We believe that the Bank as world's leading development agency should be able to develop a large-scale program aimed at resolving energy bottlenecks in developing countries.

SERBIA: RADOVAN JELASIC

Governor of the Fund

I am honored to address this high level forum. My statement will focus on the significant progress Serbia has achieved in the context of the three consecutive IMF programs after the fall of the Milosevic regime. This progress is even more noticeable having in mind the uncertain regional environment and the present challenges the country is still facing in the second phase of transition.

Serbia has implemented far reaching macroeconomic measures, with the support of the Fund, during the last five years. The result has been the decline of inflation and foreign debt and the growth of foreign exchange reserves as well as foreign direct investments. Since 2000 real GDP in USD has almost doubled, inflation has decelerated from around 120% p.a. to single digits, hopefully, at the end of this year, while external debt has declined from over 130% to below 60%. This outcome has been accomplished by both very restrictive monetary policy (as of June 30th, 2006 around 34% of the banking assets were sterilized by the National Bank of Serbia) as well as prudent fiscal policy (fiscal adjustment totaling 4% in 2 years, surplus of 2.5% of GDP at the end of 2006). Parallel to that, income policy for state owned enterprises has been also put under control. Progress has been made in implementing the structural reform agenda under the government program actively supported by the IMF and the World Bank both in terms of development and financing, although there is still more to do.

The brightest point of the whole reform process was definitely during the second half of 2001 when we closed down 66% of the banking assets in the country! With this unique and bold move, we created not a run against the banking sector but public confidence! Since then, Serbian citizens have taken money from under the mattresses and put almost USD 4bn worth of fresh savings into our banking sector! Today the banking sector of Serbia has surpassed the level of total assets and number of employees before the large scale closure, while average salaries have almost quadrupled! Unfortunately, good examples in the financial sector are not automatically copied for the rest of the economy. As the transition process matures one needs substantially more time, due to growing reform fatigue, to carry out the same number of reforms!

Despite the encouraging economic achievements, we are fully aware of the challenging reform agenda and remaining vulnerabilities ahead of us. The income gap between Serbia and the EU is still substantial, the unemployment rate is high and the progress of structural reforms in some areas, including energy and transportation sectors, is still insufficient. Our reform policy framework of those future programs will be

based on three key elements. The first key element will be a monetary policy based on inflation targeting which will also change the role of the exchange rate from key policy instrument to an indicator. The second key element will be the implementation of cautious and flexible fiscal stance which has switched from high deficits to significant surpluses over the last two years. Last but not least, structural reforms must be accelerated and the state must also define its future role in the economy!

With the successful ending of the Extended Arrangement, Serbia finalized an important phase in its relations with the Fund and the Bank that was developed for post conflict and transition countries. As far as a new arrangement is concerned, since February this year, both the Serbian authorities and the Fund are following the “don’t ask, don’t tell policy”. And although macroeconomic conditions are improving, the country still has to address not only some important macroeconomic imbalances (inflation, high current account deficit) but especially an array of structural reforms. I am confident that once some key political decisions are made in Serbia, the authorities will refocus on the second stage of reforms that are needed in order to catch up with the best performing countries of the region.

The largest enemy of Serbia is still its recent past and its own skepticism. Even today, many investors admit to being apprehensive due largely to media reports during the very unfortunate events of the nineties. However, after actually visiting Serbia, they also report that the situation is substantially more positive than they were led to expect. I am confident that the recent upgrade of Serbia’s position by the World Bank’s Doing Business 2007 report, by 27 places—Serbia is the second best positioned after Slovenia among the all former republics of Yugoslavia—will further strengthen foreign investors’ confidence.

In the last six years the reform momentum has received a further boost from the political side, namely through the completion of the EU’s feasibility study in 2005 and the start of negotiations on accession. Although those negotiations are temporary blocked, I am confident that politicians will not risk for a second time after almost 15 years the EU future of Serbia. EU prospects will also establish a clear framework for moving ahead with the reforms. There is broad public support for EU membership and the country expects to have the candidate status in 2007.

SLOVENIA: BOŽO JAŠVIČ
Alternate Governor of the Fund

It is my pleasure and honor to address the 2006 Joint Annual Meetings on behalf of the Republic of Slovenia. Singapore’s multicultural

setting at the crossroad of cultures and its remarkable economic achievements make it an ideal venue for holding such meetings. There is another reason why Singapore is especially a good place to meet. Singapore tops the most recent World Bank ranking as a most friendly business environment. We came here to learn from Singapore's insight, to exchange our recent experience, as well as to discuss together the avenues for the future.

Looking ahead, the prospects for the world economy remain robust. For the fourth consecutive year the global growth has exceeded four percent. But, as the Malayan proverb goes, "Do not think there are no crocodiles because the water is calm." The downside risks are important and include volatile oil prices, accelerating inflation, large global current account imbalances, and tightening financial market conditions.

All economies have a shared interest for a stable global economy. Macroeconomic stability, sound financial systems, flexibility and sound institutions are all the most necessary ingredients for securing its continued smooth ride. There is no universal recipe about how these ingredients should be applied in a given place at a given time. But it is important that countries, when they pursue their own reform agenda, take into consideration a global context, for their own sake and for the benefit of us all. Or, as Indians would say, drops join to make a stream.

We learned immensely about how economies function and we have a good understanding about how economic policies should be designed. But the shift from the elegant ease of theory to the harsh reality of practice is not always straightforward. Achieving the right policy mix requires learning from experience; it also requires responding flexibly to new challenges. Without exception, experience is a long journey, or, as Chinese would put it, three feet of ice does not result from one day of freezing water.

Today, I would also like to share with you the lessons Slovenia has learned on its path of transition. Slovenia's economy expanded at 3.6 percent in average over the past 4 years. Unemployment is low, at 6 percent. Macroeconomic stability has been maintained and the structural agenda kept determined at all times. The efforts paid off. In 2004, Slovenia graduated from the Bank's loans and became a Part I country. It also joined the EU union. This year, Slovenia fulfilled all Maastricht convergence criteria and will adopt euro on January 1, 2007.

Several important lessons from this journey stand out:

First and foremost, fiscal prudence and sound monetary policy are of crucial importance. As Slovenians would say, if the roots are strong, then the branches are strong too. Slovenia maintained a low fiscal deficit and the public debt below 30 percent of GDP. Inflation was brought down in a smooth way.

Second is the lesson of taking prudent but continuing steps in the reform. Closely related is the need for social consensus. Reforms are done for and by the people. Their pace should, therefore, be ambitious but also realistic to generate the necessary public support.

Third is the importance of institutional strength and capacity building. Slovenia owes much to the technical assistance it has received from the Bank and from the Fund. Both proved as strong partners throughout the transition period.

Yet another lesson has to do with the recognition that only a strong financial sector can support growth. After financial soundness, the question of ownership comes second.

Last, but not least, a bit of luck is also needed.

Let me briefly conclude. The twenty-first century offers great opportunities for the world economy but presents it with important macro-economic and social challenges. There is a wealth of experience and wisdom about how to address them. All we need to do is to be willing to work together and be able to adapt to time. After all, this is for the benefit of this and further generations.

SOLOMON ISLANDS: SOLOGORDON DARCY LILO

Governor of the Bank

(on behalf of the Pacific Constituencies comprising Kiribati, the Republic of Marshall Islands, the Republic of Palau, Samoa, the Solomon Islands, Vanuatu, and the Federated States of Micronesia)

I am honored to address the 60th Annual Meetings of the World Bank and the International Monetary Fund. I would first like to congratulate the Government and people of Singapore on hosting such a well-run meeting.

I address this meeting on behalf of the Pacific Constituency of seven small island states. Our countries have a total population of 1.2 million people spread across several thousand kilometers of the western and central Pacific.

Our Pacific Constituency comprises seven culturally and physically very different nations. Despite our differences, however, our nations share some common economic features—both positive and negative.

On the positive side, we have generally strong and healthy people, still largely unspoiled natural environments and marine resources, significant tourist attractions, and for several of us, valuable forestry and agricultural potential. We all have access to relatively large programs of bilateral and multilateral external assistance, and we are all active members of regional and international organizations.

On the downside, we really are small, remote and expensive places to do business, our populations have tended to grow faster than our

economies could provide for them, and we have not made as good use of our domestic and external financial resources as we should have done—in particular infrastructure maintenance has been poor, corruption and a lack of transparency has impacted government performance, and our public institutions have lacked the capacity to deliver quality services. In addition, several of our members are heavily indebted and have no obvious means of repaying these debts and meeting either domestic development priorities or external commitments including Millennium Development Goals.

These problems are reflected in our recent history of poor economic performance. Over the last 14 years, Pacific constituency economies have contracted at an average rate of minus 0.3 percent per annum. This compares to a developing world average of 2.6 percent growth.

On top of these problems, external challenges exist. These include trade barriers and agricultural subsidies that restrict our ability to participate in global trade. We are also aware of our increasing vulnerability to natural disasters and climate change.

Against this background I am pleased to report that the Pacific constituency members are showing a commitment to deal with our problems. We are building on our strengths, becoming more accountable to our people, and managing our natural and financial resources more effectively.

For example, the continuing success of the Samoa economy in achieving an average growth rate of 4 percent per annum over the last five years, attests to the implementation of a comprehensive reform program over the last 10 years. This involved tax and tariff reforms, liberalization of the financial sector and the introduction of good governance principles and best practice policies throughout the public sector.

During the same period Vanuatu has initiated a comprehensive reform program that includes the restructuring of its public service sector. Partly as a result of this restructuring, which has improved conditions for private sector activity, real output per head in Vanuatu is now growing at an annual rate approaching 3 percent.

Tuvalu and Kiribati continue to supply trained seafarers to international shipping companies despite increasing competition from larger nations, and have also engaged in a comprehensive program of adaptation to climate change with assistance from the Global Environment Fund and bilateral donors. Kiribati's prudent management of its entirely self-financed national reserve fund has attracted much favorable comment internationally.

Solomon Islands is emerging from a drastic contraction of the monetary economy caused by a civil war that emptied the government treasury, physically displaced 25,000 people and destroyed several major enterprises. Assisted by a regional assistance mission that restored law

and order and re-established control of public finance, the government has stabilized the fiscal position and undertaken policy and administrative reforms to facilitate domestic and foreign investment and strengthen economic management.

One cornerstone of these improvements is the Pacific working together and harnessing our mutual energies. This is being done through a course of action devised and expressed as the Pacific Plan. The Plan complements national efforts in pursuit of economic growth for the Pacific region. I therefore urge the Fund and Bank to continue your support for the Pacific Plan and in particular those initiatives agreed upon at the recent Forum Economic Ministers Meeting (FEMM) recently held in Solomon Islands.

The task of raising the standard of living of all our people to acceptable levels presents a huge challenge. We are now so integrated into the rest of the world that a return to isolation and self-sufficiency is unthinkable. For some of our people permanent migration to Pacific Rim countries or further afield will be the answer. For an increasing number, temporary migration and earning of income to send or bring home will become part of a normal life.

Dependence on external assistance to sustain an acceptable level of well being is here to stay for most small island states. And well-managed economic development, spearheaded by domestic and foreign investment from a dynamic private sector, and supported by an honest and efficient government, must underpin the whole fabric of nationhood.

Considering the common challenges we face at the national level, the Pacific Constituency is well aware of the importance of regional cooperation. We have identified initiatives including enhanced telecommunications, improved aviation security, cooperative efforts for solid waste management, expanded focus on renewable energy, customs harmonization, and disaster preparedness and management as suitable candidates for regional cooperation to achieve economies of scale and high quality of service. In these efforts we need and welcome the continued support of the IMF, the World Bank and other international partners and agencies. This support is valued in several fields.

Studies such as the World Bank's report on the 'Cost of Doing Business' and the recently released study of labor mobility give us insights and information we could not have put together ourselves, strengthening our hands domestically and internationally. Country specific studies and reports also allow us to improve our policy frameworks and systems of government. Such developments are vital to improve the provision of government services, strengthen public sector accountability and create a supportive climate for commercial investment and economic development.

We want the Bank and the Fund to continue to provide high quality independent technical support when we request it. To be effective in the longer term this support must be designed to increase the skills of our people and so reduce our technical dependency.

As Economic Ministers, we value the independent advocacy of the Bank and the Fund in support of our economic reforms. This can help us to promote domestic acceptance of sometimes unpopular but necessary changes. To be effective, though, it is important that this advocacy shows understanding and responsiveness to the specific circumstances in each member country.

To improve the Fund and Bank's responsiveness to the needs of the Pacific Islands constituency and other small nations we welcome and support both agencies moves to increase their engagement and devote greater resources to our needs. We also welcome and support the debate on strengthening Fund governance and the review of arrangements with respect to quota and voice. We call on the Fund to quickly implement any commitment to increase basic votes or other decisions that increase the voice of those whose voice is smallest but whose need is greatest.

Finally, we note with appreciation the Bank and the Fund's efforts to improve financial resource allocations to small and vulnerable states through increased IDA allocations and the establishment of trust funds and endogenous shock facilities. The situation of the small island states requires imaginative measures, and this includes financing modalities, such as trust funds, that can overcome problems of small size, lumpiness and untimely fluctuations of inflows and outflows, and flexibility of end use, in a fully responsive, transparent and accountable manner.

On behalf of the Pacific Constituency, I look forward to further fruitful collaboration with both institutions.

SPAIN: DAVID VEGARA FIGUERAS

Alternate Governor of the Bank

On behalf of Mr. Pedro Solbes, the Economic Vice President of Spain and its Governor of the Fund and the World Bank, it is my pleasure to address such a distinguished assembly and to do so in such a welcoming setting. In my remarks I will briefly set forth Spain's views on the major items on our agenda.

World Economic Outlook

Global Economic Growth

As regards the global economic situation, I am pleased to note that the global economy has remained strong during the first half of 2006

and that this strength is geographically more widespread than it was a year ago. The positive forecasts have been fulfilled and even exceeded, and conditions continue to be sufficiently favorable for optimism to be maintained.

Risks

This said, however, mention must be made of the risks that exist, such as the intensification of inflationary pressures, the continuing rise in oil prices, and financial and global imbalances. It is to be hoped that the likely resolution of these imbalances will, in any event, be achieved through a smooth adjustment.

The Spanish Economy

Outlook

From the standpoint of the Spanish economy, the outlook continues to be quite favorable. Indeed, growth rates have exceeded 3 percent in recent quarters, and the composition of expenditure has been more balanced. This has been reflected in strong job creation. The robustness of our growth has enabled us to make progress toward our objective of convergence with the European Union in terms of per capita incomes and has made us the world's eighth largest economy in GDP terms.

Economic Policy

Moreover, the Government is taking advantage of the favorable economic climate to introduce fundamental reforms in support of economic growth and job creation, through improvements in the regulatory framework, the functioning of markets, and the capital funding of the economy. All of the foregoing are occurring in conjunction with a firm commitment to maintain fiscal consolidation as one of the fundamental pillars of economic policy.

Strategic Review of the IMF

Medium-term Review Strategy

Having taken stock of the economic situation, it is now time to speak about our institutions. I will begin with the IMF and its medium-term strategic review, the main objectives of which are to enhance its credibility, legitimacy, and effectiveness.

Resolution on Quotas and Votes

In the context of the strategic review, in my estimation we should be pleased by the approval of the resolution to reform IMF quotas and votes. I believe it constitutes a firm and decisive first step toward resolving an issue that has been left open for too long. This resolution would not have been possible without the efforts of the IMF staff, the Executive Board, and above all the Managing Director. All of them deserve our thanks and congratulations.

Quotas and Votes

The reform initiated by this resolution is an extremely important step toward improving representivity in the IMF. We welcome the ad hoc increase in the quotas of four member countries. However, we must not lose sight of the fact that this is but a partial gain and that many other countries are underrepresented. All are aware of the fact that Spain is one of these countries, with a quota that falls far short of representing the weight and role of our economy in the world. According to current estimates, our quota is 62 percent of what it should be. Discrepancies in quota size of this scale do no service to the IMF.

Accordingly, it is essential that prompt action be taken on the other components of the resolution approved, first by agreeing on a new, more sensitive formula in which the most relevant variables, such as gross domestic product, are duly weighted. Based on this new formula, steps should be taken immediately to bring about a second ad hoc increase in the quotas of the underrepresented countries that so request. In our opinion, the IMF as an institution will emerge all the stronger as the size of this second round of adjustments is larger, and as the future revisions are smoother and more continuous. In this context, the voting power of the less developed member countries should be guaranteed by an increase in basic votes.

We trust that the goals established will be met on schedule.

Surveillance

The surveillance function of the Fund is taking on greater importance in an ever more globalized world. Increasing the efficiency with which the institution performs this task is one of the key components of the Medium-Term Strategy.

The new multilateral consultation procedure could be configured as an extremely valuable instrument for promoting economic stability and preventing possible financial crises. It is our hope that the initial

consultations on global imbalances can be shaped into a coordinated effort that enables us to meet the challenges ahead.

Low-income Countries

I would like to turn now to the ever more active participation of the Fund in the low-income countries, promoting the achievement of sustainable growth and progress toward the Millennium Development Goals. Effective support along these lines requires that the Fund focus its efforts on the key macroeconomic aspects related to growth, and that possible overlapping with the efforts of the World Bank and other development institutions be avoided.

As regards work in the low-income countries, we are pleased by the recent extension of the so-called “sunset clause” of the HIPC Initiative, which we hope can be completed promptly and will be supplemented by multilateral debt forgiveness, as well as by the associated multilateral debt relief.

World Bank

With regard to the World Bank topics on the agenda, the Government of Spain supports the World Bank’s project to address the problems of good governance and combating corruption, which frequently hamper initiatives and impede economic growth in a number of countries. This is not an easy task. It is to be recommended that the Bank proceed with all due caution.

With regard to the Investment Framework for Clean Energy and Development, Spain regards the issue as being of vital importance and is grateful for the work carried out to date.

The energy sector is crucial for economic development, and the World Bank can become a front-line stakeholder and source of financing, not limiting itself solely to bridging the existing financial and infrastructure gap, but involving itself more in the design of energy plans and their financing.

I wish to thank my colleagues for their attention, and our hosts for the excellent organization of this event.

SRI LANKA: SARATH LEELANANDA
BANDARA AMUNUGAMA
Governor of the Bank and the Fund

It is a privilege to speak to you here in Singapore, at a time when Asian economies are the focus of attention. The global economy has continued to perform strongly and the growth has become more broad

based since we last met in Washington DC. However, we are concerned about continuing high risks and vulnerabilities. The consequences of large global imbalances that loom over us feed instability. The high oil prices have had a severe impact on oil importing countries like my own. Despite the recent reductions, future price directions remain quite uncertain. There are signs of emerging inflation, although major countries and regions have moved swiftly to meet this challenge. International developments clearly demonstrate that if the global economy is to maintain steady growth, a co-operative effort from all players, in particular the major ones, is badly needed.

Last week we concluded a highly successful Commonwealth Finance Ministers' meeting in Colombo and I had the privilege of chairing its deliberations. The main theme was "An Agenda for Growth and Livelihood" and there were many related topics, including Fund-Bank issues. There was a clear recognition that good economic policies matter for raising and sustaining growth and improving livelihood. In addition, among the many important recommendations the Ministers made was the need for development partners and multilateral institutions to align support behind national strategies, and to ensure that aid programs are locally relevant, cost effective and institutionally feasible. I will attach the 2006 communiqué of the Commonwealth Finance Ministers to my speech as an annex.

We in Sri Lanka have always been of the view that organizations like the International Monetary Fund and the World Bank have a significant role to play in sustaining global economic growth and strengthening stability. Hence, we welcome the multilateral consultations that have been initiated recently. We also support the focus on increased surveillance in the Fund's medium term strategy. Such surveillance would help identify weaknesses and reduce the possibility of crises. The efforts of the Bretton Woods Institutions to help countries achieve the Millennium Development Goals are appreciated. In line with one of the Fund's basic purposes of helping countries encountering balance of payments difficulties, we reiterate our call for the creation of a special medium term oil facility to assist countries that have been adversely affected by the sharp increase in oil prices. Further, while welcoming the initiatives to assist low income countries, it is also important to consider the needs of those countries which have successfully moved into the middle income group.

The legitimacy and credibility of the Bretton Woods Institutions need to be improved for them to continue to play an effective role in the world economy. While we fully support and appreciate the increase in quota for China, Korea, Mexico and Turkey, we are reassured by the Managing Director's statement that this is the first step of a more fundamental reform in the governance of the Fund, based on a broadly acceptable change in voice and representation.

Let me now turn to my own country, Sri Lanka. Our economy is displaying great resilience, despite many challenges. A broad based GDP growth of 7–8 per cent is expected in 2006. We have launched a program to ensure a steady growth of around 8 per cent, to achieve sustained growth with social justice and equity. Our government has responded appropriately to the sustained sharp rise in oil prices. Oil subsidies, which had been an enormous burden on the budget, have been eliminated. These price adjustments, in the context of growing domestic incomes and investment activity, have led to some upward price pressure. We are committed to strengthening macro economic stability. In this regard, the process of fiscal consolidation is under way. The Central Bank has appropriately tightened monetary policy. We have also strengthened our financial systems to maintain international best practices. Laws to counter money laundering and the financing of terrorist activities have been strengthened and an FIU is now fully operational.

The President of Sri Lanka has reiterated the government's commitment to a peaceful resolution of the long-standing conflict in the country and has called upon the LTTE to renounce violence and enter into negotiations.

In conclusion, I hope our deliberations at this year's Annual Meetings will help to underpin the current dynamism and resilience in the world economy.

SWEDEN: STEFAN INGVES

Governor of the Fund

(on behalf of the Nordic Baltic Countries)

Introduction

I am honoured to address this distinguished audience on behalf of the Nordic-Baltic constituency consisting of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. We are gathering here in Singapore in times of change in the world economy. The benefits of 21st century globalization have clearly been manifested in this part of the world. The Asian region, that was hit by severe crisis less than ten years ago, was quickly back on its feet, being one of the key drivers of the economic expansion we witness today. This makes the choice of venue for these meetings particularly suitable.

The global economy has been growing at healthy rates in recent years. At the same time, important risks cloud the picture, not least the increasing global payments imbalances and the growing protectionist sentiments. The dead-lock in the Doha Round negotiations is indeed regrettable. A common feature of most of the current risks is that they cross borders. Thus, policymakers in today's globalized economic sys-

tem must take a global and genuinely multilateral approach in handling them. The multilateral consultation on the resolution of the global imbalances, recently initiated by the Managing Director, is a step in the right direction. I hope that these consultations, with appropriate involvement of the Executive Board, will help reinforce the Fund's role as the central forum for discussions on systemic issues. I believe that the IMFC should be the most important among the "Gs", a "G184" that all countries benefit from.

To be such a central forum, with a strong voice and sustained legitimacy, the Fund must stay relevant to all member countries. It needs to adapt to changing circumstances and the environment in which it operates. In this spirit, let me focus on some key challenges facing the Fund and its member countries.

Surveillance and Crisis Prevention in the Globalized Economy

We all agree that effective surveillance must be the central priority for the Fund. A stronger focus needs to be given to the links between the financial sector and the general macroeconomic stance. Deepening global integration requires greater attention to global and regional spill-over effects, including from exchange rate policies. This should be recognized in the review of the 1977 decision on surveillance over exchange rate policies.

Priority should also be given to the Financial Sector Assessment Programs and to focused and selective work on standards and codes, in which Technical Assistance should play its due part. We have come a long way in eliminating restrictions on current payments. As capital market integration catches up with trade integration it could now be warranted to direct more focus in surveillance towards capital account issues. These points on surveillance are of particular importance to the Emerging Markets Economies as they integrate into world trade and capital markets, becoming more systemically important but also more vulnerable. We encourage all countries that remain to be assessed to participate in the FSAP at an early stage.

Furthermore on surveillance, I see merit in streamlining Article IV consultations in highly stable non-systemic countries. This should not be perceived as less attention to these countries or contradictory to the aim of having a role to play for the Fund in all member countries. Freed resources could be used to strengthen the regional focus of surveillance where national relevance can be enhanced in a cross-country context. Along these lines, the ongoing Nordic-Baltic Financial Sector Project is an example to follow.

Effective surveillance also means effective crisis prevention. For some time the Nordic-Baltic constituency has been sceptical toward

contingent financing as an instrument for crisis prevention. But given the demand for such an instrument and the objective of having a Fund that is relevant to all members, we are prepared to be open-minded in the discussions ahead.

Modernizing Fund Governance

The Fund's relevance to member countries relies on reciprocity and interchange. In order for members to listen to the Fund, they also need to be listened to. The distribution of quotas in the IMF needs to continuously reflect changes in the weight and the role of countries in the world economy. We support the package of reforms as laid out in the Resolution of the Board of Governors. As we now go forward and deal with fundamental governance issues, changes should adequately reflect the purposes of the Fund. GDP and ability to contribute financially should remain important factors in determining voting power, but due weight should also be given to openness. Throughout this work, simple and transparent principles and equal treatment of all member states remain vital.

We should also enhance the voice of low-income countries—many of which continue to borrow from the Fund. The increase in the staffing entitlement of Executive Directors' offices of particularly large constituencies should be implemented promptly. Furthermore, we support at least a doubling of basic votes and we believe that this opportunity should also be used to ensure that the share of basic votes is safeguarded in the future.

Effective Fund Support to Low-Income Countries

Like several emerging market countries, many low-income members have experienced macroeconomic improvements in recent years. Sticking to its core mandate, the Fund should continue to support these countries in the aim of meeting the Millennium Development Goals.

Following the implementation of the Multilateral Debt Relief Initiative, every effort must be made to avoid that unsustainable debt is rebuilt. This is a truly shared responsibility between all debtors and creditors, including emerging lenders. We need to avoid free-riding behaviour and reduce moral hazard. The Fund will need to play an important role in this effort, based on a strong, comprehensive and widely accepted debt sustainability framework. Furthermore, good governance—including fighting corruption—accountability and sound economic management are crucial.

Appropriate macroeconomic management will be key for a successful absorption of debt relief and aid in general. The international com-

munity has made highly welcome pledges to increase aid—and to deliver it more effectively. In this respect, we see an important task for the Fund in providing advice to member countries on how to ensure that these aid flows support macroeconomic and financial stability on a viable basis. In pursuing this work, the Fund should recognize the analytical difficulties involved and engage in close dialogue and cooperation with the donor community.

Concluding Remarks

To sum up, these are evolving times for the IMF and I have outlined some major challenges. Other critical issues will also need to be addressed, not least the need to find a more sustainable income source for the Fund in an environment with less demand for its credit. I look forward to discussing concrete proposals from the Committee of Eminent Persons on this issue. I am also happy to note that all the challenges that I have mentioned here today are reflected in the Fund's Medium Term Strategy. At the same time, I would like to stress the importance of momentum being maintained in the implementation of the Medium-Term Strategy. Raising hopes about reform makes it all the more important to deliver, and I dare say that this juncture may be decisive for the Fund's continued role as the central forum for international economic policy discussion. Having said that, reforming the Fund is a necessary but not sufficient criterion for it to stay relevant. The Fund can reform itself endlessly, but that will not have much effect without the support of member countries. When it comes to resolving the main global economic challenges, quite often, we know what needs to be done. At the end of the day, the question is how we translate words into deeds and—importantly—how we make the sentiment for multilateralism prevail.

SWITZERLAND: JEAN-PIERRE ROTH

Governor of the Fund

It is an honor to have the opportunity to address you here in Singapore today.

This year's Annual Meetings are taking place against the background of global economic growth exceeding expectations, with all regions contributing to and benefiting from the global expansion. I welcome this benign outcome. The risks discussed last year have not materialized. In particular, most countries have coped well with the high level of energy prices; inflation has remained under control, and global interest rates have gradually moved toward more sustainable levels without jeopardizing a still very favorable outlook. The short spell of

financial turbulence in emerging markets in spring has not had any lasting effects.

This should not give rise to complacency, however. Sizeable vulnerabilities remain and the balance of risks may well have tilted to the downside. Thus, inflation could turn out higher than expected, given the narrowing of output gaps; another spike in oil prices cannot be ruled out; and the present cooling of the US housing market, depending on its eventual magnitude, may adversely affect US and thereby global growth. Moreover, global economic imbalances have continued to widen, adding to the risk of a possible disorderly and costly adjustment.

The current favorable circumstances provide an opportunity for countries to further reduce vulnerabilities. In particular, many countries need to improve their fiscal positions, including in addressing long-term challenges, to forcefully implement structural reforms, and to reduce further external debt levels.

At the Annual Meetings, Governors traditionally take stock of the activity of both the Fund and the World Bank and try to seek progress in making both institutions more effective and capable to cope with ever changing realities. As regards the IMF, moving forward in defining and implementing the medium-term strategy is today's major challenge, focusing on both the Fund's new role in surveillance and crisis prevention, and the reform of quotas and voice. For the Bank, the main themes are enhancing its work on strengthening governance and fighting corruption, redefining its strategy towards middle-income countries, and providing assistance to improve access to, and the use of, cleaner energy.

There is no doubt that globalization, with increased capital flows and greater international risk sharing, has importantly contributed to the current benign situation. Emerging economies, especially in this part of the globe, have particularly benefited from these developments. However, it is equally clear that greater economic and financial integration also entails new risks when capital flows suddenly reverse. The current reforms of Fund surveillance and lending policy are intended to cope with this new environment.

Given the depth of today's global economic linkages and the challenges they entail for policy, it is crucial to have the appropriate fora for a frank exchange of views among country authorities. For this purpose, the newly established multilateral consultation can help overcome collective action problems that may impede globally optimal policy responses. I look forward to discussing the outcome of the first multilateral consultation in next spring's IMFC meeting. As of now, I support a strong involvement of the Executive Board in this new form of surveillance. The Board, as representative of the shareholders of the insti-

tution, must not only be fully and timely informed, it must also be given the opportunity to play a constructive role in the discussion.

The traditional bilateral surveillance will continue to be a major part of Fund activity. In this context, I endorse an increased focus on exchange rates issues. I also believe that it is reasonable to review the decision on which exchange rate surveillance is currently based, given that it dates back to 1977. However, I would caution as to what can and what cannot be achieved. While surveillance discussions about exchange rate regimes and policies are justified, feasible and therefore welcome, exchange rate levels should be treated more carefully. Despite long-lasting efforts, we still have not found an approach that yields unambiguous and reliable results.

Improving the coverage of financial sector issues in surveillance and the definition of a new integrated framework remain a matter of priority. In this respect, while I particularly welcome the creation of the new Monetary and Capital Markets Department, I also look forward to seeing improved coordination among departments and more integrated advice in the field.

As far as crisis prevention in emerging market members is concerned, a modification of the Fund's lending policy is now under consideration. A new liquidity instrument is being discussed to give countries with strong policies assurances against vulnerabilities related to international financial market linkages. Although I remain skeptical about the benefits of quasi-automatic high access financing as a means for crisis prevention, I am ready to constructively discuss such instruments. However, any potential solution must include strong safeguards to protect the Fund's resources.

A well-balanced participation in the decision-making of the Fund is important for the effective functioning of the institution and its legitimacy. For this reason I support the two-stage approach as set out in the Resolution on Quotas and Voice Reform. The immediate ad hoc quota increase for China, Korea, Mexico, and Turkey addresses the most serious cases of under-representation. The reform envisaged in the second stage is very ambitious both as content and timetable are concerned. I would also caution that changing votes will not automatically improve governance. For the Fund to be truly representative of all its members, it is also necessary to strengthen its formal bodies and decision procedures.

Reaching agreement on a new quota formula will be central to the second stage of the reform package. I firmly believe that this new formula should live up to the Fund's mission and the role members play in the international economic and financial system. A new quota formula should therefore account for the spectacular increase in capital flows

and financial globalization over the last three decades. Consequently, it will have to include a country's relative importance in global financial markets. The new formula should thus reflect the importance of financial openness, for instance by including the international investment position of member countries. I am also convinced that members' ability to contribute resources in case of a financial crisis with global repercussions remains crucial. Finally, I support strengthening the voice of low-income countries. I think that both increasing basic votes as part of a well-balanced agreement and enhancing the operational capacities of developing countries in the Fund will serve this purpose.

I strongly support the World Bank's renewed emphasis on good governance and fighting corruption. The World Bank should approach governance from a development perspective. The causes of weak governance, and not only the symptoms, should be the main focus of the Bank's activities. The Bank should help countries build their own transparent, efficient and accountable governance systems, in line with its comparative advantages. Active country ownership of governance reforms by key stakeholders inside and outside of governments is crucial in this regard. I welcome the proposed approach, including the focus on country, project and global levels. I believe it is essential that the Bank seeks engagement, also in high risk countries, through practical and innovative approaches targeted at helping the poor. Looking forward, I encourage the Bank to continue learning from international experiences and foster cooperation with other institutions.

A strong relationship between Middle-Income Countries and the World Bank Group is mutually beneficial. I therefore welcome the strengthening of the Bank's strategy for engaging with IBRD partner countries aimed at adapting to their changing environment and evolving needs. This requires simplified Bank procedures and more competitive lending and non-lending services, better selectivity of Bank engagement and a greater reliance on country systems. The latter is in my view also a powerful tool to enhance development impact.

In the last few years, energy issues have become increasingly critical in our globalizing world. Crucial resources, like oil, gas, and coal are finite, and there is growing awareness of the costs and risks to society by their use. The efficient and environment friendly use of these resources is a challenge that requires a united and global response. I welcome the ambitious and comprehensive framework of the World Bank that outlines the three pillars for effective assistance related to access to energy, transition to a low-carbon economy and adaptation to climate change. I would also like to ask the Bank to support efforts towards creating a comprehensive post-2012 regulatory framework for emissions reductions, consistent with the Kyoto protocol. Also, the "climate proofing" of development programs and projects should become more systematic.

I greatly regret the suspension of the WTO negotiations, as I consider a more comprehensive and well-functioning multilateral trading system a key pillar to ensure sustainable economic growth for developed as well as developing countries. I plead for all actors to return to the negotiating table. In the meantime, the Bank should continue with its complementary agenda of support for trade reforms and of Aid for Trade.

I thank the Bank for its leading role in improving access to education through The Education for All—Fast Track Initiative. This initiative has made a significant contribution towards increasing resources to meet the challenges faced by many countries in improving access to education. Yet as the experience shows, higher spending on education does not automatically lead to better learning outcomes. Therefore, we believe that the initiative should emphasize more strongly the quality of education and measurement of learning outcomes. A comprehensive approach is needed to reach the Millennium Development Goals on education.

A few months after the IMF, the World Bank has started implementing the Multilateral Debt Relief Initiative. I welcome the additional debt relief granted to heavily indebted poor countries and urge these countries to use these new resources towards achieving sustainable growth and reaching the Millennium Development Goals. I would strongly caution against contracting new unsustainable loans. We call upon the Bank and the Fund to provide robust advice on the right balance between macro-economic and development objectives and to tackle, in a realistic way, the risk of debt re-accumulation and free riding. They need to enhance the effectiveness of the debt sustainability framework so that creditors can better coordinate their policies. The Fund should assist these countries in designing a consistent macroeconomic framework. The Bank should also help countries strengthen the management of public finances and debt capacities.

I look forward to the report of the External Review Committee on Bank-Fund Collaboration. It is clear that with the evolution of the global environment and with the advent of internal changes in both institutions, there is scope for a clearer division of labor that better reflects the key mandate of the two sister institutions. Important issues such as the complementary role of both institutions in IDA and in IBRD countries or differing views on the question of “fiscal space” must also be addressed.

Finally, the truly global character of the Bretton Woods Institutions has always been critical for their ability to fulfill their broad mandates. In this sense, I would like to call on Governors of both the IMF and World Bank to support the membership application of Montenegro and a rapid accession of this newly independent sovereign country.

THAILAND: THANONG BIDAYA
Governor of the Bank

It is my great honor to address the 2006 World Bank/IMF Annual Meetings, and would like to take this opportunity to express my appreciation to the host government, Singapore, for the hospitality extended to us.

This year's meetings take place against an international economic background characterized by growing uncertainty as a result of a surge in oil and assets prices, a rise in interest rates, and a worsening Global Imbalances. These have detrimental impacts on the world economy as together they could diminish the near-term global growth prospects. In this environment, appropriate actions and policies are vital to moderate these shocks before becoming a serious threat to the world economy. Despite these impacts, Thailand has strengthened its resilience as economic growth remains positive and vibrant at 4.5 percent. Inflation will be contained at around 4.7 percent, in spite of cost push from high oil price, while our foreign reserves remains relatively high at around US\$ 60 billion.

The Royal Thai Government is attaining sustainable economic growth, as well as the social development objectives. As of today, Thailand has successfully reached most of the Millennium Development Goals, and our progresses are well ahead of schedule, especially on 'Poverty Reduction' targeted to be completed by the year 2009.

Thailand, as a successful Middle Income Country succeeding in attaining the Development Goals, has expanded its role in supporting the socio-economic development on regional and sub-regional level in order to contribute to the Global Partnership Development. By engaging in economic and financial integration, and sharing the first-hand experience in the fight against poverty, a solid building block for future growth will be established. Our newly established agency, Thailand's Neighboring Countries Economic Development Cooperation Agency or NEDA, will ensure that we continue this thrust in a meaningful way as its objective is to serve as a leading government agency to channel financing to neighboring countries in the form of loans and grants for cross-border development projects.

Thailand also supports an array of regional financial cooperation. This includes Chiang Mai Initiative or CMI, Asia Cooperation Dialogue or ACD, and Asian Bond Markets Development Initiative or ABMI undertaken under the cooperation of the ASEAN+3 framework. This cooperation will improve regional infrastructure as well as bolster demand for debt instrument trading and increase liquidity and fund mobility in intra regional level.

On matters relating to the World Bank, we appreciate that the Bank's role with Thailand has evolved beyond a borrower-lender relationship, and has moved toward a true development partnership. As development partner, the Bank has supported and continued to support us in major areas, namely; Human and Social Capital, Competitiveness, Poverty and Income Inequality, Natural Resources and Environment, as well as on Governance.

We are also pleased that one of the agenda for this year's Development Committee is on Governance issue. We fully support this strategy of the World Bank and would like to stress that governance should be an area that compliment the development partnership between the Bank and its clients but should not slow down or lessen the activities between the Bank and its partners. On this note, the Thai Government has set high priority to improve on Governance, and has continued supporting the adoption of best international practices and law enforcement in anti-corruption and combating the financing for terrorism. Internally, our agency under the Ministry of Justice, the Anti Money Laundering Office or AMLO has continued working to enhance the effectiveness of law enforcement and related implementation. Internationally, Thailand has taken part in a number of programs with international organizations on capacity building and modernizing our financial architecture, rules and regulations in the areas of money laundering and terrorist financing. For Transparency, Thailand has already implemented e-procurement system for government's purchase resulting in substantial savings.

Thailand is also ready to engage with the Bank under the new partnership development framework for the next five years, we look forward to our expanded partnership to support the development of Economic Cooperation across the Mekong Sub-Region.

We also need support from the Fund to fine-tune its future work in response to the changing global challenges and members' needs. We would like the Fund to concentrate on surveillance as it is the main pillar of the Fund's work and would like the Fund to enhance its engagement with emerging market economies. In this regard, we view the quota increase to a small group of selected member countries in Stage One as only the first step toward a much larger quota increased in Stage Two in order to effectively regain Fund's credibility and legitimacy. Therefore, we strongly urge the Fund to implement Stage Two with a view to ensure that the quotas of a broader range of underrepresented members be adjusted to reflect their importance in the world economy by the 2008 Annual Meetings.

Last but not least, we would like to express our appreciation to the Boards of Governors, Management, and staff of the Bank and the Fund

for their continued support and fruitful co-operations. Also, we wish them success in their tasks of promoting global financial stability and eradicating poverty.

TONGA: SIOSIUA T.T. 'UTOIKAMANU
Governor of the Bank

It is indeed an honor for me to address the Board of Governors of the International Monetary Fund and the World Bank Group on behalf of the Government of the Kingdom of Tonga at the 2006 Annual Meetings.

At the outset, I wish to express my appreciation to the government and the people of Singapore for the excellent arrangements of these major events and for the most generous hospitality.

I also wish to convey my government's deep gratitude to President Wolfowitz and Managing Director de Rato and to my fellow Governors who have offered their condolences following the passing away of our beloved monarch, King Taufa'ahau Tupou IV.

We meet against a background of rapid global economic growth, with 2006 forecast to be the fourth year of GDP growth above 4 percent. It is encouraging to see a broadening of the expansion beyond the United States of America and China, with all major regions of the world currently experiencing solid economic growth. While this portends well for global efforts to reduce poverty, nevertheless, the risks to growth are undoubtedly slanted to the downside.

Prices of oil and other commodities are at record highs and core inflation is on an upward trend. Small island economies, like the Pacific Island economies, are especially vulnerable to these risks. As such, we would certainly appreciate help from the IMF to provide a buffer for us in dealing with these risks.

Turning to the Fund's policy agenda, we welcome the decision to increase the quota and voting rights of China, Korea, Mexico and Turkey. This represents a tangible recognition of the emerging market countries' increased weight in the global economy. This is just the first step. We generally support moves to better align quota shares with economic weight in the global economy, but we believe it should be balanced with enhanced participation of low-income countries in the governance covenants of the fund. This is a particularly important issue for a small-island economy such as Tonga. In this regard, we note the Executive Board's recommendations to: (1) at least double the basic votes to a minimum in order to protect the existing voting share of low-income countries as a group; and (2) introduce a mechanism that will safeguard the proportion of basic votes in the total voting power in the future.

We support efforts to align the capacity-building activities of the Fund more closely with the needs of member countries. We agree with the Fund's emphasis on strengthening governance, transparency and accountability. These factors are critical for building sound institutions, which are critical for macroeconomic stability, achieving sustained economic growth and reducing poverty. We also acknowledge that the Fund is emphasizing increased country ownership in its technical assistance and training activities.

We welcome the Fund's greater focus on sustainable economic growth in supporting the achievement of the Millennium Development Goals. Whilst Tonga may have achieved many of the health and education related targets, it is important that we look behind and beyond the data provided. Much of the data available for the MDG indicators masks crucial inequities at the grassroots level, such as access to quality primary education and adequate primary health services. Similarly, while poverty per se is not apparent in Tonga, hardship is evident throughout Tonga, amongst the vulnerable groups and particularly in the remote islands. Tonga's pro-poor strategies intend to address those in hardship.

The suspension of the Doha Round of Trade Talks was disappointing. Failure to conclude the talks will adversely affect global economic prospects and the growth of low-income countries in general, such as Tonga. We urge WTO members to maintain their commitment to the rules-based multilateral trading system; preserve progress that has already been achieved; and continue negotiations. We also urge the donor community to move forward with the delivery of 'aid for trade' independent of the Doha Round. Regional cooperation on trade-related projects has the potential to promote the competitiveness of low-income countries, such as the Island economies in the Pacific.

On the domestic front, the past year has been eventful and very challenging. Growth in GDP is estimated to have eased slightly in 2005/06; international reserves have remained above the equivalent of four months of imports; while average annual inflation fell to 7.2 percent, the lowest level in six years. The fall in inflation has been a significant achievement, particularly given the doubling of world oil prices over the past two years. The improvement in inflation partly reflected the favorable inflation performances of our major trading partners, as well as favorable weather conditions locally.

The major economic event over the past year has been a significant increase in the salaries of public servants, and the offer of voluntary separation to nearly a quarter of the public service. This involved the government having to arrange financing equivalent to 7 percent of GDP, without raising taxes, in order to pay the salary increase of existing public servants and the payments to public servants who accepted voluntary

separation. Financing was achieved through the utilization of the proceeds of a program loan in support of economic reform and cash reserves accumulated from previous years. The budget balance consequently moved from a surplus of 2.4 percent of GDP in 2004/05 to a deficit of 4.8 percent of GDP in 2005/06. On the other hand, the voluntary separation program reduced public service positions by about 30 percent, and supported the Government's objective of targeting broad fiscal balance. The budget for 2006/07 targets a fiscal deficit of about 2 percent of GDP.

Mindful of the enormous challenges facing the Kingdom, in May 2006, the Government of Tonga ratified its Strategic Development Plan 8, better known as SDP8. The SDP8 is the government's road map for the Kingdom's future development path. SDP8 is also a blue print for sustainable development to ensure that the people of Tonga build on our heritage to lead free and worthwhile lives. The SDP8 provides eight goals which are mutually reinforcing, and offers predictable and a coherent policy framework, within which government can deliver results.

The participatory approach of designing the strategies of the Plan entailed full involvement and engagement of relevant groups. This process, in itself, is undeniably a stride towards creating a better governance environment. The SDP8 emphasizes that good governance underpins achievements in all areas of economic, social and political development.

To translate its commitment to better governance, the Government will establish an independent anti-corruption body with investigative capacity to deal with all public sector corruption allegations. Further, other initiatives have included efforts; to strengthen corporate good governance in public enterprises and revenue audit; formulate a leadership code; introduce further compliance initiatives and regulatory reform.

The SDP8 recognizes that prudent macroeconomic policies are crucial in providing a solid foundation for sustainable economic growth. Government has therefore taken corrective steps to ensure that the fiscal balance is broadly maintained as outlined earlier. The public service wages bill has been brought back under control while tax revenue is projected to increase as a result of improvements in the collection of existing taxes. At the same time, the National Reserve Bank of Tonga has tightened monetary policy in order to preserve external balance and dampen inflationary pressures. Despite these measures, downward pressure on foreign exchange reserves is expected to persist and consumer price index is forecast to increase at a time when core inflation in our trading partners is moving higher.

One of the key issues that affect many countries, and which has been accorded international attention, is the topic of international migration

and its impact on our global economy. The dynamics of international migration goes unnoticed, as it has supported the process of global economic growth. Research in this area has shown a strong positive correlation between remittances and poverty reduction strategies in developing countries. The economic contribution of migrants is significant not only for the sending country but also the receiving country. International migration is a critical factor for Tonga's development, for remittances received from migrants constitutes an important source of income, more than Official Development Assistance (ODA) or Foreign Direct Investment (FDI). It is the export of people, or migration, coupled with remittances of cash and goods from those whom reside and work overseas, that sustain the Tongan economy and the present standard of living of the people.

Remittances equivalent to 40 percent of GDP were estimated to have been received in 2005/06 for Tonga. A recent study by the World Bank indicates that official statistics significantly underestimate remittances, and further indicates that approximately 90% of households in Tonga received cash remittances in 2004, averaging US\$3,067 per household and US\$753 per capita. The study concludes that remittances in Tonga has improved income distribution; has positive impact on poverty alleviation; induces higher savings and stimulates business activities and results also in larger investments in education.

International support is required to accord attention to maximizing the positive impact of remittances, particularly the impact of remittances on poverty reduction. This could include the need to encourage further dialogue on liberalizing international labor migration.

Finally, we acknowledge with appreciation the technical and financial assistance that the IMF and World Bank have provided to the government and people of Tonga. We are particularly grateful for the support we receive from the Pacific Financial Technical Assistance Centre and the World Bank's Regional Office for the prompt response they offer to our requests for assistance and advice. The assistance continues to make a tangible difference to the living standards of our people. We look forward to a continued close working relationship with the Fund and the Bank. May I conclude by wishing the Bank and the Fund continued success in resolving the many difficult challenges that lie ahead.

TRINIDAD AND TOBAGO: CONRAD ENILL

*Governor of Bank and the Fund
(on behalf of the Caribbean Community)*

I am honored to address this Joint Annual Discussion on behalf of the member states of the Caribbean Community (CARICOM), of

Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. We thank the management and staff of the Fund and Bank and the Government of Singapore for the excellent arrangements for these meetings. To our host, the Government and People of Singapore, we are grateful for your outstanding hospitality. Your amazing journey to prosperity is an enduring inspiration to us and to all developing countries.

These meetings are occurring during a period of robust global economic growth. However, despite the apparent resilience of the world economy, risks are ever present, and some have even worsened since we last met in spring this year. The Caribbean enjoyed solid growth in 2005, but the expectation is for a modest slowdown over the next two years. Moreover, global geopolitical tensions, rising inflation and interest rates in advanced countries, and elevated oil prices could reverse our recent gains, even while we confront the challenges posed by reduced access to our traditional export markets in Europe.

We note the progress in reducing poverty in several middle and low income countries in recent years. However, notwithstanding this positive development, we face the sad reality that many countries are not on track to meet their Millennium Development Goals. However, in the case of the English-speaking Caribbean our social indicators are strong relative to the level of income and most countries are on-track to meet the Millennium Development Goals.

There is clear evidence that globalization has been beneficial to the world economy. We can point to sterling examples of countries that have gained significantly from the process. Nevertheless, equally conclusive is that globalization can, and has exacted untold costs on smaller states. The challenge for the international community is to craft a *more inclusive globalization* with expanded opportunities and benefits for all developing countries.

Although our region remains committed to the multilateral trading system, we stress that the system *must* take into account the needs of small vulnerable economies. In this context, we are gravely disappointed with the collapse of the Doha Development Round and we urge the industrial countries to show *additional flexibility* and conclude the talks in the shortest possible time.

We also stress the critical importance of Aid for Trade. The Integrated Framework (IF) for Trade-related Technical Assistance to LDCs is essential if developing countries are to realize the gains from free and fair trade. As such, the work of the Integrated Framework must be accelerated even as efforts are made to get the Doha Development Round back on track. We are mindful that the integration of trade policy into the development strategies of LDCs requires sustained techni-

cal support. The Bank and Fund must ensure the work of the Integrated Framework expands faster and more broadly across the LDCs.

The Fund and the Bank have played an important role in low income countries burdened with onerous debt. In our region, both Guyana and Haiti face such a situation. We are pleased with the recent inclusion of Haiti in the HIPC Initiative. We also commend the international community for its support for Haiti at the recent donor conference. However, going forward growth and poverty reduction objectives can only be achieved if donor assistance is fast disbursing, predictable and well coordinated.

The Caribbean continues to reposition itself to survive in the global economy. Earlier this year, the Caribbean Community achieved an important milestone with the launch of the CARICOM Single Market. Our next goal is the introduction of the CARICOM Single Market and Economy in 2008.

The regional economies have remained vulnerable to high oil prices and Trinidad and Tobago has tried to mitigate this burden through the facility of a Petroleum Fund to all CARICOM counties. Trinidad and Tobago has also made an important contribution to a Regional Development Fund for the regional integration effort. These arrangements are evolving even as we grapple with some formidable development challenges in our region.

The development and retention of human capital is essential to the prospects of the Caribbean. Over the past 40 years, our countries have made above average investments in human capital but have not reaped commensurate returns due to significant migration of highly skilled workers—mainly to developed countries. A recent IMF study, *Emigration and Brain Drain: Evidence from the Caribbean* confirmed the severity of the problem and concluded that remittances did not compensate for the economic losses due to migration. We are certain that our region is not alone in this experience. We therefore believe that much can be gained if developed and developing countries increased collaboration on migration strategies. The Fund and Bank should play a more active role in policy advice on this important issue.

Major successes are being registered in the fight against the AIDS epidemic in the Caribbean. In 2005, the Caribbean was the only region in the world where the overall number of people living with HIV/AIDS did not increase. Clearly, the World Bank's intervention in the region has facilitated a sustained and integrated approach that has helped to reduce the number of new infections and promote universal treatment and care for people living with HIV/AIDS.

We are heartened by the interest shown by President Wolfowitz on the issue of small states. However, we desire an even stronger partnership with the Bank on the Small States Agenda, which should

include reducing vulnerability, skills enhancement, and economic diversification.

Given the vulnerability of small states to natural disasters, there is dire need for appropriate disaster risk mitigation products. The current initiative led by the Bank for a Caribbean Catastrophe Risk Insurance Facility is indeed timely and has the full support of CARICOM.

We are firmly committed to strengthening the environment for private sector-led growth in the Caribbean. We appeal for a scaling up of IFC's investments to the Caribbean starting with more timely delivery of technical assistance to attract more private investments.

CARICOM members remain resolute in their commitment to good governance, transparency and accountability. Over the past year, our countries advanced several reforms including government procurement and public expenditure management. The assistance provided by the Caribbean Regional Technical Assistance Center (CARTAC) has been invaluable and we look forward to the initiative being extended for an additional term.

We believe it is both desirable and appropriate for the Fund and Bank to adopt *more inclusive governance arrangements* to ensure that these institutions are fully representative of their total memberships, including emerging, transition and low income countries. The intense focus now being given to the issue of quotas and voice at the Fund is welcome. While there is agreement on the proposed ad hoc quota increases to China, Korea, Mexico and Turkey the bigger challenge going forward would be to develop a comprehensive package involving further increases in quotas and basic votes, and a new quota formula that would satisfy all members.

In conclusion, we reaffirm our commitment to work in partnership with the international development community to confront the issues of poverty, migration, trade, HIV/AIDS and other chronic diseases, small states and voice. As always, we expect the Fund and Bank to be at the forefront of finding creative solutions to these development challenges.

TURKEY: ALI BABACAN

Governor of the Fund

I would like to start by commending the Managing Director and his team for their extraordinary effort in bringing to conclusion the ad hoc quota increase. I would like to thank all of you for supporting this quota reform. However, this ad hoc quota increase is only the beginning of our responsibility and the major task it entails. In the second stage, a new transparent quota formula is needed to reflect better a country's changing roles and its relative economic weight in the global arena. We believe that "GDP" should be an important factor in the new quota for-

mula, together with “openness”. Of course, I am well aware that undertaking the needed reforms in this area will not be an easy process. However, if we approach the issue with an open and constructive mind, I believe that we can easily progress toward making the Fund a stronger institution. We should not miss this unique opportunity.

I am happy to note that the fund is refocusing on its surveillance mandate. I believe that Fund’s involvement in broad monetary, fiscal and financial issues without getting excessively into micro policies would better serve the needs of today’s global economy.

We strongly support the World Bank’s efforts to heighten its focus on the issues of governance and corruption. We believe that poor governance and corruption are among the main obstacles to development and poverty reduction. Promoting good governance is essential for achieving the MDGs and the Bank’s core mission of poverty reduction.

As reform efforts succeed only when there is a committed country leadership, the World Bank should have extensive collaboration with the authorities and should find ways to build and ensure country ownership. We believe that Bank should stay and remain engaged, as much as possible, and support all countries that are making efforts to strengthen governance.

We welcome the actions taken and the plans being made to refine and enhance the Bank’s engagement strategy with the Middle Income Countries (MICs). As 70 percent of the world’s poor live in MICs, we strongly believe that continued support to them is an essential part of the Bank’s mission of reducing global poverty as well as achieving other MDGs.

We believe that the MICs Action Plan, if implemented efficiently, will contribute to reversing the declining trend in the Bank’s engagement with the MICs in the 1990s. Important steps are being taken to reduce the non-financial cost of doing business with the Bank, to develop more responsive and tailored financial services, and to provide more effective strategy and policy advice.

However, we believe that the Bank can do more to support the MICs. Increasing the lending activities of the Bank, along with its policy advisory role, is essential in meeting the Bank’s core mandate of poverty reduction. Borrowing countries see financial and non-financial costs of borrowing as a package in their decision to engage with the Bank. Therefore, an analysis of the effect of marginal adjustments to loan charges and its affordability without jeopardizing the medium term financial health of the Bank may indicate that the Bank is passing up opportunities to make deep inroads into poverty reduction. We are looking forward to this analysis in the near future.

Finally, let me briefly touch upon the most recent developments in the Turkish economy.

Turkey continues with an uninterrupted growth for the last 18 quarters, making growth on average 7.8 percent per annum. Growth has remained robust in 2006 with economic activity expanding by 7.5 percent in the first half of the year. This figure indicates that we may even overperform our year end target of 5 percent.

Fiscal discipline remains the cornerstone of our program. We will remain committed to our strong fiscal policy framework. Following several decades of high and chronic fiscal deficits the public sector is projected to produce a surplus for the first time. Net public debt, as a percent of GDP declined to 55.8 percent as of end-2005 down from the peak of 90.4% in 2001, pointing to a reduction in the order of 35 percentage points in four years time. This downward trend is expected to continue in coming years with the help of continued sizable primary surpluses and high growth.

Inflation is likely to exceed the 2006 target mainly because of adverse energy and commodity price developments. However, it is expected that, in the medium term, it will converge to our target. Current account deficit has widened on account of rising cost of energy imports and accelerating investments whereas the composition of the financing significantly improved by the increasing long term capital inflows.

With the tightening of global liquidity conditions, May and June of 2006 were particularly volatile months for emerging market countries, and Turkey was no exception. These developments, once again, reflect the importance of policy discipline and the strong policy coordination needed for sustained growth. In response to the tightening global liquidity conditions in May and June, we have reinforced our fiscal stance and the central bank has tightened monetary policy. The most recent turbulence also proved the increased resilience of the Turkish economy especially the structural changes that have been undertaken.

With the passage of the landmark social security reform law and steps taken to reform the tax system, we are continuing fast with our structural reform agenda. Our efforts to improve the business environment have finally started to bear fruit, with foreign direct investment reaching record high levels. Last year FDI amounted to USD 9.8 billion, almost ten times higher than its historical average. The FDI in 2006 is also strong and expected to surpass the previous year's performance as the FDI inflows hit USD 9.1 billion in the first seven months of the year. Reform policy agenda regarding the financial sector is also well underway and we will complete our FSAP study by the end of the year.

While concluding let me thank you for your support to host 2009 Annual Meetings in Turkey. We are looking forward to welcome you to the historic city of Istanbul.

UKRAINE: V. MAKUKHA
Alternate Governor of the Bank

First of all I would like to thank the International Monetary Fund, the World Bank and the Government of the Republic of Singapore for a remarkable organization of the Annual Meetings of the Boards of Governors of the Fund and the Bank.

Certainly, the IMF and the World Bank's quest to increase their role and effective performance, in particular the general logic of the IMF's strategic review, aimed at adaptation of the Fund to the new reality of globalized and financially integrated economies, and the World Bank's efforts for better governance and anti-corruption, as well as strengthening its engagement with middle income countries (MICs) deserve support.

The issue is not only the changes in relative positions of countries and regions, but the general rate of global changes and financial integration. Ideally, there would be a mechanism of timely and appropriate reactions to accelerating changes on the part of international financial institutions (IFIs). Thus it would concern not so much and not only reforms of quotas and voice in the IMF, but a reconsideration of the IFIs' role in establishing cooperation between member countries and the financial markets, constant attention to reducing vulnerabilities of national and international economic systems, and developing the modern institutions necessary to successfully cope with changes.

Taking into account growing financial integration, it would be desirable to emphasize a more pronounced role of the IMF in establishing cooperation between the financial supervisory bodies of host countries and those of countries, from which foreign banks and other financial investors, working in host countries, are originating. In Ukraine we enjoy positive results from the growing presence of foreign banks and financial investors. Nevertheless, the management and control of new risks connected with financial globalization, demand additional comprehension and subsequent steps to maximize opportunities and minimize risks. It is often a more important element of external financial stability than exchange rate regimes.

The conditions may not be ripe for full free-floating of currencies in many regions of the world due to insufficient development of internal financial markets and other incomplete structural reforms. However, a flexible economy will easier amortize shocks, provided stable balance sheets are successfully secured. The IMF has great experience in assessing the mutual consistency and coordination of different elements of a macroeconomic policy mix and we appreciate advice and additional research going beyond the generalized macro-level. We understand the

increased attention at the IMF to systemically important countries. Nevertheless, it should not occur at the expense of other members of the Fund. We hope that new initiatives to develop insurance programs will be more successful than previous attempts.

Speaking about risks, it is not the first year that we read about risks from overheating of real estate markets in developed countries, but the same tendencies occur in a number of new market economies; in some of them it is even to a larger scale than, for example, in the USA. Even though there is ample research on the level and the importance of potential risks for industrial countries, more attention is necessary on the part of the IFIs for the potential consequences of global imbalances for new market economies.

At the same time, a simple application of methodology of analysis of countries with developed financial markets to newly emerging market economies, which are still in the process of forming the modern and complex financial markets and instruments, will not necessarily give positive results. Especially where it concerns attempts to estimate so-called 'equilibrium nominal exchange rates'. We would urge caution with such assessments: it would be prudent to start with ranges of real exchange rates and possible different scenarios of their development. Robust methodology of this kind of assessments does not seem to exist, and difficulties with data and data interpretations will have to be addressed.

Also, within the framework of reforms at the IMF, we appeal to put more focus on employment of experts with practical operational experience in central banks and the governmental ministries, who have not only theoretical knowledge, but also practical experience with implementation of important reforms and development of modern institutions. The technical assistance and policy advice from such experts is extremely valuable.

We hope and trust, that the search for more sustainable mechanisms of formation of the IMF income will not lead to negative consequences for the users of Fund's services.

Ukraine supports the Bank Group work to deepen engagement to strengthen governance and fight corruption and the corresponding strategic document of the World Bank, presented at the Development Committee meeting. We welcome the thrust of the document to address governance and anti-corruption from a broad development perspective and within the Bank's mandate. Building capable, accountable and responsive states that are effectively delivering services to its citizens, sustaining growth and development, and confronting corruption should be in the core of the Bank's business.

The document calls for a streamlined and enhanced governance and anticorruption agenda in the Bank's operations and clearly frames the

“three-tier” approach, at the country level, the project level and the global level. We appreciate that the strategy envisages both flexibility to ensure proper consideration of a member country’s circumstances, and consistency of treatment of member countries. Those issues should be carefully assessed during the strategy implementation.

We welcome the Bank’s intention to stay engaged with member countries, even if a difficult environment and bad governance make the Bank’s presence there more challenging. There is no doubt that country ownership of and commitment to the governance and anticorruption agenda are absolutely crucial and it is therefore critical for the Bank to pursue a dialogue on these issues with member countries. Broader engagement with institutions outside the central government is also appreciated.

We welcome the opportunity to discuss strengthening the World Bank’s engagement with the IBRD partner countries. It reflects an important consensus in the international community on the significance of continuing, while renewed, support to the large group of middle-income countries, which still face substantial development challenges. These countries manage their own development programs, are less reliant on IBRD financing, need more sophisticated financial products, and require knowledge and advisory services of the highest quality.

In this context we are pleased with the Bank’s approach to become more effective in delivering a flexible, high quality and cost-effective menu of services to its clients to assist them in achieving development results. We welcome the identification of three business lines in the document, strategic advice, financial services and knowledge services, and corresponding operational initiatives. Particularly, using the country systems, introducing sub-national lending, unbundling technical assistance from lending, expanding local currency lending, increasing the transparency of loan pricing, if settled properly, could serve better both the MICs and the Bank.

Ukraine has great interest in the Bank’s strategy and coordination services at the country level, as it could help us to become more efficient in managing our own resources, as well as those borrowed from the IBRD. We also welcome the commitment to review the pricing of the Bank’s financial products to simplify and improve the transparency of the pricing structure and ensure its competitiveness.

Knowledge services have become an essential product for clients and a unique instrument for the Bank. Many MICs want to explore new options for accomplishing long-standing challenges and being fully engaged in the development debate. Both goals require nothing but the best advice available. The Bank has on many occasions been very successful in providing high quality knowledge services, by putting together teams of the best and brightest international and local experts, including those from outside of the institution. We agree, however, that the Bank’s

activity in this area could and should be undertaken even more effectively and with greater relevance to the operational work on the ground.

We welcome the document's focus on selectivity and the need to assess the value added of the Bank's involvement with IBRD partner countries with respect to each program or project. Weighing Bank intervention against other options to support economic growth, promote poverty reduction, achieve better governance, and help crowd in private capital flows, is an essential issue: for the Bank to be competitive, and for a country to obtain the most appropriate product it needs. The attention given to partnership in this report is very much appreciated, but we feel that this needs to be developed further, including the World Bank Group synergy, working with the IMF, other IFIs and bilateral partners.

Ukraine has greatly valued the support of the Bank and in the course of time the Bank has become our partner of choice, as is the case for a growing number of IBRD countries.

The partnership of Ukraine with the World Bank is today at a stage of effective development, and I trust that the new principles and approaches for this cooperation will be reflected in a new World Bank/Ukraine partnership strategy. The introduction of a transparent cost system of World Bank credits; elaboration of new financial instruments for overcoming external shocks; granting an opportunity to receive the technical assistance and analytical services of the World Bank, which are not connected with credit services, are all of crucial importance. We consider this a field for more active cooperation between institutions of the World Bank Group, the World Bank, the IFC and MIGA, in assisting the MICs.

Ukraine has recently adopted the National Strategy of Cooperation with International Financial Institutions for 2006–2008. Crucial is that the program of cooperation with the World Bank and the development of an interaction with the IMF are well coordinated with the economic priorities of the nation. Our urgent and ambitious task is to transition to an innovative and highly technological national economy and to increase its competitiveness. To achieve this, we plan to initiate new projects focusing on Ukraine's greatest needs, and on those areas where experience shows cooperation to be most successful.

We also see a need to increase the consolidating role of the international financial institutions in Europe in the common search for effective ways to overcome tensions over energy pricing and volumes of supply, in the gas trade in particular. To address these challenges, the highest priority for Ukraine is to stimulate the investments necessary to develop the power sector, to enhance energy efficiency, to modernize urban transport and municipal infrastructure, and to improve the quality of services in water supply and heating.

Ukraine recently observed the 15th anniversary of its Independence. In this short period Ukraine has become a democratic country. It has

shown wisdom and responsibility in solving most complicated problems in economic, social and external economic spheres. Now Ukraine demonstrates high growth rates, and we are proud that both real income and the well-being of its citizens grow at appreciable rates, that the level of unemployment is the lowest since Ukraine's independence and that foreign direct investments tripled in the first eight months of this year. The recent formation of a stable coalition in Parliament and its close coordination with the Government of Ukraine, will facilitate speedy implementation of the necessary legislative changes to further promote reforms.

We are grateful to the World Bank and the IMF, that during the years since independence these institutions were our reliable partners and effective advisers: they made important contributions to the achievement of macroeconomic stability and a higher quality of public finances.

UNITED STATES: CLAY LOWERY

Temporary Alternate Governor of the Bank and the Fund

On behalf of Secretary Paulson who had to depart early, I wanted to provide the U.S. perspective on this weekend. While the setting of Singapore and this weekend bring out many lessons in the world of international economics, I wanted to mention three in particular that stand out.

The Central Importance of Liberalization

The impressive rise in Asia's living standards is a reminder of what we all have to gain—more jobs, greater opportunities, less poverty—in pressing forward on a global trade agreement that reduces trade barriers.

Setbacks in the Doha round reflect uneasiness about the impact of globalization, even among countries that stand to gain the most from a new global trade deal. We need to address such concerns head-on, by being attentive to the impact of trade opening on different groups and ensuring that benefits are widely spread. Finance officials have special responsibility to halt rising protectionist pressures while at the same time promoting the opportunities that open trade and investment regimes bring.

There is hard and important work ahead in building a broad coalition to bring the Doha round to a successful conclusion. The rewards of trade liberalization, growth and development, however, make this work imperative and we must seize the chances before us.

The Growing Weight of Emerging Markets

Emerging economies with sound policies and institutions have become increasingly important actors in the global economy. They should have a greater role, and assume increased responsibilities for the

management of the international financial system. At these meetings, we have begun this process by reordering the governance of the IMF so that it reflects the new realities of the 21st century.

We are pleased to have the first small step in quota reform behind us and want to thank Managing Director de Rato for his leadership. We came to the view awhile ago that if we do not take action to recognize the growing role of emerging economies, the IMF will become less relevant and we will all be worse off. We have much work to do in the coming months and we should get started on it as soon as possible.

Updating the Work of the International Financial Institutions

To remain relevant, the IFIs need to evaluate continually whether they are achieving their core missions—and accordingly—adjust their work programs to maintain their focus. While there have been great changes in the international monetary system over the last half-century, the encouragement of appropriate exchange rate policies to facilitate international trade and global growth remains the IMF's most fundamental responsibility. This entails rigorous assessment of members' exchange rate regimes and their consistency with domestic policies and the international system. If the IMF as a multilateral institution does not strengthen its exchange rate surveillance, the burden will inevitably fall upon bilateral mechanisms—frankly, to the potential detriment of us all.

The Asian setting for our meetings also remind us that development efforts *can* succeed, as demonstrated by the role now played in the world by former World Bank borrowers like Singapore and South Korea. However, we must not let the World Bank become stale and this weekend has suggested three ways to avoid that:

First, as more countries gain market access and no longer need to rely on the Bank to finance development needs, the Bank should recognize this as success and find new ways other than lending to engage with such countries.

Second, where deep-seated corruption exists, genuine development that lifts people out of poverty simply cannot take place. Under President Wolfowitz's leadership, we have taken the first steps on a strategy that strengthens the Bank's engagement on governance and corruption issues. It is imperative that we follow through to implement this robust approach in the months ahead.

Third, and together with the IMF, the World Bank must find ways to prevent a return to unsustainable debt levels. This will mean creating the right incentives so that borrowers and lenders, join together to break the lend-and-forgive cycle once and for all.

Speaking on behalf of the U.S., we appreciate these lessons and we look forward to working with you to make them a reality. Thank you.

VIET NAM: LE DUC THUY

Governor of the Fund

Let me start by expressing my congratulation to Singapore on hosting the Annual Meetings this year, and my heartfelt gratitude to the beautiful island and the Organizing Committee for their great efforts to make such perfect preparation for this important event. On behalf of the delegation of the Socialist Republic of Vietnam, I would also like to take this opportunity to extend my warm greetings to the Chairman of this year's IMF/WB Annual Meetings. We are all grateful to the two leading international financial institutions for their outstanding work in assisting their member countries to ensure financial stability, sustainable growth and poverty reduction in the past time. I wish our 60th Annual Meeting a splendid success.

One year after the 2005 Annual Meetings, we are happy to celebrate the uninterrupted strong growth of the world's economy. African member countries are witnessing ever high growth since 1970s to reflect a clear evidence that the developing world is making an increasing contribution to the global economic growth. The Asia—Pacific region, comprising of dynamic economies, is showing a more and more important role in the world economy. While the striking growth achievements by the Euro Zone have brought about great surprise to all, the Latin American economies started recovering in the first half of this year. The American economy continues to expand, however, the global imbalance still remains as a huge challenge. The high oil price, full of unexpected upheavals, has required a comprehensive solution to stabilize the supply of this number 1 energy. The search for an alternative and environmentally favourable fuel source has been mentioned almost everywhere.

Our last Annual Meetings adopted the Fund's Medium—Term Strategy with a view to enhance surveillance, adjust lending facilities to meet the changing needs of its member countries, and improve the Fund's governance and capacity as well as operations within the Fund. At the last Spring Meetings, we also heard the Managing Director's report on the implementations of this Strategy. Over the past year, the Fund has taken extensive steps in implementing the Strategy through efforts to mitigate the global imbalances and assist member countries in dealing with their national difficulties. Vietnam wholly supports these efforts and hopes that the IMF will speed up the implementation of the main substances of the Strategy, especially the Quotas and Voice Reform. This is a proper plan and with a successful implementation, it will make the Fund better reflect member countries' position in the world economy, to echo the voice of the low-income member countries, thereby strengthening the credibility and efficient operations of the Fund to ultimately result in benefit for all the member countries.

Vietnam welcomes the WB's efforts to continue the implementation of the policies mapped out in the previous years of which the African Action Plan is considered as the first operational priority in the past year. At the same time, we also appreciate the Bank's Multilateral Debt Relief Initiatives and the IDA's non-commitment program. The WB's policy in enhancing engagement in governance and anti-corruption as well as the Sanction Reform Plan which serves to promote aid effectiveness is absolutely necessary. However, Vietnam emphasizes that the observation of the Bank's legal framework and the Articles of Agreement must be in parallel with the respect for the member countries' national sovereignty; the member countries' governments should be treated as the highest representatives, with neither intervening in the internal affairs of the member countries nor punishing any member country for its weakness. These are crucial prerequisites for the aid recipient member countries to make full use of the precious assistance of the international community to obtain successes in poverty reduction and timely meet the Millennium Development Goals.

Strengthening the Bank

Fund cooperation is key to the assistance for middle and low income member countries. The WB and the IMF are working closely on various fields, namely trade and finance, public spending and medium-term growth, debt and so on. While the IMF's mandate is policy advice and macroeconomic stability, the WB focuses on structural and sectoral aspects, therefore, a harmonious cooperation between the two should bring about a considerable aid commitments to their member countries and keep these commitments stable.

The Debt Relief to the Highly Indebted Poor Countries Initiative, the Multilateral Debt Relief Initiative, the Bank

Fund Debt Sustainability Framework, the Financial Sector Assessment Program, etc are all the results of the effective cooperation between the IMF and the WB. We hope that this cooperation will continue to be consolidated to ensure the world economic stability, to promote investment for sustainable growth and assist member countries in strengthening their financial system and minimize any risk of financial crises in the future.

The world economy adverse developments in 2005 brought about great impacts on Vietnam's economy, namely among other things increasing CPI and hindering the fulfillment of the Government's social-economic targets. However, the macro-economic performance generally appeared strong in 2005. Despite the avian flu outbreak and

unfavorable weather conditions, our real GDP growth rate was 8.4%, the highest level for the last 9 years. In 2006, agricultural production has suffered a decline due to the foot and mouth disease epidemic, crop diseases and continuous natural disasters. In addition, the rising price of crude oil and some key raw materials has put pressure on the input cost of domestic goods and services, thus raising the consumer price. However, right from the beginning of this year, Vietnam continued to witness robust and stable economic growth thanks to the Government's proper direction and the great efforts made by various ministries and provinces together with external assistance, hence meeting the average 7.5% GDP growth target set in the 5-year (2001–2005) Social Economic Development Program.

In the banking sector, one striking feature is the Vietnamese Government's adoption of "The Targets and Solutions to Develop the Banking Sector to 2010 and Directions to 2020", to include such main objectives as developing the State Bank of Vietnam into a modern Central Bank, substantially reforming and comprehensively developing the credit institutions system in an advanced and universalized manner to reach the fairly good level of the ASEAN banking system. The banking sector in Vietnam is stepping up its reform, strengthening the financial capacity of the commercial bank system, improving the legal system in financial and monetary activities to establish a transparent and level-playing field in order to stimulate competition and ensure the safety of the whole system.

The year 2006 is the first year of the 5-year (2006–2010) Socio-Economic Development Plan and a year of many political, social and economic events of great importance to Vietnam. My country will surely face new opportunities and challenges, especially when our WTO accession is about to take place.

It could be said that to fulfill the targets set out in the 5-year (2006–2010) Socio-Economic Development Plan, the Vietnamese Government will have to deal with many challenges, especially the need to ensure equal and sustainable growth, the competitiveness of the economy, the pace of economic structural transformation, effective mobilization and utilization of all social resources and coping with the post WTO accession issues. The Vietnamese Government and people are determined to pursue the outlined reform roadmap, to develop a really market-based economy, to ensure a parallel between the high rate and good quality of economic growth. We hope that by implementing a plan based on broad consultation and thorough consideration of the reality, Vietnam will achieve the sustainable economic growth target, comprehensively reform the SOEs and the SOCBs, substantially improve the business environment, step up and improve investment, bring about a new momentum in external economic cooperation, get prepared to

overcome the huge challenges following Vietnam's WTO accession and bring Vietnam out of the low-income country group as soon as possible.

It is my strong belief that the great determination and efforts of the Vietnamese Government and people in order to overcome the challenges ahead to reap sustainable economic growth, to raise the living standard of our people and integrate into the world economy will enjoy active support from the international community, especially the WB and the IMF. Once again, on behalf of the Vietnamese Government and people, I would like to express our sincere thanks to the Boards and staff of the Bank and the Fund for their precious and continuous assistance to Vietnam.

CONCLUDING REMARKS BY PAUL WOLFOWITZ PRESIDENT OF THE WORLD BANK GROUP

I would like to begin by thanking you for the way you conducted these discussions in an efficient, effective, and dignified manner that has been appreciated by all of us attending the meetings and by the clarity of your opening remarks, which I think set our agenda very well. I know you have been assisted ably by the Secretariats of both the IMF and the World Bank Group, led respectively by Shail Anjaria and Paatii Oforu Amaah, and they together with Pat Davies and as Rodrigo correctly commented, hundreds of staff both here and back in Washington have done another outstanding job in organizing these meetings. I want to add my thanks to those as the Managing Director just expressed so well.

Then there are our hosts, the government and people of Singapore, who have shown us generous Asian hospitality, as well as their efficient, responsive, and courteous support accompanied by what seemed to be ubiquitous smiles everywhere I go. Last but not least, I would like to thank all of you, the Governors of our institutions, our Executive Directors, and all your colleagues for your active participation and constructive contributions to our deliberations. I believe we have moved forward and made tangible progress in these meetings to pave a surer path for improving the lives of the world's poorest people. Some of our discussions have evoked lively debate, both within and outside these halls, but I believe that is part of a constructive debate and an indication that we are tackling real and substantive issues, always keeping in mind our ultimate objective of giving the poor people of the world a chance to escape poverty.

Similarly, we should ensure that initiatives such as multilateral debt relief are actually realized, and in that connection, we must aim very high for the next replenishment of IDA. That will surely assist us in meeting the ambitions and hopes of poor people in Africa and around the world. In that connection, I would like to thank our Board of Governors for approving the transfer of \$800 million from IBRD's net income and surplus to IDA, as well as the designation of \$150 million of IFC's retained earnings for IDA, and also for the approval of an additional \$200 million of surplus to cover emergencies such as Lebanon. All of you Governors have reaffirmed that actions to promote good governance are crucial to successful economic development and poverty reduction and to help our member countries on these issues is important to the Bank's mission and to achieving the Millennium Development Goals.

Accordingly, there is broad based support for the Bank Group's effective engagement in improving governance, and there is also broad consensus that this must be done in true partnership with countries, as well as with other multilateral and bilateral institutions. Action is needed, however, not just in our borrowing countries but equally by the rich countries.

Throughout we must ensure consistent and equal treatment across member countries through predictable and transparent decision making and actions. Clearly, this is an immensely complex issue, so our strategy must engage as thoroughly as possible with our member countries and seek to understand their individual situations in as much detail as possible. As the Development Committee recognized, working closely with the Board, we must engage with all of our partners on this important issue.

In that connection, many of you attended our program of seminars with the theme “Asia in the World and the World in Asia.” I attended one inspiring seminar focused on the issues of governance and anti corruption. Other seminars dealt with a range of timely issues relating to the development process and the achievement of the Millennium Development Goals.

I want to compliment the organizers of those seminars for bringing together some remarkable speakers.

Our discussions in Singapore have been supportive of the priority of sub Saharan Africa and fragile states, but as I noted, and several of you have reminded us, two thirds of the world’s poor reside in middle income countries in Asia, Latin America, and the Middle East. Middle income countries are and must remain a core client group for us to fulfill our mandate but also to maintain our core competencies in development expertise and to maintain IBRD’s financial capabilities. Several have supported the Bank’s retooling to meet the needs of middle income clients which are diverse. Their demands are increasingly sophisticated and require continuous innovation and improvement on our part to remain meaningfully competitive. We must rise to that challenge, and we can.

In this era of globalization, and consistent with the theme so eloquently presented by the Prime Minister of Singapore in his opening remarks, several governments addressed issues of global import, particularly the prospects for the Doha Round and the issue of clean, efficient, and affordable energy. All our speakers, it seemed, emphasized the importance that Doha must succeed and that the poorest countries must come out winners. The Bank Group will continue to remain active in a variety of international efforts to provide global public goods. We appreciate your support and appreciation for our role. We will continue to maximize our effectiveness, including advocacy of the global public interest.

Finally, I would like to congratulate the IMF for its approval of the voice and quota reform proposals made by the Managing Director. Change in any multilateral institution is difficult. Rodrigo, you have accomplished it. I want to congratulate you. Fair weight and voice to all member countries is essential for our credibility and effectiveness, and we recognize that we can and must do more. You have set an example for us on the Bank side, and we intend to follow your example.

I look forward to working with the Bank shareholders to ensure that we secure proper voice and participation in the governance of the World Bank Group.

This is a historic opportunity for our institutions and the peoples of the world. We must seize this moment to cater for the poorest of the world, including that young Mexican girl I spoke of yesterday, who dreams of a world without desperate poverty.

Thank you. I very much look forward to seeing you in Washington next April. Hope you have a safe journey home. Bon voyage.

CONCLUDING REMARKS BY THE CHAIRMAN THE HONORABLE BHARRAT JAGDEO

We have had full and productive Annual Meetings. Allow me to reflect on the salient issues of our deliberations here in Singapore.

First, these Annual Meetings will be remembered for many important decisions, but foremost among them is the agreement we reached on a comprehensive two-year program of IMF quota and voice reforms. These reforms will make significant progress in realigning quota shares with members' relative positions in the world economy and in enhancing the participation and voice of low-income countries in the IMF.

Second, even as the global economic expansion continues to be strong and broad-based, there is a need to be prepared for a more challenging global environment, including the likely transition to higher inflation and tighter liquidity conditions. It is also crucial to reduce global imbalances while sustaining global growth. In this regard, we called for sustained and timely action for an orderly unwinding of global imbalances. The multilateral consultation by the IMF provides the platform for a joint, cooperative approach.

We underscored the importance of multilateral trade liberalization for strengthening the foundations of global growth. We therefore urged all WTO members to maintain their commitment to the rules-based multilateral trading system, resist protectionist calls, and preserve the progress that has already been made. We were reminded that the Doha round of negotiations is a development round and as such priority must be given to the issues of the developing world. The leadership of the major trading countries in reviving the trade negotiations is crucial. We also called on the IMF and the World Bank to continue their global advocacy role on trade and development, and to foster the integration of trade into country programs.

Third, we supported the IMF's and the World Bank's efforts to better assist their emerging market and middle-income country members. Steps to put financial and capital markets issues at the center of the two institutions' work in these countries are important. The IMF's work on the design features of a new liquidity instrument for emerging market countries that are active in international capital markets should move apace.

We also supported the World Bank's mission to eradicate poverty in its engagement with middle-income countries, where 70 percent of the world's poor live. Its proposals to deliver better and more flexible country partnership strategies, reduce the cost of doing business with the Bank, and develop new ways to help countries facing external shocks are steps in the right direction.

Fourth, we urged the IMF and the World Bank to enhance the effectiveness of their work in low-income countries by focusing on sustainable growth and macro-critical areas that support the achievement of the Millennium Development Goals (MDGs). We underscored the importance of helping countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. The international commitments to improve aid effectiveness must be translated into action.

Finally, we emphasized that actions to promote good governance and fight corruption are crucial to successful development and poverty reduction and the achievement of the MDGs. We encouraged the World Bank to assist states to better deliver services to the poor, promote private sector-led growth, and tackle corruption effectively, noting that governments are the key partners of the Bank in governance and anticorruption programs.

It has been an honor to serve as Chairman of this year's Annual Meetings of the Boards of Governors of the IMF and the World Bank Group. In closing, allow me to thank you all for your support and cooperation. I believe that we have accomplished much during these meetings. I wish to thank Mr. De Rato and Mr. Wolfowitz for their able leadership of the Bretton Woods Institutions, and the staff of our two institutions for their hard work. I also wish to pay tribute to former First Deputy Managing Director Anne Krueger for her service and dedication.

I also thank Mr. Anjaria and Mr. Ofosu-Amaah and the staff of the Joint Secretariat for the excellent arrangements for the meetings. I wish, in particular, to thank Ms. Patricia Davies, who is retiring after years of leading the Joint Secretariat team in organizing our meetings. I would also like to extend our appreciation to the Singapore government and the Singaporean people for their warm hospitality.

Finally, let me welcome and congratulate the Minister from Algeria, who will succeed me as Chairman of the Annual Meetings.

This concludes the 2006 Annual Meetings. I wish everyone safe travels home. I look forward to seeing you all again next year in Washington, D.C.

ALGERIA: MOURAD MEDELICI

Governor of the Bank

It is a great honor for Algeria to accept the chairmanship of the Boards of Governors for the year ahead. Fellow Governors, first and foremost, please join me in thanking His Excellency Bharrat Jagdeo for the remarkable manner in which he conducted these meetings.

This year, we addressed a number of important issues, including questions relating to growth and financial stability, the importance of good governance for development, stepping up cooperation with the middle-income countries, as well as issues pertaining to strengthening the voice and participation of the developing countries in the International Financial Institutions. The robust growth rates observed are indicative of a good outlook for the year ahead. However, there are still major problems, including inequalities in growth and poverty reduction from country to country and across regions, global trade imbalances, as well as armed conflicts and global security threats. These problems pose a risk to the sustainability of this growth. We hope that the assessment of these risks will serve as a powerful incentive for fighting poverty with renewed commitment and for promoting development while adhering to responsive economic and social policies which bolster growth and preserve macroeconomic stability.

We welcome the debt relief provided under the Multilateral Debt Relief and Heavily Indebted Poor Countries Initiatives, but nevertheless urge the international community to step up its support and coordinate its efforts aimed at achieving the Millennium Development Goals in 2015. We also welcome the initiatives geared toward enhancing the voice of all members of the Bretton Woods Institutions and look forward to the additional changes planned for the near future.

Fellow Governors, allow me here and now, on behalf of us all, to express our appreciation to the staffs of the World Bank and the International Monetary Fund for their hard work and dedication under the strong leadership of Mr. Wolfowitz and Mr. de Rato. We have entrusted our institutions with the tasks of contributing to poverty reduction, sustainable development, growth, and stability. We all are grateful for their past achievements in these areas and must continue to extend our full support to them.

Please allow me also to express our gratitude and deep appreciation to our hosts, the people and the Government of Singapore, for the remarkable organization of these Meetings and for their exceptional hospitality.

Fellow Governors, I look forward to working with all of you on the important agenda we have outlined here and to seeing all of you at our Annual Meetings next year in Washington, D.C.

DOCUMENTS OF THE BOARD OF GOVERNORS

SCHEDULE OF MEETINGS^{1,2,3}

Monday

September 18 5:00 P.M. Joint Procedures Committee
 5:15 P.M. MIGA Procedures Committee

Tuesday

September 19
 10:00 A.M. Opening Ceremonies
 Address from the Chair
 Annual Address by Managing
 Director,
 International Monetary Fund
 Annual Address by President,
 World Bank Group⁴
 3:00 P.M. Annual Discussion

Wednesday

September 20
 9:30 A.M. Annual Discussion
 3:00 P.M. Annual Discussion
Following the conclusion Procedures Committees Reports
of the Annual Discussion Comments by Heads of Organizations
 Adjournment

¹ *The Meetings were held at Suntec Singapore International Convention and Exhibition Centre (Suntec Singapore) and all sessions were joint sessions.*

² *On September 19, the morning session adjourned at 1:00 P.M. and the afternoon session adjourned at close to 5:00 P.M. On September 20, the meetings were concluded close to 11:30 A.M.*

³ *The International Monetary and Financial Committee and the Development Committee met on Sunday, September 17, and Monday, September 18, respectively.*

⁴ *The World Bank Group consists of the following:
International Bank for Reconstruction and Development (IBRD)
International Finance Corporation (IFC)
International Development Association (IDA)
International Centre for Settlement of Investment Disputes (ICSID)
Multilateral Investment Guarantee Agency (MIGA)*

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS¹

ADMISSION

1. Session 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 Members.

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.

¹ *Approved on July 25, 2006 pursuant to the By-laws, IBRD Section 5(d), IFC Section 4(d), and IDA Section 1(a).*

AGENDA

BANK¹

Annual Report
Financial Statements and Annual Audit
Allocation of FY06 Net Income
Transfer from IBRD Surplus to Fund Trust Fund for Lebanon
Administrative Budget for FY2007
Annual Report of the Development Committee
2006 Regular Election of Executive Directors
Selection of the Members of the Joint Procedures Committee
and its Officers for 2006–2007

IFC¹

Annual Report
Financial Statements and Annual Audit
Use of IFC's FY06 Net Income: Retained Earnings and Designated
Retained Earnings
Administrative Budget for FY2007

IDA¹

Annual Report
Financial Statements and Annual Audit
Administrative Budget for FY2007

MIGA²

Annual Report
Financial Statements and Annual Audit
2006 Regular Election of Directors
Selection of the Members of the MIGA Procedures Committee
and its Officers for 2006–2007

¹ *Approved on August 4, 2006 pursuant to the By-Laws, IBRD Section 5(a), IFC Section 4(a) and IDA Section 1(a).*

² *Approved on August 4, 2006 pursuant to Section 4(a) of the MIGA By-Laws.*

JOINT PROCEDURES COMMITTEE

<i>Chairman</i>	Guyana
<i>Vice Chairmen</i>	Luxembourg Mozambique
<i>Reporting Member</i>	Mongolia

MEMBERS

Burundi	Malta
Cameroon	Mongolia
Chile	Mozambique
France	Netherlands
Germany	Rwanda
Guyana	Saudi Arabia
Honduras	Serbia
India	Suriname
Indonesia	Sweden
Iran, Islamic Republic of	United Kingdom
Japan	United States
Luxembourg	

REPORT OF THE JOINT PROCEDURES COMMITTEE

REPORT II¹

September 18, 2006

At the meeting of the Joint Procedures Committee held on September 18, 2006, items of business on the agenda of the Boards of Governors of the Bank, IFC, and IDA were considered.

The Committee submits the following report and recommendations on Bank and IDA business:

1. 2006 Annual Report

The Committee noted that the 2006 Annual Report and the activities of the Bank and IDA would be discussed at these Annual Meetings.

2. 2006 Regular Election of Executive Directors

The Committee noted that the 2006 Regular Election of Executive Directors of the Bank would be completed on September 19, 2006 and that the next Regular Election of Executive Directors will take place in 2008.

3. Financial Statements, Annual Audits, and Administrative Budgets

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 2006 Bank and IDA Annual Report, together with the Report dated June 27, 2006.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft Resolutions. . . .²

4. Allocation of FY2006 Net Income of the Bank

The Committee considered the Report of the Executive Directors, dated August 7, 2006, on the Allocation of FY2006 Net Income. . . .³

The Committee recommends that the Board of Governors of the Bank adopt the draft Resolution. . . .⁴

¹ Report I related to business of the Fund.

² See page 207.

³ See page 254.

⁴ See page 207.

5. IBRD Surplus to Fund a Trust Fund for Lebanon

The Committee considered the Report of the Executive Directors, dated September 7, 2006, on the Transfer from IBRD Surplus to Fund a Trust Fund for Lebanon. . . .¹

The Committee recommends that the Board of Governors of the Bank adopt the draft Resolution. . . .²

The Committee submits the following report and recommendations on IFC business:

1. 2006 Annual Report

The Committee noted that the 2006 Annual Report and the activities of the IFC would be discussed at these Annual Meetings.

2. Financial Statements, Annual Audit, Administrative Budget and Designation of Retained Earnings

The Committee considered the Financial Statements and Accountants' Report, the Administrative Budget and the Designation of Retained Earnings based on IFC's FY2006 Net Income contained in the 2006 Annual Report, dated June 22, 2006.

The Committee recommends that the Board of Governors of IFC adopt the draft Resolution. . . .³

Approved :

/s/ Bharrat Jagdeo
Guyana—Chairman

/s/ Ochirbat Chuluunbat
Mongolia—Reporting Member

(This report was approved and its recommendations were adopted by the Boards of Governors on September 18, 2006)

¹ See page 256.

² See page 208.

³ See page 209.

JOINT PROCEDURES COMMITTEE

REPORT III

The Joint Procedures Committee met on September 18, 2006 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 19, 2006 pursuant to paragraph 5 of Resolutions Nos. 29-9 and 29-4 of the Fund and Bank, respectively. . . .¹

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 2006/07

The Committee recommends that the Governor for Algeria be Chairman and that the Governors for Fiji and Portugal 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: Algeria, Angola, Austria, Bolivia, Botswana, Canada, the Central African Republic, China, Fiji, Finland, France, Germany, Japan, Panama, Portugal, Romania, Saudi Arabia, Senegal, Sri Lanka, Tajikistan, the United Kingdom, the United States, and Venezuela.

¹ See page 20.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Algeria, and the Vice Chairmen shall be the Governors for Fiji and Portugal, and that the Governor for Panama shall serve as Reporting Member.

Approved:

/s/ Bharrat Jagdeo
Guyana—Chairman

/s/ Ochirbat Chuluunbat
Mongolia—Reporting Member

(This report was approved and its recommendations were adopted by the Boards of Governors on September 18, 2006)

MIGA PROCEDURES COMMITTEE

<i>Chairman</i>	Guyana
<i>Vice Chairmen</i>	Luxembourg
	Mozambique
<i>Reporting Member</i>	Mongolia

MEMBERS

Burundi	Malta
Cameroon	Mongolia
Chile	Mozambique
France	Netherlands
Germany	Rwanda
Guyana	Saudi Arabia
Honduras	Serbia
India	Suriname
Indonesia	Sweden
Iran, Islamic Republic of	United Kingdom
Japan	United States
Luxembourg	

REPORT OF THE MIGA PROCEDURES COMMITTEE

REPORT I

September 18, 2006

At the meeting of the MIGA Procedures Committee held on September 18, 2006, the items of business on the agenda of the Council of Governors of MIGA were considered.

The Committee submits the following report and recommendations on MIGA business:

1. 2006 Annual Report

The Committee noted that provision had been made for discussion of the 2006 Annual Report and the activities of MIGA at this Annual Meeting.

2. Financial Statements and Annual Audit

The Committee considered the Financial Statements and Accountants' Report contained in the 2006 Annual Report.

The Committee recommends that the Council of Governors adopt the draft Resolution. . . .¹

3. 2006 Regular Election of Directors

The Committee noted that the 2006 Regular Election of Directors of MIGA would be completed on September 20, 2006 and that the next Regular Election of Directors will take place in 2008.

4. Officers and Procedures Committee for 2006/07

The Committee recommends that the Governor for Algeria be Chairman and the Governors for Fiji and Portugal be Vice Chairmen of the Council of Governors of MIGA to hold office until the close of the next Annual Meeting.

It is further recommended that a Procedures Committee be established to be available, after the termination of this Annual Meeting and

¹ See page 229.

until the close of the next Annual Meeting, 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: Algeria, Angola, Austria, Bolivia, Botswana, Canada, the Central African Republic, China, Fiji, Finland, France, Germany, Japan, Panama, Portugal, Romania, Saudi Arabia, Senegal, Sri Lanka, Tajikistan, the United Kingdom, the United States, and Venezuela.

It is recommended that the Chairman of the Procedures Committee shall be the Governor for Algeria and the Vice Chairmen shall be the Governors for Fiji and Portugal, and that the Governor for Panama shall serve as Reporting Member.

Approved :

/s/ Bharrat Jagdeo
Guyana—Chairman

/s/ Ochirbat Chuluunbat
Mongolia—Reporting Member

(This report was approved and its recommendations were adopted by the Council of Governors of MIGA on September 18, 2006)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF THE BANK
BETWEEN THE 2005 AND 2006 ANNUAL MEETINGS**

Resolution No. 571

*Transfer from Surplus to Fund the Trust Fund
for Earthquake Recovery and Reconstruction in Pakistan*

RESOLVED

1. THAT the Bank transfer from surplus US\$5.0 million as of the effective date of this resolution to a trust fund for emergency support to the Government of Pakistan's earthquake recovery and reconstruction activities, established by the International Development Association (the Association), administered by the Association, such transfer to be drawn by the Association immediately upon the establishment of the trust fund, and used in accordance with the resolution establishing the trust fund.
2. THAT the amount of such transfer may at any time be converted in whole or in part into other currencies as may be needed for the purposes of the trust fund.
3. THAT the transfer referenced in paragraph 1 is contingent upon establishment of the trust fund proposed therein.

(Adopted on December 7, 2005)

Resolution No. 572

*Transfer from Surplus to Replenish the Low-Income
Countries Under Stress
Implementation Trust Fund*

RESOLVED:

THAT the Bank transfer from surplus, by way of grant in lieu of a distribution, US\$25 million to the LICUS Implementation Trust Fund (the "Trust Fund"), such transfer to be drawn down by the Association immediately and used in accordance with the resolution establishing the

Trust Fund, as amended in Resolution No. 2006-1 and Resolution No. IDA 2006-1, adopted on January 17, 2006.

(Adopted on February 21, 2006)

Resolution No. 573

Transfer from Surplus to the National Multi-Donor Trust Fund for Sudan and the Multi-Donor Trust Fund for Southern Sudan

RESOLVED:

THAT the Bank transfer from surplus, in lieu of a distribution, US\$10 million to be allocated equally between the National Multi-Donor Trust Fund for Sudan and the Multi-Donor Trust Fund for Southern Sudan, such transfer to be drawn down by the Association immediately and used in accordance with the resolution setting forth the terms and conditions applicable to the Bank's contribution.

(Adopted on February 21, 2006)

Resolution No. 574

*Forthcoming Annual Meetings of the Boards of Governors
Proposed Dates for the 2007 and 2008 Annual Meetings
in Washington, D.C.*

RESOLVED:

THAT the 2007 Annual Meetings shall be convened in Washington, D.C., on Sunday, October 21, 2007; and

THAT the 2008 Annual Meetings shall be convened in Washington, D.C., on Monday, October 13, 2008, which will be the Columbus Day public holiday in the United States.

(Adopted on July 17, 2006)

Resolution No. 575

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT effective July 1, 2006, the remuneration of the Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the Bylaws shall be paid in the form of salary without a separate supplemental allowance, and such salary shall be paid at the annual rate of \$212,980 per year for Executive Directors and \$184,240 per year for their Alternates.

(Adopted on August 2, 2006)

Resolution No. 576

2006 Regular Election of Executive Directors

RESOLVED:

- (a) THAT the attached Rules for the 2006 Regular Election of Executive Directors are hereby approved; and
- (b) THAT a Regular Election of Executive Directors shall take place in connection with the Annual Meeting of the Board of Governors in 2008.

(Adopted on August 3, 2006)

Resolution No. 577

2009 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund

RESOLVED:

THAT the invitation of the Government of Turkey to hold the Annual Meetings in Istanbul in 2009 be accepted; and

THAT the 2009 Annual Meetings be convened on Tuesday, October 6, 2009.

(Adopted on August 21, 2006)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF THE BANK
AT THE 2006 ANNUAL MEETINGS**

Resolution No. 578

Financial Statements, Accountants' Report, and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Bank consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 2006 Annual Report, as fulfilling the requirements of Article V, Section 13, of the Articles of Agreement and of Section 18 of the Bylaws of the Bank.

(Adopted on September 20, 2006)

Resolution No. 579

Allocation of FY06 Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated August 7, 2006 on "Allocation of FY06 Net Income" is hereby noted with approval;
2. THAT the addition to the General Reserve of the IBRD of \$1,036 million, plus or minus any rounding amount less than \$1 million, and the addition to the pension reserve of \$64 million for the reasons given in the Report of the Executive Directors, are hereby noted with approval;
3. THAT the IBRD transfer to the International Development Association, by way of a grant out of the FY06 allocable net income of the IBRD, \$500 million, which amount may be used by the Association to provide financing in the form of grants in addition to loans, such transfer to be drawn down by the Association immediately upon approval by the Board of Governors of the IBRD; and
4. THAT the IBRD transfer to the International Development Association, by way of a grant out of the net income previously retained as surplus in FY04 that was earmarked solely for subsequent transfers to IDA, HIPC, and/or reserves, \$300 million, which amount may be used

by the Association to provide financing in the form of grants in addition to loans, such transfer to be drawn down by the Association immediately upon approval by the Board of Governors of the IBRD, and;

5. THAT the IBRD retain \$140 million as surplus.

(Adopted on September 20, 2006)

Resolution No. 580

Transfer from IBRD Surplus to Fund Trust Fund for Lebanon

RESOLVED:

THAT the Bank transfer from IBRD surplus, by way of grant, US\$70,000,000 as of the effective date of this Resolution to the Trust Fund for Lebanon, to be administered by the Association, such transfer to be drawn down by the Association immediately upon the establishment of the trust fund, and used in accordance with the resolution establishing the trust fund.

THAT the amount of such grant may at any time be converted in whole or in part into other currencies as may be needed for the purpose of the trust fund.

(Adopted on September 20, 2006)

Resolution No. 581

Resolution of Appreciation

RESOLVED:

THAT Boards of Governors of the International Monetary Fund and of the World Bank Group express their sincere appreciation to the Government and people of Singapore for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Suntec Singapore International Convention and Exhibition Center which were made available for the meetings; and

THAT they express particular appreciation to the Governors and Alternate Governors for Singapore and to their associates for the many contributions they made toward ensuring the success of the 2006 Annual Meetings.

(Adopted on September 20, 2006)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF IFC
AT THE 2006 ANNUAL MEETINGS**

Resolution No. 243

*Financial Statements, Accountants' Report,
Administrative Budget, and Designations of Retained Earnings*

RESOLVED:

1. THAT the Board of Governors of the Corporation consider the Financial Statements and Accountants' Report included in the 2006 Annual Report and the Administrative Budget contained in the Report of the Board of Governors on IFC's FY07–09 Business Plan and Budget (the "Report"), as fulfilling the requirements of Article IV, Section 11, of the Articles of Agreement and of Section 16 of the Bylaws of the Corporation;
2. THAT the Report is hereby noted with approval;
3. THAT the Corporation's FY06 net income of \$1,278 million be transferred to retained earnings, as reflected in IFC's fiscal year 2006 financial statements is hereby noted with approval;
4. THAT the designation of \$230 million of the Corporation's retained earnings for IFC's Funding Mechanism for Technical Assistance and Advisory Services reflected in IFC's fiscal year 2006 financial statements as discussed in the Report is hereby noted with approval; and
5. THAT the designation of \$150 million of the Corporation's retained earnings for grants to the International Development Association for use by the Association in the form of grant projects in furtherance of IFC's purposes is hereby noted with approval.

(Adopted on September 20, 2006)

Resolution No. 244

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the International Monetary Fund and of the World Bank Group express their sincere appreciation to the Government and people of Singapore for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Suntec Singapore International Convention and Exhibition Center which were made available for the meetings; and

THAT they express particular appreciation to the Governors and Alternate Governors for Singapore and to their associates for the many contributions they made toward ensuring the success of the 2006 Annual Meetings.

(Adopted on September 20, 2006)

**RESOLUTION ADOPTED BY
THE BOARD OF GOVERNORS OF IDA
BETWEEN THE 2005 AND 2006 ANNUAL MEETINGS**

Resolution No. 211

*Additions to Resources: Financing the Multilateral
Debt Relief Initiative*

WHEREAS:

- (A) The Executive Directors of the International Development Association (the “Association”) have concluded that it is desirable for the Association to participate in the Multilateral Debt Relief Initiative for eligible Heavily Indebted Poor Countries, (the “Multilateral Debt Relief Initiative” or “MDRI”), and to that end, to authorize an increase in the resources of the Association as part of a commitment to provide full and timely compensation to the Association for debt cancellation under the MDRI in the amounts and on the basis set out in the report of the IDA Deputies, “Additions to IDA Resources: Financing the Multilateral Debt Relief Initiative” (the “Report”), approved by the Executive Directors on March 28, 2006, and submitted to the Board of Governors;
- (B) The members of the Association consider that an increase in the resources of the Association is required and intend to take all necessary governmental and legislative action to authorize and approve the allocation of additional resources to the Association in the amounts and on the conditions set out in this Resolution;
- (C) Members of the Association that contribute resources to the Association in addition to their subscriptions as part of the Multilateral Debt Relief Initiative (“Contributing Members”) are to make available their contributions pursuant to the Articles of Agreement of the Association (the “Articles”) partly in the form of subscriptions carrying voting rights and partly as supplementary resources in the form of contributions not carrying voting rights;
- (D) Additional subscriptions are to be authorized for Contributing Members in this Resolution on the basis of their agreement with respect to their preemptive rights under Article III, Section 1(c) of the Articles, and provision is made for the other members of the

Association (“Subscribing Members”) intending to exercise their rights pursuant to that provision to do so; and

- (E) To enable the Association’s participation in the Multilateral Debt Relief Initiative, the Executive Directors have taken a decision under Article X of the Articles that forgiveness by the Association of repayment of all principal and other charges on financing extended to specific eligible countries would be consistent with Article V, Section 3 of the Articles.

NOW THEREFORE THE BOARD OF GOVERNORS HEREBY ACCEPTS the Report as approved by the Executive Directors, ADOPTS its conclusions and recommendations AND RESOLVES THAT a general increase in subscriptions of the Association is authorized on the following terms and conditions:

1. *Authorization of Subscriptions and Contributions.*

- (a) The Association is authorized to accept additional resources to provide full and timely compensation for the amount of debt forgiven by the Association under the Multilateral Debt Relief Initiative. The amounts and timing of such compensation are set out in the Compensation Schedule attached to this Resolution at Table 1 (the “Compensation Schedule”) as adjusted from time to time pursuant to paragraph 1(f) below.
- (b) The Association is authorized to accept the additional resources described in paragraph (a) above from each Contributing Member in the amounts and as specified for each such member in Table 2b attached to this Resolution, as adjusted from time to time to reflect changes in the Compensation Schedule pursuant to paragraph (a) above. Each such amount will be divided into a subscription carrying voting rights and a contribution not carrying voting rights as specified in Table 3 attached to this Resolution, as adjusted from time to time pursuant to paragraph 1(f) below.
- (c) The Association is authorized to accept the additional subscriptions from each Subscribing Member in the amount specified for each such member in Table 3 attached to this Resolution, as adjusted from time to time pursuant to paragraph 1(f) below.
- (d) The Association is authorized to accept additional resources from any member for which no contribution is specified in Table 2b attached to this Resolution and additional resources from Contributing Members incremental to the amounts specified for each such member in Table 2b attached to this Resolution.

- (e) The rights and obligations of the Association and the Contributing Members in respect of the authorized subscriptions and contributions in paragraphs (b) and (d) above will be the same (except as otherwise provided in this Resolution) as those applicable to the ninety per cent portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles by members listed in Part I of Schedule A of the Articles.
- (f) In order to reflect changes in actual and estimated costs of the Association's MDRI debt forgiveness, the Association will:
 - (i) make adjustments in the Compensation Schedule by July 31 in each year;
 - (ii) make adjustments in Tables 2b and 3 attached to this Resolution by October 31 in at least every third year, commencing in 2007; and
 - (iii) notify each Contributing Member and each Subscribing Member: (A) of such adjustments to the Compensation Schedule, Table 2b and Table 3; and (B) of the corresponding adjustments required in the member's payment schedule attached to its Instrument of Commitment.

2. *Agreement to Pay.*

- (a) When a Contributing Member agrees to pay its subscription and contribution, or a Subscribing Member agrees to pay its subscription, it will deposit with the Association one or more instruments of commitment, each of which will be substantially in the form set out in Attachment I to this Resolution for Contributing Members or in Attachment II for Subscribing Members (each an "Instrument of Commitment"), whereby a Contributing Member obligates itself to make a subscription and contribution or a Subscribing Member obligates itself to make a subscription, as the case may be, on the terms and conditions set forth in this Resolution.
- (b) When a Contributing Member agrees to pay a part of its subscription and contribution without qualification (an "Unqualified Commitment") and the remainder is subject to necessary parliamentary or legislative approvals (a "Qualified Commitment"), it will so provide in its Instrument of Commitment and such member:
 - (i) undertakes to exercise its best efforts to obtain such approvals for the full amount of its Qualified Commitment by the payment dates set out in the Payment Schedule attached to its Instrument of Commitment (as defined in paragraph (c) below; and

- (ii) agrees that, upon obtaining such approvals, it will notify the Association that any installments of its Qualified Commitment, or parts thereof, have become unqualified.
 - (c) Each Instrument of Commitment from a Contributing Member will contain a payment schedule specifying the amount of its agreed share of each amount due on each payment date in the Compensation Schedule. Each Contributing Member agrees that, if notified by the Association pursuant to paragraph 1 (f) (iii) (B) of this Resolution that a corresponding adjustment is required in the payment schedule attached to its Instrument of Commitment, the Contributing Member will amend its Instrument of Commitment to reflect such adjustments.
 - (d) Each Instrument of Commitment from a Subscribing Member will contain a payment schedule specifying the amount of its agreed subscription. Each Subscribing Member agrees that, if notified by the Association pursuant to paragraph 1 (f) (iii) (B) of this Resolution that a corresponding adjustment is required in the payment schedule attached to its Instrument of Commitment, the Subscribing Member will amend its Instrument of Commitment to reflect such adjustments.
3. *Payment.*
- (a) Each Subscribing Member will pay to the Association the amount of its subscription in three installments as follows: (i) the first installment will be payable 31 days after the Effective Date; (ii) the second installment will be payable by January 15, 2016; and (iii) the third installment will be payable by January 15, 2026.
 - (b) Each Contributing Member will pay to the Association the amount of its subscription and contribution in accordance with its payment schedule, as such amounts may be adjusted from time to time in accordance with paragraph 2 (c) of this Resolution; provided that:
 - (i) the first installment under its payment schedule will be payable no later than January 15, 2007;
 - (ii) the second installment under its payment schedule will be payable no later than January 15, 2008;
 - (iii) the Association and each Contributing Member may agree to earlier payment of any installment;
 - (iv) if the Multilateral Debt Relief Initiative shall not have become effective by December 15, 2006, payment of the first such installment may be postponed by the member for not more than 31 days after the Effective Date;

- (v) the Association may agree to the postponement of any installment, or part thereof, if the amount paid, together with any unused balance of previous payments by the Contributing Member concerned, is at least equal to the amount estimated by the Association to be required from that member up to the due date of the next installment for purposes of compensation for debt forgiveness by the Association under the Multilateral Debt Relief Initiative; and
- (vi) if any Contributing Member deposits an Instrument of Commitment with the Association after the date when the first installment of the subscription and contribution is due, payment of any installment, or part thereof, will be made to the Association within 31 days after the date of such deposit.
- (c) If a Contributing Member has deposited an Instrument of Commitment specifying that part of its commitment is a Qualified Commitment, and, upon obtaining necessary parliamentary or legislative approvals, notifies the Association that any installments, or parts thereof, have become unqualified after the due date, then payment of such installments, or parts thereof, will be made within 31 days after the date of such notification.

4. *Mode of Payment.*

- (a) Payments pursuant to this Resolution will be made, at the option of the member: (i) in cash, on terms agreed between the member and the Association; or (ii) by the deposit of notes or similar obligations issued by the government of the member or the depository designated by such member, which shall be non-negotiable, noninterest bearing and payable at their par value on demand to the account of the Association.
- (b) The Association will encash notes or similar obligations of Contributing Members, on an approximately *pro rata* basis among donors, or as agreed between a Contributing Member and the Association in accordance with the Payment Schedule. With respect to a Contributing Member that is unable to comply with one or more encashment requests, the Association may agree with the member on a revised encashment schedule that yields at least an equivalent value to the Association.
- (c) The provisions of Article IV, Section 1(a) of the Articles will apply to the use of a Subscribing Member's currency paid to the Association pursuant to this Resolution.

5. *Currency of Denomination and Payment.*

- (a) Members will denominate the resources to be made available pursuant to this Resolution in SDRs, the currency of the member, or, with the agreement of the Association, in a freely convertible currency of another member, except that if, on any payment date under the Payment Schedule, a Contributing Member's economy has experienced a rate of inflation above such level and for such period as determined by the Association in connection with the most recent regular replenishment of the Association's resources, its subscription and contribution will be denominated in SDRs.
- (b) Contributing Members will make payments pursuant to this Resolution in SDRs, a currency used for the valuation of the SDR, or, with the agreement of the Association, in another freely convertible currency, and the Association may freely exchange the amounts received as required for its operations. Subscribing Members will make payments in the currency of the member or in a freely convertible currency with the agreement of the Association.
- (c) Each member will maintain, in respect of its currency paid by it under this Resolution, and the currency of such member derived therefrom as principal, interest or other charges, the same convertibility as existed on the effective date of this Resolution.
- (d) The provisions of Article IV, Section 2 of the Articles with respect to maintenance of value will not be applicable.

6. *Effective Date.*

- (a) The increase in resources authorized under this Resolution will become effective and the resources to be contributed pursuant to this Resolution will become payable to the Association on the date (the "Effective Date") when the Association shall have received Instruments of Commitment from Contributing Members containing, in the aggregate, not less than SDR 10,434 million of Unqualified Commitments and Qualified Commitments, of which not less than SDR 410 million shall be Unqualified Commitments for payments due in 2007 and 2008, provided that the Effective Date shall be not later than May 31, 2006, or such later date as the Executive Directors of the Association may determine.
- (b) If the Association determines that the availability of additional resources pursuant to this Resolution is likely to be unduly delayed, or the Association has not received, by one year after the Effective Date, Instruments of Commitment

from Contributing Members containing in the aggregate not less than SDR 14,878 million of Unqualified Commitments and Qualified Commitments, it shall convene promptly a meeting of the Contributing Members to review the situation and to consider the steps to be taken to prevent a suspension of financing to eligible recipients by the Association.

7. *Commitment Authority.* Subscriptions and contributions made under Instruments of Commitment will become available for commitment by the Association for financing to eligible members in accordance with the commitment authority framework as approved by the Executive Directors, provided that amounts provided as Qualified Commitments will only become available for commitment by the Association for financing when the Association has been notified, pursuant to paragraph 2(b)(ii) of this Resolution, that such amounts have become unqualified.
8. *Allocation of Voting Rights under Multilateral Debt Relief Initiative.* Voting rights calculated on the basis of the current voting rights system will be allocated to members for subscriptions under the Multilateral Debt Relief Initiative as follows:
 - (a) Each Subscribing Member that has deposited with the Association an Instrument of Commitment will be allocated, on the payment dates specified in paragraph 3(a) of this Resolution, one third of the subscription votes specified for each such member in Table 3. Each Subscribing Member will be allocated the additional membership votes specified in Column c-3 of Table 3 on the date such member is allocated the first installment of its subscription votes.
 - (b) Each Contributing Member that has deposited with the Association an Instrument of Commitment will be allocated, on each payment date specified in its payment schedule, a pro rata portion of the subscription votes specified for each such member in Table 3. Each Contributing Member will be allocated the additional membership votes specified in Table 3 for its subscription on the date such member is allocated the first installment of its subscription votes.
 - (c) For the purposes of paragraphs (a) and (b) above, the Association will modify Table 3 in accordance with paragraph 1(f) of this Resolution.
 - (d) Each Contributing Member that has specified a Qualified Commitment in its Instrument of Commitment will be allocated subscription votes at the time and to the extent of payments made in respect of such portion of its subscription and contribution.

- (e) Any member that deposits its Instrument of Commitment after the first payment date specified in its payment schedule, will be allocated, within 31 days of the date of such deposit, the subscription votes to which such member is entitled at that time on account of such deposit.
 - (f) If a member fails to pay any amount of its subscription or subscription and contribution when due, the number of subscription votes allocated from time to time to such member under this Resolution in respect of the Multilateral Debt Relief Initiative will be reduced in proportion to the shortfall in such payments, but any such votes will be reallocated when the shortfall in payments causing such adjustment is subsequently made up.
9. *Implementation of the Multilateral Debt Relief Initiative and Use of Funds.*
- (a) The Board of Governors notes with approval the decision of the Executive Directors under Article X of the Articles referred to in Recital (E) above.
 - (b) Pursuant to Article V, Section 2(a)(i) of the Articles, the Association is authorized to use the resources authorized under this Resolution, and funds derived therefrom as principal, interest or other charges, to provide financing in the form of grants and guarantees on the terms and conditions applicable to the most recent regular replenishment of the Association's resources.

(Adopted on April 21, 2006)

Table 1: Compensation Schedule for IDA Donors (in SDR million)

Period / Fiscal Year	Annual Cost
<u>(a) Remaining IDA14 Period</u>	
Jan 15, 2007	235
Jan 15, 2008	311
Sub-total	546
<u>(b) Remainder of First Decade</u>	
Jan 15, 2009	351
Jan 15, 2010	412
Jan 15, 2011	507
Jan 15, 2012	600
Jan 15, 2013	659
Jan 15, 2014	696
Jan 15, 2015	729
Jan 15, 2016	767
Sub-total	4,721
<u>(c) Subsequent 3 Decades</u>	
Jan 15, 2017	802
Jan 15, 2018	830
Jan 15, 2019	885
Jan 15, 2020	993
Jan 15, 2021	1,120
Jan 15, 2022	1,212
Jan 15, 2023	1,237
Jan 15, 2024	1,228
Jan 15, 2025	1,207
Jan 15, 2026	1,206
Jan 15, 2027	1,207
Jan 15, 2028	1,174
Jan 15, 2029	1,105
Jan 15, 2030	1,009
Jan 15, 2031	895
Jan 15, 2032	768
Jan 15, 2033	649
Jan 15, 2034	535
Jan 15, 2035	425
Jan 15, 2036	315
Jan 15, 2037	222
Jan 15, 2038	162
Jan 15, 2039	118
Jan 15, 2040	92
Jan 15, 2041	71
Jan 15, 2042	42
Jan 15, 2043	16
Jan 15, 2044	3
Sub-total	19,529
Total Relief, FY07-44	24,796

Table 2b: Contributions to the MDRI—National Currency millions

Donors	Shares for FY07-08		Shares for FY09-14		Shares for FY07-08		Sub-total, Remaining IDA14 Period FY07-08										Sub-total, Remainder of First Decade FY09-16										Subsequent 3 Decades FY17-44		Total Cost FY07-44		Overall Shares FY07-44		FX Reference Rates																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40	FY41	FY42	FY43	FY44	4/1/05-9/3/05	Net Curr./USD																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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4/	1.61%	1.40%	7.30	9.68	10.92	12.81	15.75	18.65	20.48	21.64	22.67	23.84	25.02	26.20	27.38	28.56	29.74	30.92	32.10	33.28	34.46	35.64	36.82	38.00	39.18	40.36	41.54	42.72	43.90	45.08	46.26	47.44	48.62	49.80	50.98	52.16	53.34	54.52	55.70	56.88	58.06	59.24	60.42	61.60	62.78	63.96	65.14	66.32	67.50	68.68	69.86	71.04	72.22	73.40	74.58	75.76	76.94	78.12	79.30	80.48	81.66	82.84	84.02	85.20	86.38	87.56	88.74	89.92	91.10	92.28	93.46	94.64	95.82	97.00	98.18	99.36	100.54	101.72	102.90	104.08	105.26	106.44	107.62	108.80	110.00	111.18	112.36	113.54	114.72	115.90	117.08	118.26	119.44	120.62	121.80	122.98	124.16	125.34	126.52	127.70	128.88	130.06	131.24	132.42	133.60	134.78	135.96	137.14	138.32	139.50	140.68	141.86	143.04	144.22	145.40	146.58	147.76	148.94	150.12	151.30	152.48	153.66	154.84	156.02	157.20	158.38	159.56	160.74	161.92	163.10	164.28	165.46	166.64	167.82	169.00	170.18	171.36	172.54	173.72	174.90	176.08	177.26	178.44	179.62	180.80	181.98	183.16	184.34	185.52	186.70	187.88	189.06	190.24	191.42	192.60	193.78	194.96	196.14	197.32	198.50	199.68	200.86	202.04	203.22	204.40	205.58	206.76	207.94	209.12	210.30	211.48	212.66	213.84	215.02	216.20	217.38	218.56	219.74	220.92	222.10	223.28	224.46	225.64	226.82	228.00	229.18	230.36	231.54	232.72	233.90	235.08	236.26	237.44	238.62	239.80	240.98	242.16	243.34	244.52	245.70	246.88	248.06	249.24	250.42	251.60	252.78	253.96	255.14	256.32	257.50	258.68	259.86	261.04	262.22	263.40	264.58	265.76	266.94	268.12	269.30	270.48	271.66	272.84	274.02	275.20	276.38	277.56	278.74	279.92	281.10	282.28	283.46	284.64	285.82	287.00	288.18	289.36	290.54	291.72	292.90	294.08	295.26	296.44	297.62	298.80	300.00	301.18	302.36	303.54	304.72	305.90	307.08	308.26	309.44	310.62	311.80	312.98	314.16	315.34	316.52	317.70	318.88	320.06	321.24	322.42	323.60	324.78	325.96	327.14	328.32	329.50	330.68	331.86	333.04	334.22	335.40	336.58	337.76	338.94	340.12	341.30	342.48	343.66	344.84	346.02	347.20	348.38	349.56	350.74	351.92	353.10	354.28	355.46	356.64	357.82	359.00	360.18	361.36	362.54	363.72	364.90	366.08	367.26	368.44	369.62	370.80	371.98	373.16	374.34	375.52	376.70	377.88	379.06	380.24	381.42	382.60	383.78	384.96	386.14	387.32	388.50	389.68	390.86	392.04	393.22	394.40	395.58	396.76	397.94	399.12	400.30	401.48	402.66	403.84	405.02	406.20	407.38	408.56	409.74	410.92	412.10	413.28	414.46	415.64	416.82	418.00	419.18	420.36	421.54	422.72	423.90	425.08	426.26	427.44	428.62	429.80	430.98	432.16	433.34	434.52	435.70	436.88	438.06	439.24	440.42	441.60	442.78	443.96	445.14	446.32	447.50	448.68	449.86	451.04	452.22	453.40	454.58	455.76	456.94	458.12	459.30	460.48	461.66	462.84	464.02	465.20	466.38	467.56	468.74	469.92	471.10	472.28	473.46	474.64	475.82	477.00	478.18	479.36	480.54	481.72	482.90	484.08	485.26	486.44	487.62	488.80	490.00	491.18	492.36	493.54	494.72	495.90	497.08	498.26	499.44	500.62	501.80	502.98	504.16	505.34	506.52	507.70	508.88	510.06	511.24	512.42	513.60	514.78	515.96	517.14	518.32	519.50	520.68	521.86	523.04	524.22	525.40	526.58	527.76	528.94	530.12	531.30	532.48	533.66	534.84	536.02	537.20	538.38	539.56	540.74	541.92	543.10	544.28	545.46	546.64	547.82	549.00	550.18	551.36	552.54	553.72	554.90	556.08	557.26	558.44	559.62	560.80	561.98	563.16	564.34	565.52	566.70	567.88	569.06	570.24	571.42	572.60	573.78	574.96	576.14	577.32	578.50	579.68	580.86	582.04	583.22	584.40	585.58	586.76	587.94	589.12	590.30	591.48	592.66	593.84	595.02	596.20	597.38	598.56	599.74	600.92	602.10	603.28	604.46	605.64	606.82	608.00	609.18	610.36	611.54	612.72	613.90	615.08	616.26	617.44	618.62	619.80	620.98	622.16	623.34	624.52	625.70	626.88	628.06	629.24	630.42	631.60	632.78	633.96	635.14	636.32	637.50	638.68	639.86	641.04	642.22	643.40	644.58	645.76	646.94	648.12	649.30	650.48	651.66	652.84	654.02	655.20	656.38	657.56	658.74	659.92	661.10	662.28	663.46	664.64	665.82	667.00	668.18	669.36	670.54	671.72	672.90	674.08	675.26	676.44	677.62	678.80	679.98	681.16	682.34	683.52	684.70	685.88	687.06	688.24	689.42	690.60	691.78	692.96	694.14	695.32	696.50	697.68	698.86	700.04	701.22	702.40	703.58	704.76	705.94	707.12	708.30	709.48	710.66	711.84	713.02	714.20	715.38	716.56	717.74	718.92	720.10	721.28	722.46	723.64	724.82	726.00	727.18	728.36	729.54	730.72	731.90	733.08	734.26	735.44	736.62	737.80	738.98	740.16	741.34	742.52	743.70	744.88	746.06	747.24	748.42	749.60	750.78	751.96	753.14	754.32	755.50	756.68	757.86	759.04	760.22	761.40	762.58	763.76	764.94	766.12	767.30	768.48	769.66	770.84	772.02	773.20	774.38	775.56	776.74	777.92	779.10	780.28	781.46	782.64	783.82	785.00	786.18	787.36	788.54	789.72	790.90	792.08	793.26	794.44	795.62	796.80	797.98	799.16	800.34	801.52	802.70	803.88	805.06	806.24	807.42	808.60	809.78	810.96	812.14	813.32	814.50	815.68	816.86	818.04	819.22	820.40	821.58	822.76	823.94	825.12	826.30	827.48	828.66	829.84	831.02	832.20	833.38	834.56	835.74	836.92	838.10	839.28	840.46	841.64	842.82	844.00	845.18	846.36	847.54	848.72	849.90	851.08	852.26	853.44	854.62	855.80	856.98	858.16	859.34	860.52	861.70	862.88	864.06	865.24	866.42	867.60	868.78	869.96	871.14	872.32	873.50	874.68	875.86	877.04	878.22	879.40	880.58	881.76	882.94	884.12	885.30	886.48	887.66	888.84	890.02	891.20	892.38	893.56	894.74	895.92	897.10	898.28	899.46	900.64	901.82	903.00	904.18	905.36	906.54	907.72	908.90	910.08	911.26	912.44	913.62	914.80	915.98	917.16	918.34	919.52	920.70	921.88	923.06	924.24	925.42	926.60	927.78	928.96	930.14	931.32	932.50	933.68	934.86	936.04	937.22	938.40	939.58	940.76	941.94	943.12	944.30	945.48	946.66	947.84	949.02	950.20	951.38	952.56	953.74	954.92	956.10	957.28	958.46	959.64	960.82	962.00	963.18	964.36	965.54	966.72	967.90	969.08	970.26	971.44	972.62	973.80	974.98	976.16	977.34	978.52	979.70	980.88	982.06	983.24	984.42	985.60	986.78	987.96	989.14	990.32	991.50	992.68	993.86	995.04	996.22	997.40	998.58	999.76	1000.94	1002.12	1003.30	1004.48	1005.66	1006.84	1008.02	1009.20	1010.38	1011.56	1012.74	1013.92	1015.10	1016.28	1017.46	1018.64	1019.82	1021.00	1022.18	1023.36	1024.54	1025.72	1026.90	1028.08	1029.26	1030.44	1031.62	1032.80	1033.98	1035.16	1036.34	1037.52	1038.70	1039.88	1041.06	1042.24	1043.42	1044.60	1045.78	1046.96	1048.14	1049.32	1050.50	1051.68	1052.86	1054.04	1055.22	1056.40	1057.58	1058.76	1059.94	1061.12	1062.30	1063.48	1064.66	1065.84	1067.02	1068.20	1069.38	1070.56	1071.74	1072.92	1074.10	1075.28	1076.46	1077.64	1078.82	1079.99	1081.17	1082.35	1083.53	1084.71	1085.89	1087.07	1088.25	1089.43	1090.61	1091.79	1092.97	1094.15	1095.33	1096.51	1097.69	1098.87	1099.99	1101.17	1102.35	1103.53	1104.71	1105.89	1107.07	1108.25	1109.43	1110.61	1111.79	1112.97	1114.15	1115.33	1116.51	1117.69	1118.87	1120.05	1121.23	1122.41	1123.59	1124.77	1125.95	1127.13	1128.31	1129.49	1130.67	1131.85	1133.03	1134.21	1135.39	1136.57	1137.75	1138.93	1140.11	1141.29	1142.47	1143.65	1144.83	1146.01	1147.19	1148.37	1149.55	1150.73	1151.91	1153.09	1154.27	1155.45	

Table 3: (continued): Subscriptions, Contributions, and Votes—Amounts in USD equivalent

Part I	Current Status (Before MDRJ)										Status Including MDRJ											
	Subscriptions Carrying Vote	Contributions	Total Cumulative Resources	Subscriptions	Carrying Vote	Power %	Total Resources	Membership Votes	Total Cumulative Resources	Part I Carrying Votes	Part I Power %	Subscriptions	Carrying Vote	Power %	Total Resources	Membership Votes	Total Cumulative Resources	Part I Carrying Votes	Part I Power %	Subscriptions	Carrying Vote	Power %
AUSTRALIA	29,039,877	2,478,888,879	2,507,928,756	171,026	1,07%	949,342,437	24,356	5,800	3,201,511,013	1,83%	29,843,627	3,071,867,386	955,155	1,83%	39,700	234,855	1,05%					
AUSTRIA	8,399,738	1,582,420,330	1,590,820,068	86,721	0.54%	285,143,033	12,827	5,800	1,589,546,536	0.94%	8,720,443	99,948	0.64%	1,547,845,592	99,948	0.64%	159,248	0.76%				
BELGIUM	14,374,132	2,205,058,586	2,349,370,678	159,374	1.00%	437,427,793	20,317	5,800	2,387,507,471	1.7%	14,871,421	2,077,223,050	64,845	1.7%	39,700	234,346	1.07%					
CANADA	57,945,991	6,209,918,865	6,357,864,856	434,548	2.44%	1,600,182,910	64,487	5,800	7,958,267,868	4.88%	59,570,363	468,173	4.68%	39,700	234,346	1.07%						
DENMARK	14,229,489	1,944,027,443	1,958,256,932	133,973	0.87%	503,718,954	32,454	5,800	2,597,525,916	1.56%	15,840,829	2,482,686,077	156,127	1.56%	39,700	205,827	0.92%					
FINLAND	8,248,378	842,347,731	844,596,107	44,678	0.51%	200,202,891	10,022	5,800	1,046,879,698	0.70%	6,719,025	1,142,407,072	74,768	0.70%	39,700	114,450	0.51%					
FRANCE	62,956,853	5,775,985,657	5,838,942,510	872,723	5.03%	2,255,252,202	102,023	5,800	12,114,518,711	7.25%	84,847,879	12,029,671,023	774,765	7.25%	39,700	84,846	0.51%					
GERMANY	9,885,830	18,866,588,687	18,965,474,517	1,081,396	6.71%	3,914,448,985	194,481	5,800	19,114,205,913	11.57%	96,543,855	18,707,331,858	1,205,251	11.57%	39,700	1,055,581	6.64%					
GREECE	3,882,190	84,092,054	86,764,244	96,782,245	6.13%	46,775,878	2,469	5,800	146,538,213	0.9%	3,749,475	141,819,507	9,308	0.9%	39,700	49,028	0.22%					
IRELAND	203,875	47,402,578	47,606,453	1,325	0.19%	14,468,205	735	5,800	62,202,918	0.04%	22,250	45,107,528	1,068	0.14%	39,700	40,688	0.19%					
IRELAND	41,842,777	4,985,257,387	4,627,028,164	316,754	1.82%	1,059,138,834	47,399	5,800	6,576,238,968	3.47%	43,028,502	6,433,210,466	363,483	3.47%	39,700	421,541	1.79%					
ITALY	30,869,875	6,311,031,054	6,341,890,929	424,338	2.42%	1,447,245,337	65,216	5,800	7,812,778,265	4.52%	35,444,730	7,777,333,020	466,584	4.52%	39,700	576,254	2.45%					
JAPAN	89,869,928	24,431,345,686	24,521,215,614	1,877,355	9.07%	4,258,235,142	213,187	5,800	26,401,538,540	17.69%	88,629,703,00	25,315,486,660	1,800,322	17.69%	39,700	1,820,221	8.5%					
KUWAIT	51,874,107	2,038,468,125	2,090,342,232	139,297	0.79%	614,511,834	30,580	5,800	2,644,854,066	2.4%	12,579,897	2,632,274,169	169,887	1.67%	39,700	209,587	0.79%					
KUWAIT	51,874,107	2,038,468,125	2,090,342,232	139,297	0.79%	614,511,834	30,580	5,800	2,644,854,066	2.4%	12,579,897	2,632,274,169	169,887	1.67%	39,700	209,587	0.79%					
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KUWAIT	51,874,107	2,038,468,125	2,090,342,232	139,297	0.79%	614,511,834	30,580	5,800	2,644,854,066	2.4%	12,579,897	2,632,274,169	169,887	1.67%	39,700	209,587	0.79%					
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KUWAIT	51,874,107	2,038,468,125	2,090,342,232	139,297	0.79%	614,511,834	30,580	5,800	2,644,854													

**RESOLUTIONS ADOPTED BY
THE BOARD OF GOVERNORS OF IDA
AT THE 2006 ANNUAL MEETINGS**

Resolution No. 212

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Association consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 2006 Annual Report, as fulfilling the requirements of Article VI, Section 11, of the Articles of Agreement and of Section 8 of the Bylaws of the Association.

(Adopted on September 20, 2006)

Resolution No. 213

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the International Monetary Fund and of the World Bank Group express their sincere appreciation to the Government and people of Singapore for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Suntec Singapore International Convention and Exhibition Center which were made available for the meetings; and

THAT they express particular appreciation to the Governors and Alternate Governors for Singapore and to their associates for the many contributions they made toward ensuring the success of the 2006 Annual Meetings.

(Adopted on September 20, 2006)

**RESOLUTIONS ADOPTED BY
THE COUNCIL OF GOVERNORS OF MIGA
BETWEEN THE 2005 AND 2006 ANNUAL MEETINGS**

Resolution No. 74

Reclassification of the Czech Republic

WHEREAS the Czech Republic, as one of the successor states to the rights and obligations of the former Czech and Slovak Federal Republic (Czechoslovakia), became a member of the Multilateral Investment Guarantee Agency (“MIGA”) effective January 1, 1993;

WHEREAS the Government of the Czech Republic now requests that the Czech Republic be reclassified by the Agency from a Category Two member country to a Category One member country;

WHEREAS in accordance with Article 31 of the MIGA Convention, the power to reclassify a member is vested in the Council of Governors;

WHEREAS in accordance with Article 8(a) of the MIGA Convention, as a Category Two member country, the Czech Republic paid twenty-five percent of the paid-in cash portion of its capital subscription in its local currency; and as a Category One member country the Czech Republic would be required to substitute an equivalent amount in a freely usable currency;

THE COUNCIL OF GOVERNORS HEREBY RESOLVES THAT:

1. Schedule A to the Convention is hereby amended by reclassifying the Czech Republic as a Category One member country;
2. the Czech Republic shall substitute in a freely usable currency the twenty-five percent of the paid-in cash portion of the capital subscription it originally paid in local currency.

(Adopted on June 20, 2006)

Resolution No. 75
Election of Directors

RESOLVED:

- (a) THAT the 2006 Regular Election of Directors shall take place in accordance with the attached Rules; and
- (b) THAT a Regular Election of Directors shall take place in connection with the Annual Meeting of the Council of Governors in 2008.

(Adopted on August 3, 2006)

**RESOLUTIONS ADOPTED BY
THE COUNCIL OF GOVERNORS OF MIGA
AT THE 2006 ANNUAL MEETING**

Resolution No. 76

Financial Statements and Accountants' Report

RESOLVED:

THAT the Council of Governors of the Agency consider the Financial Statements and the Report of Independent Accountants included in the 2006 Annual Report, as fulfilling the requirements of Article 29 of the MIGA Convention and of Section 16(b) of the Bylaws of the Agency.

(Adopted on September 20, 2006)

Resolution No. 77

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the International Monetary Fund and of the World Bank Group express their sincere appreciation to the Government and people of Singapore for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Suntec Singapore International Convention and Exhibition Center which were made available for the meetings; and

THAT they express particular appreciation to the Governors and Alternate Governors for Singapore and to their associates for the many contributions they made toward ensuring the success of the 2006 Annual Meetings.

(Adopted on September 20, 2006)

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

November 11, 2005

Transfer from Surplus to Fund Trust Fund for Earthquake Recovery and Reconstruction in Pakistan

1. In view of the need for exceptional assistance to Pakistan following the earthquake of October 8, 2005, and in order to promote the purpose of the International Bank for Reconstruction and Development (the Bank) and the International Development Association (the Association) in these circumstances, the Executive Directors consider that emergency assistance for earthquake recovery and reconstruction in Pakistan should be undertaken forthwith as an initiative for the benefit of the members of the Bank and of the Association. The Executive Directors recommend that the Board of Governors authorize transfer from surplus of US\$5.0 million to support the Government of Pakistan's earthquake recovery and reconstruction activities.
2. The transfer will be made to a trust fund to be established for this purpose and is contingent upon the establishment of such trust fund upon approval by the Executive Directors.
3. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution...¹

(This report was approved and its recommendation was adopted by the Board of Governors on December 7, 2005)

January 17, 2006

Transfer from Surplus to Replenish the Low-Income Countries Under Stress Implementation Trust Fund

1. The Low-Income Countries Under Stress Implementation Trust Fund (the "Trust Fund") was established by Resolution No. 2004-0001 and Resolution No. IDA 2004-0001 (the "2004 LICUS Resolution") of the Executive Directors of the International Bank for Reconstruction and

¹ See page 204.

Development (the “Bank”) and the Executive Directors of the International Development Association (the “Association”) (collectively, the “Executive Directors”) on January 15, 2004 and the Board of Governors subsequently approved the transfer of US\$ 25 million from surplus to the Trust Fund on March 4, 2004 as recommended by the Executive Directors;

2. The Executive Directors modified the 2004 LICUS Resolution by amending and restating it through: (i) Resolution No. 2005-0002 and Resolution No. IDA 2005-0001, adopted on March 18, 2005, and (ii) Resolution No. 2006-1 and Resolution No. IDA 2006-1, adopted on January 17, 2006. The first modification enabled the Trust Fund to operate as a multi-donor trust fund (“MDTF”) permitting it to accept contributions from bilateral organizations and other donors as well as transfers from surplus from the Bank, and to enable the Trust Fund to make contributions to certain Bank and non-Bank administered MDTFs. The second modification clarified certain operational and governance issues, including with respect to contributions made from the Trust Fund to other MDTFs and expanded the category of eligible recipients to consist of regional organizations and other public or private institutions;
3. Since its inception, the Trust Fund has experienced strong demand from eligible countries with current funds being fully committed and over fifty-one percent disbursed. In order to continue the momentum gained in the existing program and deepen the Bank’s support for transition in these countries, the Executive Directors recommend that the Board of Governors authorize the transfer from surplus, by way of grant, in the amount of US \$25 million to replenish the Trust Fund, to be accounted for as an expense in the Bank’s financial statements;
4. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution. . . .¹

(This report was approved and its recommendation was adopted by the Board of Governors on February 21, 2006)

¹ See page 204.

January 17, 2006

Transfer from Surplus to the National Multi-Donor Trust Fund for Sudan and the Multi-Donor Trust Fund for Southern Sudan

1. The Executive Directors of the International Bank for Reconstruction and Development (the “Bank”) and the Executive Directors of the International Development Association (the “Association”) (collectively, the “Executive Directors”) approved the Association’s role as Administrator of the National Multi-Donor Trust Fund for Sudan and the Multi-Donor Trust Fund for Southern Sudan (“Sudan MDTFs”) and as a member of the Oversight Committee which exercises the programmatic and allocational responsibility for Sudan MDTFs operations on April 6, 2005;
2. The main objective of the Sudan MDTFs is to provide a vehicle for donors to pool resources and coordinate support to fund the overall reconstruction and development needs of Sudan during the Interim Period as reflected in the Bank/UN-led Joint Assessment Mission’s report “Framework for Sustained Peace, Development and Poverty Eradication.” The effective harmonization of resources can lead to a simplification of external financing flows and facilitate aid management in a high demand capacity constrained environment;
3. In order to continue the momentum in the existing program as an effective aid-coordination mechanism, a commitment by the Bank to pool its resources into MDTFs administered by the Association would demonstrate in concrete terms the Bank’s support of the core Paris Declaration principles on aid effectiveness and donor coordination. To this end the Executive Directors recommend that the Board of Governors authorize the transfer from surplus, in the amount of US \$10 million to the Sudan MDTFs to be allocated equally between those two trust funds;
4. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution. . . .¹

(This report was approved and its recommendation was adopted by the Board of Governors on February 21, 2006)

¹ See page 205.

June 8, 2006

**Forthcoming Annual Meetings of the Boards of Governors
Proposed Dates for the 2007 and 2008 Annual Meetings
in Washington, D.C.**

The Annual Meetings of the Bank's Board of Governors are held in accordance with Article V, Section 2 (c) of the Bank's Articles of Agreement.

The Executive Directors of the World Bank Group (Bank) and the International Monetary Fund (Fund) recommend to the Boards of Governors the dates and venues for forthcoming Annual Meetings. These recommendations are made well in advance due to the contractual obligations that are required in connection with the arrangements for the Meetings.

Therefore, it is timely that, the Executive Directors of the Bank and the Executive Board of the Fund recommend, to the Boards of Governors, the dates for the 2007 and 2008 Annual Meetings planned to be held in Washington, D.C. A separate report and draft resolution will be distributed on the proposed dates and venue for the overseas Annual Meetings in 2009.

Accordingly, the Executive Directors of the Bank recommend that the Governors adopt the resolution. . .¹ on the dates for the 2007 and 2008 Annual Meetings set out in the attachment to this Report by a vote without a meeting, in accordance with Section 12 of the Bank's By-laws.

(This report was approved and its recommendation was adopted by the Board of Governors on July 17, 2006)

¹ See page 205.

June 20, 2006

**Report to the Boards of Governors
of the Bank and the Fund by the Joint
Committee on the Remuneration of Executive
Directors and their Alternates**

INTRODUCTION

1. Pursuant to Section 14(e) of the By-Laws of the Fund and Section 13(e) of the By-laws of the Bank, the undersigned were appointed to the 2006 Joint Committee on the Remuneration of Executive Directors and their Alternates (JCR).
2. The JCR met in Georgetown, Guyana, on June 20, 2006.
3. The JCR undertook a streamlined review of the remuneration of IMF and World Bank Executive Directors and Alternates. This review was in line with the process recommended by the 1997 JCR and followed by JCRs since 1998, which calls for a full-scale review once every four years, starting in 2000 and streamlined reviews in other years. The last full-scale review took place in 2004. The 2005 JCR conducted a streamlined review.
4. The approach and methodology followed by the Committee are described in Section II of this report. Section III reviews the remuneration developments taken into account by the JCR. The Committee's recommendations with respect to the remuneration and benefits of Executive Directors and Alternates are provided in Sections IV and V. Section VI contains recommendations on procedures to be followed by future JCRs. Recommendations on matters requiring a vote by Governors are in Section VII, with the draft resolutions in Attachments I and II.

METHODOLOGY USED BY THE 2006 JCR

5. The JCR took note of the fact that the 2004 Committee had undertaken a thorough review of aspects relating to the remuneration of Executive Directors and Alternates, including their role and responsibilities, the choice of external comparators, the relative position of Directors vis-à-vis the management and senior staff of the two institutions, major changes in benefits, and issues of parallelism between the two institutions.

6. The JCR followed the recommendations of the 2004 Committee, also stressed by the 2005 Committee, with respect to a streamlined and cost-effective approach, under which the next full-scale review of the remuneration and benefits of Executive Directors would take place in 2008, barring exceptional circumstances that would warrant a more thorough consideration of factors affecting remuneration and benefits at an earlier date. It noted that under the proposed streamlined procedure, the JCRs for 2005, 2006, and 2007 would formulate their recommendations by reference to a limited set of indicators, which could include each year's increases in the remuneration of the Managing Director of the Fund and the President of the World Bank, movements in the consumer price index for the Washington metropolitan area, and any real increases in the public sector salary scales of selected member countries. Like its predecessors, and as recommended by the 2004 JCR, the Committee also looked at the relative position of the remuneration of Executive Directors and of the remuneration of members of Fund and Bank managements and senior staff of the two institutions. The JCR also took note of the recommendation of the 2004 and 2005 JCRs that new benefits issues should be addressed as they arise, and not deferred until the next comprehensive review.
7. The JCR reviewed the roles and responsibilities of Executive Directors in the Bank and the Fund. It found that there had been no major changes in job content of Executive Directors from the previous year that would warrant a full-scale review instead of the streamlined procedure. In light of the increasing complexity of the challenges faced by the Bretton Woods Institutions, and in view of the important role of Executive Directors in their governance, JCR members agreed with the 2004 and 2005 Committees that the two institutions should be well-placed to attract experienced individuals of high intellectual caliber with diplomatic skills and a global outlook.

REVIEW OF REMUNERATION DEVELOPMENTS

8. In reviewing the remuneration of Executive Directors and Alternate Executive Directors, the Committee was mindful of the efforts of many member countries, and of the Bank and Fund, to exercise fiscal discipline. In particular, the Committee noted the challenges that the institutions are facing in ensuring their continued effectiveness and a stable long-term financial footing going forward. In this context, the Committee took note of work underway to implement the Fund's medium-term strategy, and supported the IMF's Managing Director's initiative to

constitute an eminent committee to provide advice on more predictable and stable sources of Fund income. It also noted the effort underway at the World Bank to re-examine its activities in the middle-income countries.

9. Against this background, the JCR examined data on a number of comparator positions, and other relevant data, including the following:
- The JCR noted that the consumer price index for the Washington metropolitan area had risen by 4.2 percent (May 2005 to May 2006). The JCR referred to the analysis in the 2004 review of the impact of exchange rate movements among major currencies and agreed with the conclusion of the 2004 and 2005 JCRs that it would not be feasible or appropriate to adjust for such movements.
 - The remuneration of the Managing Director of the Fund and the President of the Bank, which by their contracts is linked to the movement in the Washington metropolitan area consumer price index, will be increased by 4.2 percent with effect from July 1, 2006.
 - The salaries of the Fund's professional staff (Grades A9-B5) will be increased by 3.5 percent on average with effect from May 1, 2006, including an average 4.5 percent increase for its managerial staff (Grades A14-B5). This reflects the outcome of the Fund's Employment, Compensation, and Benefits Review, which changed the Fund's salary structure to correct past misalignments in the Fund's pay line with the comparator markets. The salaries of the Deputy Managing Directors of the Fund will be increased by 4.2 percent on July 1, 2006.
 - The average increase in the salary structure for the World Bank staff has not yet been decided, but is expected to be in the order of 3.5 percent, with increases ranging between 2.5 and 9.6 percent at the senior grades. The salary increases for the Bank's Managing Director and Senior Vice Presidents, which will be effective from July 1, 2006, will be based on a similar increase matrix as applied to the other staff in professional grades. The ongoing review of the compensation system for the World Bank staff is expected to be completed in early 2007.
 - Changes in the salaries of public sector employees in nine member countries¹ showed considerable variation, but, on the whole, confirm the trend, observed in recent years, that public sector salary

¹ *Brazil, Chile, France, Germany, Japan, Korea, Poland, United Kingdom, and United States.*

increases in most countries are modest. The Committee also observed that an increasing number of countries are moving toward performance-based pay for their civil servants, making the collection of data for international comparison increasingly difficult.

10. The JCR also considered the conclusion of the 2004 Committee, which had stressed the importance of gradually repositioning the remuneration of Executive Directors relative to that of the senior management and staff of the two institutions over a period of 7-10 years. To correct the past deterioration, the 2004 Committee had suggested that future JCRs take this structural adjustment component carefully into account in making recommendations to the Boards of Governors on the remuneration of Executive Directors. Like the 2005 JCR, the Committee did not find it appropriate to take a further step in this direction in 2006. The Committee recommends that, as part of its comprehensive review, the 2008 JCR undertake an in-depth re-assessment of the issue of repositioning going forward.

RECOMMENDATIONS WITH RESPECT TO REMUNERATION

11. **Executive Directors.** Taking all above considerations into account, the Committee recommends an increase of 4.2 percent in the total remuneration of Executive Directors from \$204,400 to \$212,980 effective on July 1, 2006. The Committee notes that this increase is in line with the 2005-2006 increase in the Washington consumer price index, and the increase in remuneration of the Managing Director of the Fund and the President of the Bank.
12. **Alternate Executive Directors.** The Committee considered the role and responsibilities of Alternate Executive Directors in the Bank and the Fund. It took note of the progressive increase in the Alternates' remuneration from 85 percent of the total remuneration of Executive Directors in 1997 to 86.5 percent in 2000, based on recognition of their increased responsibilities by various JCRs. The JCR also acknowledged the 2005 Committee's view, consistent with that of the 2004 JCR, that the current ratio continued to be appropriate.
13. Based on these considerations, the Committee recommends an increase of 4.2 percent in the total remuneration of Alternate Executive Directors from \$176,810 to \$184,240, which leaves the ratio of the remuneration of Alternate Executive Directors to that of Executive Directors unchanged.

RECOMMENDATION ON BENEFITS

14. The Resolutions No. 34-7 (Fund) and No. 337 (Bank), which were approved by the respective Boards of Governors in 1979, provide that changes in levels of benefits to reflect actual costs, or other minor modifications to existing benefits that do not change the basic nature of such benefits, may be made available to Executive Directors and Alternates by the respective Executive Boards. Significant changes in existing benefits as well as new benefits are to be considered by the Joint Committee on the Remuneration of Executive Directors and their Alternates and may not be made available to Executive Directors and Alternates until approved by the respective Boards of Governors.
15. The JCR notes that there have been a number of changes to the benefits for Fund staff in 2006. These include: revisions of the cost standard for and frequency of home leave travel, and the amount of related travel allowances; relatively minor changes to the Fund's educational allowances; and an extension to staff appointed after age 62 of eligibility for continuing post-retirement coverage under the Fund's Medical Benefits Plan (MBP) and Group Life Insurance (GLI).
16. Regarding home leave travel, the Committee observes that the policy for Fund Executive Directors has differed from that for staff for many years, including with respect to eligibility (only spouses and children of Executive Directors and alternates receive a home entitlement); class of travel (first class tickets in the third year of continuous service and, on an optional basis, in every subsequent three years); and the absence of cash allowances equivalent to the cost standard for the travel. As a result of the reduction, for Fund staff, of the cost standard for the Fund's cash transportation allowance to full-fare economy class, and the introduction of options with respect to the frequency of travel and level of the related home country allowance, these differences have further widened.
17. In light of this, the Committee considers it desirable to explore the scope for some realignment of the home leave travel provisions for Fund Executive Directors with those applicable to Fund staff, noting that this might also allow meeting better the specific situation and needs of Executive Directors while at the same time being more cost-efficient. Taking these criteria into account, and similar to the approaches followed by previous JCRs, the Committee invites the Fund's Board Committee on Executive Board Administrative Matters (CAM) to develop proposals for consideration by the 2007 JCR. This will also allow a future JCR to better judge whether the changes under

consideration are such that they should be recommended to the Governors for approval or can be approved by the Fund Executive Directors, and whether the changes raise issues of parallelism with the Bank Executive Directors that would warrant further consideration. In this connection, the Committee notes that previous JCRs have accepted variations in the design/structure of benefits between Bank Directors and Fund Directors.

18. The JCR notes that the changes to the Fund staff's educational allowances either aim at reflecting actual costs or have only limited effects and cost implications. In view of their limited impact, the Committee considers that applying any of these changes to Fund Executive Directors would not have a significant impact on relativities with the World Bank, nor would they be such as to require approval by the Governors. To help streamline and simplify the administration of the policy on educational allowances, the Fund's Executive Directors may nevertheless wish to realign the arrangements for Executive Directors with those for staff. In this context, the JCR also notes certain differences in the frequency and travel standard of educational travel that could be addressed.
19. Regarding the extension to Fund staff appointed after age 62 of eligibility for MBP and GLI coverage, the JCR notes that Board of Governors Resolution No. 31-1, adopted on October 16, 1979, specifically provides that "the Executive Directors of the Fund and their Alternates shall...participate in the Staff Retirement plan, and health and insurance programs established by the Fund for its staff, on the same basis as the staff." The JCR considers that the extension of eligibility is a minor change that can be made applicable to Executive Directors without necessitating a Governors' decision.

RECOMMENDATIONS ABOUT THE PROCEDURES FOLLOWED BY JCRS

20. The JCR recommends that the 2008 JCR undertake the next scheduled full-scale review as previously recommended by the 2004 JCR. Like the 2004 Committee, however, the JCR wishes to stress the importance of addressing new benefits issues as they arise, including in interim reviews. Going forward, it will also be appropriate to consider further streamlining of the JCR process, in particular during interim reviews.

RECOMMENDATIONS REQUIRING A VOTE BY THE GOVERNORS

21. In light of the recommendations on remuneration of Fund and Bank Executive Directors and their Alternates (paragraphs 14 and 16 above), the Committee recommends that the resolutions...¹ for the Fund and the Bank be adopted by the respective Boards of Governors of the Fund and the Bank.

22. The Joint Committee directs the Secretary of the Fund and the Vice President and Corporate Secretary of the Bank to transmit this report to the Boards of Governors of the Fund and the Bank, respectively, for a vote without meeting in accordance with Sections 13 and 14(e) of the By-Laws of the Fund and Sections 12 and 13(e) of the By-Laws of the Bank.

(This report was approved and its recommendation was adopted by the Board of Governors on August 2, 2006)

July 5, 2006

2006 Regular Election of Executive Directors

Pursuant to Resolution No. 559 of the Board of Governors, a Regular Election of Executive Directors will take place in connection with the 2006 Annual Meeting of the Board of Governors. It is proposed that this Regular Election be conducted by rapid means of communication so as to conclude a reasonable time in advance of November 1, 2006, when the term of office of the elected Executive Directors shall commence.

The Executive Directors have noted that the size of the Board was increased to 24 in 1992, after a large increase in the membership, in order to preserve broad geographic representation which permits all major groups of countries to be represented. As in past years, there is strong feeling among the Executive Directors that, in the unlikely event that there was lack of such wide geographical and balanced representation, prompt corrective action would be called for.

¹ See page 206.

The Executive Directors recommend that the maximum and minimum percentages of eligible votes required for election of an Executive Director be 10 percent and 2 percent, respectively. They believe that such percentages would provide a range that is broad enough in the circumstances.

The Executive Directors recommend that the date from which the 2006 Regular Election will be effective be November 1, 2006.

A new provision has been added to the attached Rules for the 2006 Regular Election of Executive Directors to address the situation where a nominee withdraws before the end of the election period, but after the nomination period has been closed. In such cases, the Secretary shall inform all Governors eligible to vote of such withdrawal and invite them to submit nominations by rapid means of communication within the new prescribed period. At the end of this nomination period, the Secretary shall circulate a new list of candidates by rapid means of communication to all Governors eligible to vote with an invitation to vote through similar channels before the end of the balloting period.

The Executive Directors note that under the Articles of Agreement of the International Finance Corporation (the Corporation) and the International Development Association (the Association) the elected Directors will serve *ex officio* as members of the Board of Directors of the Corporation and Executive Directors of the Association.

The Executive Directors recommend that the subsequent Regular Election of Executive Directors take place in connection with the Annual Meeting of the Board of Governors in 2008.

The Executive Directors recommend the adoption by the Board of Governors of the attached Rules for the 2006 Regular Election of Executive Directors, which provide for the conduct of this Election by rapid means of communication.

The following resolution...¹, embodying the above recommendations, is proposed for adoption by the Board of Governors.

(This report was approved and its recommendation was adopted by the Board of Governors on August 3, 2006)

¹ See page 206.

RULES FOR THE 2006 REGULAR ELECTION OF EXECUTIVE DIRECTORS

DEFINITIONS

1. In these Rules, unless the context shall otherwise require,
 - (a) “Articles” means the Articles of Agreement of the Bank.
 - (b) “Board” means the Board of Governors of the Bank.
 - (c) “Chairman” means the Chairman of the Board or a Vice Chairman acting as Chairman.
 - (d) “Governor” includes the Alternate Governor and, for actions taken at any meeting, a temporary Alternate Governor, when acting for the Governor.
 - (e) “Secretary” means the Corporate Secretary or any acting Corporate Secretary of the Bank.
 - (f) “Election” means the 2006 Regular Election of Executive Directors.
 - (g) “Eligible votes” means the total number of votes that can be cast in the election.

2. All actions taken under these Rules, including communications by the Secretary and the Chairman and nominations and balloting by the Governors, may be taken by rapid means of communication.

TIMING OF ELECTION

3. The election shall be held by requesting nominations and conducting ballots so as to conclude a reasonable time in advance of November 1, 2006, when the term of office of the elected Executive Directors shall commence.

BASIC RULES—SCHEDULE B

4. Subject to the adjustment set forth in the Rules, the provisions of Schedule B of the Articles shall apply to the conduct of the election, except that:
 - (a) “two percent” shall be substituted for “fourteen percent” in Paragraphs 2 and 5 and “ten percent” shall be substituted for “fifteen percent” in Paragraphs 3, 4 and 5 thereof; and
 - (b) “nineteen persons” shall be substituted for “seven persons” in Paragraphs 2, 3 and 6, “eighteen persons” shall be substituted

for “six persons” in Paragraph 6, and “the nineteenth” shall be substituted for the “seventh” in Paragraph 6 thereof.

EXECUTIVE DIRECTORS TO BE ELECTED

5. Nineteen Executive Directors shall be elected.

SUPERVISION OF THE ELECTION

6. The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.

NOMINATIONS

7. (a) The Secretary shall request nominations from Governors during a suitable period specified by the Secretary.
(b) Each nomination shall be made on a nomination form furnished by the Secretary, signed by the Governor or Governors making the nomination and submitted to the Secretary.
(c) Any person nominated by one or more Governors entitled to vote in the election shall be eligible for election as Executive Director.
(d) A Governor may nominate only one person.
(e) If a nominee withdraws from the ballot after the closing date of the nomination period, but before the closing date of the ballot, the Secretary shall inform all Governors eligible to vote of such withdrawal and invite them to submit nominations of a candidate by rapid means of communication, during a suitable period specified by the Secretary. At the end of the prescribed period of time for this nomination, the Secretary shall compile a new list of candidates with all individuals who were nominated by at least one Governor in either nomination period, and circulate that list by rapid means of communication to all Governors eligible to vote with an invitation to vote through similar channels before the end of the balloting period.

BALLOTING

8. (a) Upon the closing of nominations, the Secretary shall send to all Governors entitled to vote in the election the list of candidates for the election, together with an invitation to Governors to vote in the first ballot, and announce the deadline for receipt of ballots.

- (b) One ballot form shall be furnished to each Governor entitled to vote. On any particular ballot, only ballot forms distributed for that ballot shall be counted.
9. Each ballot shall be taken as follows:
- (a) Ballots shall be conducted by deposit of ballot forms, signed by Governors eligible to vote, with the Secretary. The first ballot shall take place after the close of nominations, concluding no later than the first day of the 2006 Annual Meeting of the Board.
 - (b) When a ballot shall have been completed, the Secretary shall cause the ballots to be counted and, as soon as practicable after the tellers have completed their tally of the ballots, shall announce the names of the persons elected. If a succeeding ballot is necessary, the Secretary shall announce the names of the nominees to be voted on, the members whose Governors are eligible to vote and the time period for balloting.
 - (c) If the tellers shall be of the opinion that any particular ballot is not properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before tallying the results; and such ballot, if so corrected, shall be deemed to be valid.
10. When on any ballot the number of nominees shall not exceed the number of Executive Directors to be elected, each nominee shall be deemed to be elected by the number of votes received by him on such ballot; provided, however, that, if on such ballot the votes of any Governor shall be deemed under Paragraph 4 of Schedule B² to have raised the votes cast for any nominee above ten percent of the eligible votes, no nominee shall be deemed to have been elected who shall not have received on such ballot a minimum of two percent of the eligible votes, and a succeeding ballot shall be taken for which any nominee not elected shall be eligible.
11. If, as a result of the first ballot, the number of Executive Directors to be elected in accordance with Section 5 above shall not have been

² Paragraph 4 of Schedule B reads as follows:

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above ten percent of the eligible votes, the ten percent shall be deemed to include, first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until ten percent is reached.

elected, a second, and if necessary, further ballots shall be taken. The Governors entitled to vote on such succeeding ballots shall be only:

- (a) those who voted on the preceding ballot for any nominee not elected; and
 - (b) those Governors whose votes for a nominee elected on the preceding ballot are deemed under Paragraph 4 of Schedule B to have raised the votes cast for such nominee above ten percent of the eligible votes.
12. If the votes cast by a Governor bring the total votes received by a nominee from below to above ten percent of the eligible votes, all the votes cast by this Governor shall be deemed to have been cast for the benefit of that nominee without raising the total votes of the nominee above ten percent.
13. If on any ballot two or more Governors having an equal number of votes shall have voted for the same nominee and the votes of one or more, but not all, of such Governors could be deemed under Paragraph 4 of Schedule B not to have raised the total votes of the nominee above ten 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 on the next ballot.
14. Any member whose Governor has voted on the last ballot and whose votes did not contribute to the election of an Executive Director may, before the effective date of the election, as set forth in Section 18 below, 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.

ABSTENTION FROM VOTING

15. If a Governor shall abstain from voting on any ballot, he shall not be entitled to vote on any subsequent ballot and his votes shall not be counted within the meaning of Section 4(g) of Article V towards the election of any Executive Director. If at the time of any ballot a member shall not have a duly appointed Governor, such member shall be deemed to have abstained from voting on that ballot.

ELIMINATION OF NOMINEES

16. If on any ballot two or more nominees shall receive the same lowest number of votes, no nominee shall be dropped from the next succeeding

ballot, but if the same situation is repeated on such succeeding ballot, the Chairman shall eliminate by lot one of such nominees from the next succeeding ballot.

ANNOUNCEMENT OF THE RESULT

17. After the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.

EFFECTIVE DATE OF ELECTION

18. The effective date of the election shall be November 1, 2006, and the term of office of the elected Executive Directors shall commence on that date. Incumbent elected Executive Directors shall serve through the day preceding such date.

GENERAL

19. 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. Whenever possible, any such questions shall be put without identifying the members or Governors concerned.

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
2006 REGULAR ELECTION OF EXECUTIVE DIRECTORS
STATEMENT OF RESULTS OF ELECTION,
SEPTEMBER 19, 2006**

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Svein AASS			54,039
	Denmark	13,701	
	Estonia	1,173	
	Finland	8,810	
	Iceland	1,508	
	Latvia	1,634	
	Lithuania	1,757	
	Norway	10,232	
	Sweden	15,224	
Abdulrahman M. ALMOFADHI			45,045
	Saudi Arabia	45,045	
Gino ALZETTA			77,669
	Austria	11,313	
	Belarus	3,573	
	Belgium	29,233	
	Czech Republic	6,558	
	Hungary	8,300	
	Kazakhstan	3,235	
	Luxembourg	1,902	
	Slovak Republic	3,466	
	Slovenia	1,511	
	Turkey	8,578	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Felix Alberto CAMARASA			37,499
	Argentina	18,161	
	Bolivia	2,035	
	Chile	7,181	
	Paraguay	1,479	
	Peru	5,581	
	Uruguay	3,062	
Otaviano CANUTO			57,462
	Brazil	33,537	
	Colombia	6,602	
	Dominican Republic	2,342	
	Ecuador	3,021	
	Haiti	1,317	
	Panama	635	
	Philippines	7,094	
	Trinidad and Tobago	2,914	
Joong-Kyung CHOI			55,800
	Australia	24,714	
	Cambodia	464	
	Kiribati	715	
	Korea, Republic of	16,067	
	Marshall Islands	719	
	Micronesia, Fed. States of	729	
	Mongolia	716	
	New Zealand	7,486	
	Palau	266	
	Papua New Guinea	1,544	
	Samoa	781	
	Solomon Islands	763	
	Vanuatu	836	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Mat Aron DERAMAN			41,096
	Brunei Darussalam	2,623	
	Fiji	1,237	
	Indonesia	15,231	
	Lao People's Dem. Rep.	428	
	Malaysia	8,494	
	Myanmar	2,734	
	Nepal	1,218	
	Singapore	570	
	Thailand	6,599	
	Tonga	744	
	Vietnam	1,218	
Jorge FAMILIAR			72,786
	Costa Rica	483	
	El Salvador	391	
	Guatemala	2,251	
	Honduras	891	
	Mexico	19,054	
	Nicaragua	858	
	Spain	28,247	
	Venezuela, Rep. Bolivariana de	20,611	
Merza H. HASAN			47,042
	Bahrain	1,353	
	Egypt, Arab Republic of	7,358	
	Iraq	3,058	
	Jordan	1,638	
	Kuwait	13,530	
	Lebanon	590	
	Libya	8,090	
	Maldives	719	
	Oman	1,811	
	Qatar	1,346	
	Syrian Arab Republic	2,452	
	United Arab Emirates	2,635	
	Yemen, Republic of	2,462	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Mulu KETSELA			54,347
	Angola	2,926	
	Botswana	865	
	Burundi	966	
	Ethiopia	1,228	
	Gambia, The	793	
	Kenya	2,711	
	Lesotho	913	
	Liberia	713	
	Malawi	1,344	
	Mozambique	1,180	
	Namibia	1,773	
	Nigeria	12,905	
	Seychelles	513	
	Sierra Leone	968	
	South Africa	13,712	
	Sudan	1,100	
	Swaziland	690	
	Tanzania	1,545	
	Uganda	867	
	Zambia	3,060	
	Zimbabwe	3,575	
Dhanendra KUMAR			54,945
	Bangladesh	5,104	
	Bhutan	729	
	India	45,045	
	Sri Lanka	4,067	
Alexey KVASOV			45,045
	Russian Federation	45,045	
Giovanni MAJNONI			56,705
	Albania	1,080	
	Greece	1,934	
	Italy	45,045	
	Malta	1,324	
	Portugal	5,710	
	San Marino	845	
	Timor-Leste	767	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Michel MORDASINI			49,192
	Azerbaijan	1,896	
	Kyrgyz Republic	1,357	
	Poland	11,158	
	Serbia	3,096	
	Switzerland	26,856	
	Tajikistan	1,310	
	Turkmenistan	776	
	Uzbekistan	2,743	
Louis Philippe ONG SENG			32,252
	Benin	1,118	
	Burkina Faso	1,118	
	Cameroon	1,777	
	Cape Verde	758	
	Central African Republic	1,112	
	Chad	1,112	
	Comoros	532	
	Congo, Dem. Rep. of	2,893	
	Congo, Republic of	1,177	
	Cote d'Ivoire	2,766	
	Djibouti	809	
	Equatorial Guinea	965	
	Gabon	1,237	
	Guinea	1,542	
	Guinea-Bissau	790	
	Madagascar	1,672	
	Mali	1,412	
	Mauritania	1,150	
	Mauritius	1,492	
	Niger	1,102	
	Rwanda	1,296	
	Sao Tome and Principe	745	
	Senegal	2,322	
	Togo	1,355	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Shuja SHAH			51,544
	Afghanistan	550	
	Algeria	9,502	
	Ghana	1,775	
	Iran, Islamic Republic of	23,936	
	Morocco	5,223	
	Pakistan	9,589	
	Tunisia	969	
Samy WATSON			62,217
	Antigua and Barbuda	770	
	Bahamas, The	1,321	
	Barbados	1,198	
	Belize	836	
	Canada	45,045	
	Dominica	754	
	Grenada	781	
	Guyana	1,308	
	Ireland	5,521	
	Jamaica	2,828	
	St. Kitts and Nevis	525	
	St. Lucia	802	
	St. Vincent and the Grenadines	528	
Herman WIJFFELS			72,208
	Armenia	1,389	
	Bosnia and Herzegovina	799	
	Bulgaria	5,465	
	Croatia	2,543	
	Cyprus	1,711	
	Georgia	1,834	
	Israel	5,000	
	Macedonia, FYR	677	
	Moldova	1,618	
	Netherlands	35,753	
	Romania	4,261	
	Ukraine	11,158	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
ZOU Jiayi	China	45,049	45,049
Total Number of Members Voted	176		1,011,942

/s/

Cedric Nicolas Crelo
(Luxembourg)
Teller

/s/

Antonio Fernando Laice
(Mozambique)
Teller

July 13, 2006

**2009 Annual Meetings of the Boards of Governors of the
World Bank Group and the International Monetary Fund**

The Governors of the Bank and the Fund for Turkey have invited the World Bank Group and the International Monetary Fund to hold the 2009 Annual Meetings of the Boards of Governors in Istanbul during the period of October 6 and 7. The Executive Directors have considered the assurances given by the Government of Turkey, have reviewed the proposed arrangements in Istanbul and have noted that acceptance of the invitation would be in accordance with the traditional practice of meeting elsewhere than in Washington, D.C. every third year.

Accordingly, the Executive Directors recommend that the Board of Governors adopt the resolution. . . .¹

(This report was approved and its recommendation was adopted by the Board of Governors on August 21, 2006)

August 7, 2006

Allocation of FY06 Net Income

1. The General Reserve (including cumulative exchange rate translation adjustment) of the IBRD as of June 30, 2006 was \$22,885 million. As of that date, the surplus of the IBRD was \$360 million, of which \$300 million was earmarked for IDA/HIPC and or Reserves, and the Special Reserve created under Article IV, Section 6 of the IBRD's Articles of Agreement totaled \$293 million. The IBRD's reported net income for the fiscal year ended June 30, 2006 (FY06) amounted to minus \$2,389 million. IBRD's Operating Income (referred to as "Net income before Board of Governors-Approved Transfers and Net Unrealized (Losses) Gains on Non-trading Derivative Instruments, as Required by FAS 133" in the FY06 external financial statements) is used as net income for annual net income allocation purposes. For FY06, Operating Income was \$1,740 million.

¹See page 206.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to FY06 net income. The Executive Directors have concluded that the interests of the IBRD and its members would best be served by the following dispositions of the net income of the IBRD:
 - (a) the addition of \$1,036 million to the General Reserve, plus or minus any rounding amount less than \$1 million;
 - (b) the addition of \$64 million to the pension reserve representing the excess of the SRP and RSBP contribution amounts over the accounting expense;
 - (c) the transfer to the International Development Association, by way of a grant of \$500 million, from FY06 allocable net income, which amount would be usable to provide financing in the form of grants in addition to loans;
 - (d) the transfer to International Development Association, by way of a grant of \$300 million, from net income previously retained as surplus in FY04 that was earmarked solely for subsequent transfers to IDA, HIPC, and/or reserves, which amount would be usable to provide financing in the form of grants in addition to loans;
 - (e) the retention as surplus of \$140 million.
3. Accordingly, the Executive Directors recommend that the Board of Governors note with approval the present Report and adopt the draft resolution. . . .¹

(This report was approved and its recommendation was adopted by the Board of Governors on September 20, 2006)

¹ See page 207.

September 7, 2006

**Transfer from IBRD Surplus to Fund
Trust Fund for Lebanon**

1. In view of the need for exceptional assistance to Lebanon following the recent hostilities, and in order to promote the purposes of the International Bank for Reconstruction and Development (the Bank) and the International Development Association (the Association) in these circumstances, the Executive Directors consider that a program of emergency assistance for economic and social recovery in Lebanon should be undertaken forthwith as an initiative for the benefit of the members of the Bank and of the Association. The Executive Directors recommend that the Board of Governors authorize the transfer from IBRD surplus of the amount of US\$70 million to the Trust Fund for Lebanon, subject to the approval by the Board of Governors of the increase in the allocation to surplus of the additional US\$100 million from FY06 net income recommended by the Executive Directors on August 7, 2006.

2. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution . . .¹ following approval by the Board of Governors of the increase in the allocation to surplus referred to in paragraph 1 above.

(This report was approved and its recommendation was adopted by the Board of Governors on September 20, 2006)

¹ See page 208.

REPORT OF THE BOARD OF DIRECTORS OF IDA

March 28, 2006

Additions to Resources: Financing the Multilateral Debt Relief Initiative

I. INTRODUCTION

1. The Fourteenth Replenishment of IDA resources was finalized in the Spring of 2005, with the adoption of the IDA14 Resolution on April 13, 2005 by IDA's Board of Governors.¹ The IDA14 Replenishment includes a new framework for allocating IDA grants, which is designed to address the prospective risk of debt distress of IDA countries.
2. Subsequent to the conclusion of the IDA14 negotiations, member countries of IDA began discussion of a proposal by the G-8 group of countries that would provide additional relief on the existing stock of debt owed to IDA by countries that have reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative.² The proposal was subsequently welcomed by the Development Committee³ on September 25, 2005. The Development Committee "urged donor countries to ensure financing to fully compensate IDA for forgone reflows resulting from debt relief". The Bank was also asked to "prepare a compensation schedule and monitoring system of all donor contributions", and "proceed with the steps to ensure all necessary arrangements for implementation".⁴
3. Negotiations on this proposal, now known as the Multilateral Debt Relief Initiative (MDRI or the "Initiative"), continued at a meeting of Deputies of donor countries and representatives of borrower countries (collectively

¹ IDA Board of Governors' Resolution No. 209, "Additions to Resources: Fourteenth Replenishment," April 13, 2005. The text of the Resolution can also be found at Annex 3 to the Report from IDA's Executive Directors to the Board of Governors, "Additions to IDA Resources: Fourteenth Replenishment," approved by IDA's Executive Directors on March 10, 2005.

² The initial proposal is set out in the G-8 Finance Ministers' Communiqué entitled "Conclusions on Development", issued on June 11, 2005.

³ Formally, the "Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries".

⁴ Development Committee Communiqué, para. 5, issued on September 25, 2005 (see Annex I.2).

referred to in this report as “Participants”) in Washington, D.C. on December 6th and 7th, 2005. The meeting was chaired by Geoffrey Lamb, Vice President of the World Bank and Senior Counselor for IDA. Participants based their discussions and recommendations on a draft paper which detailed the implementation modalities of the MDRI. A final version of the paper on implementation modalities will take into account Participants’ recommendations and will be submitted to the Executive Directors for their approval in March 2006, alongside this report.

4. At their December 2005 meeting, Participants expressed their strong and unanimous support for providing additional debt relief through the MDRI, as such relief would scale up the resources available to developing countries and reinforce their efforts to achieve the Millennium Development Goals (MDGs). Participants underscored the central role of IDA in supporting these efforts. They noted that the cancellation of such large volumes of reflows from past IDA assistance raises questions about accountability for aid effectiveness, and they encouraged IDA to pursue its recent efforts on results and performance measurement. They also recognized the exceptional nature of the Initiative and the interdependency between providing debt relief and financing IDA’s forgone credit reflows. They stressed the importance of ensuring that the financing cost of the Initiative should not compromise IDA’s financial strength and capacity to support low income countries in the medium and long term.
5. To this end, donors committed themselves to fully finance the costs to IDA of providing MDRI debt relief over the 40-year time span of the MDRI. They agreed that financing of MDRI costs should be fully additional to regular IDA contributions in order to provide the greatest benefit to poor countries and preserve IDA’s financial strength. They agreed that the level of IDA14 donor contributions, measured in real terms, will serve as the baseline on which the additionality of donor financing for the MDRI will be assessed over time. They recognized that the ability to provide binding financial commitments for the entire duration of MDRI varies from donor to donor, and committed themselves to make every effort possible to translate their full political commitment for the outer as well as earlier years into as firm and far-reaching financial pledges as allowed for by their legislative processes.
6. This report records the conclusions and recommendations agreed by the Participants. Specifically, the report sets out principles to guide the implementation of the MDRI in IDA and establishes the financing framework for donors, including by recording the pledges donors have made to IDA to finance the Initiative.

7. The report is organized as follows. Section II summarizes the key features of the MDRI. Section III summarizes the proposed implementation modalities for debt cancellation by IDA. Section IV describes the arrangements for financial compensation by the IDA donors. Section V sets forth the Participants' request to the Executive Directors to recommend to the Board of Governors the adoption of the draft MDRI Resolution (see Annex 3).

II. KEY FEATURES OF THE MULTILATERAL DEBT RELIEF INITIATIVE

8. The MDRI provides a framework that commits to achieve two objectives: deepening multilateral debt relief to HIPCs while safeguarding the long-term financial capacity of IDA and the African Development Fund (AfDF); and encouraging the best use of donor resources for development by allocating them to low income countries on the basis of policy performance. Debt relief to be provided under the MDRI will be in addition to existing debt relief commitments by IDA and other creditors under the Enhanced HIPC Debt Initiative.
9. The MDRI calls for 100 percent cancellation of IDA, AfDF, and International Monetary Fund (IMF) debt for countries that reach the HIPC completion point.⁵ Eighteen completion point HIPCs would benefit from debt relief upon confirmation of eligibility; the remaining 10 interim and 10 pre-decision point HIPCs would become eligible once they reach completion point. Additional countries may qualify for the HIPC Initiative under the sunset clause extension, and could thus eventually become eligible under the MDRI once they reach their completion points.
10. The MDRI also commits to providing additional resources, to ensure that the financing capacity of the IFIs is preserved. The Development Committee stressed the need for "an interdependent package consisting especially of dollar for dollar compensation for IDA that is truly additional to existing commitments and that maintains the financial integrity and capacity of IDA to assist poor countries in the future". It called for donor "burden sharing on a voluntary basis" to provide these benefits. In their letter dated September 23, 2005, G-8 governments reaffirmed "their commitment to the long-term role of IDA in the international development architecture and in financing

⁵ *It does not cover debts owed to the IBRD, the African Development Bank, or other MDBs such as the Inter-American Development Bank. Differently from the HIPC Initiative, the MDRI does not include debt relief by any bilateral and commercial creditors.*

development”, and noted that “in doing so we recognize that IDA will utilize a contribution baseline of the real value of donor contributions under IDA14 as a means of assessing additionality.”⁶

11. Participants recognized that the MDRI will affect IDA’s assistance flows to IDA countries in two ways. First, the annual amount of debt relief provided to countries eligible under the Initiative will be deducted from their annual IDA allocations. This feature helps allay moral hazard and equity concerns associated with debt cancellation. Second, the additional resources provided by donors to finance the debt relief provided by IDA will be allocated to all IDA-only countries (except “gap countries”, which in this context are defined as IDA eligible countries with per capita incomes that have been above IDA’s operational cutoff for more than two consecutive years) according to IDA’s performance-based allocation (PBA) system. This feature helps maintain the link between IDA resource transfers and country performance.

III. IMPLEMENTATION MODALITIES FOR DEBT CANCELLATION

12. Participants discussed the three major criteria in determining the scope of debt relief under the MDRI: (i) the cutoff date of eligible debt stock; (ii) the credit coverage of the debt to be cancelled; and (iii) the group of countries to be covered under the MDRI. These criteria are important in determining the entire framework of the MDRI and of particular significance to Participants because of their impact on cost and financing of the MDRI. Participants concluded that the approach to be followed under the MDRI should strike a reasonable balance between providing the largest possible benefits from debt cancellation while containing donor costs within manageable bounds.
13. Participants agreed to recommend the following three criteria. Debt stocks as of December 31, 2003 will be eligible for cancellation by IDA under the MDRI.⁷ Eligible debt stocks will be defined as debt outstanding and disbursed as of this cutoff date, in line with the definition applied under the Enhanced HIPC Initiative. Eligible countries will include the 38 countries currently classified as HIPCs as well as four

⁶ *The text of the G-8 letter is provided in Annex I.1. Section IV.G of this paper discusses in detail how the contribution baseline to measure additionality of donor financing is determined.*

⁷ *Various cutoff dates had been under consideration by the donors, including end-2003, end-2004, and mid-2005.*

potentially eligible IDA countries that may qualify as HIPCs by end-2006 under the HIPC “sunset clause”. The four countries are Eritrea, Haiti, the Kyrgyz Republic, and Nepal. Participants noted that the assessment of eligibility and intentions of a further group of countries that may qualify as HIPCs under the HIPC “sunset clause”—Bangladesh, Bhutan, Sri Lanka, and Tonga—will take time.⁸ They agreed that consideration of the status of these countries should be deferred to a later stage, with many Participants supporting the principle of an equitable approach.

14. Participants noted that the estimated costs of IDA from debt cancellation under the MDRI, based on the above-mentioned parameters, would be equivalent to about USD 37 billion (SDR 24.8 billion). Annex 2.1 provides details of estimated costs to IDA in SDR terms, by group of HIPC countries and by fiscal year. Annex 2.2 shows the expected volume of debt relief by IDA country. Annex 2.3 shows the assumed timing of HIPC countries reaching their completion points. Participants also reviewed the methodology for estimating and updating IDA’s costs under the MDRI as well as the expected accounting treatment in IDA’s financial statements.
15. Participants discussed the process for confirming the eligibility of each HIPC country under the MDRI. They agreed that the standards used at HIPC completion point provided adequate conditionality, including on governance, accountability, and transparency. For the benefits of the MDRI to fully materialize, MDRI recipients will need to maintain sound performance standards, including in the areas of governance and public expenditure management, to ensure that savings from debt relief and other development resources are used productively for social and economic development. They noted that the MDRI provides an opportunity for substantial progress and urged beneficiary countries to make maximum use of that opportunity. Some participants requested monitoring by the World Bank of fiscal and financial management standards in recipient countries, to ensure that beneficiary countries achieve the intended development benefits.
16. Participants noted that the MDRI will give beneficiary countries an opportunity to reduce debt payments very substantially and secure additional resource flows to help countries attain their MDGs. They pointed out that trade liberalization could make a substantial

⁸ *By April 2006, the Executive Directors of IDA are expected to consider a staff report on the final list of countries potentially eligible for assistance under the HIPC Initiative.*

contribution to ensuring that the economic potential of debt cancellation be realized. They also noted that the economic space opened up by debt cancellation will need to be carefully and responsibly managed, especially with respect to the future accumulation of debt. If post-relief borrowing took place from non-concessional sources, debt levels could soon again become unsustainable. At the request of IDA Deputies, considerable work has already been done in this area and a related paper focusing on “free-riding” behavior in the context of IDA14 grants has been issued for discussion by the Executive Directors in mid-March 2006.⁹ Participants noted that the MDRI would amplify these free-riding issues and therefore attached great importance to the analytical work which the Bank is undertaking in this respect. Participants requested that the analytical work would, inter alia, consider mechanisms for monitoring future debt accumulation, including through loans from other IFIs, export credit agencies and other bilateral sources, and identify possible options to deal with free-riding issues.

IV. FINANCING ARRANGEMENTS

A. Description of the Contribution Process

17. Participants agreed that the additional resources from donors for financing IDA's cost of providing debt relief under the MDRI will be added to IDA's resources following broadly the established procedures for regular IDA replenishments. Therefore, donors will contribute to a separate increase in resources to finance debt relief costs.
18. Following the procedures used in regular IDA replenishments, Participants agreed that donors will contribute to this increase in resources by submitting one or more Instruments of Commitment (IoC) to IDA for their compensatory contributions under the MDRI. In view of the long-term nature of the financing commitments required, the Instrument of Commitment would be amended over time to reflect updated cost estimates as well as additional donor commitments as these become available. Under a resolution of IDA's Board of Governors (see Annex 3), donors will, as in past replenishments, be able to provide for their subscriptions and contributions as Unqualified Commitments. In addition, when needed, a “Qualified Commitment” could also be provided. In regular replenishments of IDA, a Qualified Commitment has been subject only to the adoption of the necessary

⁹ *IDA Countries and Non-Concessional Debt: Dealing with the 'Free Rider' Problem in the Context of IDA Grants, IDA/SecM2006-0053, February 16, 2006.*

appropriation legislation. In view of the long-term nature of donors' commitments under the MDRI and the pattern of foregone reflows which peak after about 20 years, a Qualified Commitment under this replenishment may, on an exceptional basis, be subject to necessary parliamentary or legislative approvals. For such Qualified Commitments, donors undertake to exercise their best efforts to obtain such parliamentary or legislative approvals for the full amount of the subscription and contribution.

19. Participants agreed that the financing of IDA's debt relief costs under the MDRI could be secured over three time periods so as to reflect legislative and other constraints of different donors. Participants noted that the bulk of the financing required will be for costs during the third time period.
- (a) Remaining IDA14 period (FY07–08). It will be critical to provide an Unqualified Commitment for subscriptions and contributions in FY07 and FY08.¹⁰ Participants recognized that IDA's commitment authority depends on these resources being provided on time to maintain the volume of IDA14 commitment authority approved by the Executive Directors in June 2005¹¹— i.e., the resources allocated to IDA countries over FY07 and FY08.
 - (b) Remainder of the first decade (FY09–FY16). Firm, Unqualified Commitments are also needed over this period. Participants recognized that some donors would require periodic approval of their contributions over this period, resulting in the provision of some portion of Qualified Commitments.

Participants stressed the importance of receiving 100 percent of forgone credit reflows due to the MDRI for this time period. Since, under the Advance Commitment Scheme, IDA is committing credit reflows in advance of receipt, the availability of firm financing commitments until FY16 will provide assurances that resources would be available as envisaged for IDA's disbursements through 2015, which leads up to the target year for reaching the Millennium Development Goals.

¹⁰ It might be possible for some donors to apply resources made available through acceleration of encashment of their regular contributions under the IDA13 and IDA14 replenishments, in order to fulfill their obligations under this first phase of the IoC.

¹¹ IDA14 Commitment Authority Framework (FY06–FY08), IDA/R2005-0133, June 8, 2005.

Participants encouraged IDA's donors to take all necessary steps in successive replenishments to provide firm financing on a rolling basis. This would support IDA's Advance Commitment Scheme and maintain IDA's commitment authority in future replenishments. Participants also requested IDA Management to explore other options to maximize the flexibility of IDA's financing framework to ensure that IDA's commitment authority is not impaired, even if less than 100 percent of unqualified financing commitments will be available over the first decade.

- (c) Subsequent 3 decades (FY17–FY44). Participants acknowledged the indications from a number of donors that legislative processes are underway to authorize commitments over the subsequent 3 decades. They also discussed the challenges of securing parliamentary or legislative approvals for contributions that span such long periods. They invited donors to provide firm commitments, recognizing that many donors would be able to provide Qualified Commitments only.

Participants welcomed that various donors had stated an intention to provide governmental approval for the full 40 years. A number of donors noted that there were legislative constraints on their governments' capacity to make firm financial commitments over such a long-term period. Despite these different circumstances, Participants expressed their strong commitment to the Initiative; they pledged to make every effort possible to translate donors' full political commitment for these outer years into as firm and far-reaching financial commitments as their country systems would allow.

- 20. Participants agreed that, due to the long-term nature of the commitments undertaken by IDA donors, each member's IoCs will provide confirmation that all necessary approvals have been obtained for the amounts committed, except for necessary parliamentary or legislative approvals in respect of Qualified Commitments, and that the IoC constitutes a binding obligation of the member country in accordance with the terms of the Resolution. Table A illustrates the estimated compensation schedule for IDA's donors, broken down into the three time periods. IDA's forgone reflows under the MDRI are denominated in SDRs. Contributions for each individual donor in national currency will depend on burden shares and foreign exchange reference rates agreed by the donors.
- 21. As the cost of IDA's debt relief provided under the MDRI will fluctuate over the 40 year period, the financing arrangements include a mechanism to adjust the amounts payable, over time. The final amount

of IDA's costs, and thus the final amount of debt relief contributions, will depend on the timing of HIPC countries reaching their completion points; the foreign exchange reference rates to be agreed under future IDA replenishments to determine donor contributions in national currencies; and the USD volume—as well as the SDR valuation—of future debt relief to be provided under the Enhanced HIPC Initiative.

22. Initially, donors will be asked to deposit one or more IoCs in an amount determined based on currently available cost estimates. Every 3 years, normally in conjunction with regular IDA replenishments, modifications to future amounts in the payment schedules under the IoC would be made to reflect updated cost estimates. The revised payment schedules would be based on each donor's commitment to cover a specific burden share of the total costs. In addition, recognizing that a donor may not initially be able to provide Unqualified Commitments or Qualified Commitments over the full 40 year period, the Instrument of Commitment could also be amended periodically to include additional commitments which would progressively reflect the donor's full share of the financing over time. Therefore, donors' financing commitments will be subject to adjustment to provide the agreed principle of full financing of IDA's costs under the MDRI.

Table A: Compensation Schedule for IDA Donors (SDR million)

Period/Fiscal Year	Estimated Costs
(a) Remaining IDA14 Period	
FY07	235
FY08	<u>311</u>
Subtotal	546
(b) Remainder of First Decade	
FY09	351
FY10	412
FY11	507
FY12	600
FY13	659
FY14	696
FY15	729
FY16	<u>767</u>
Subtotal	4,721
(c) Subsequent 3 Decades	
FY17–44	19,529
Total Costs, FY07–44	24,796

Source: IDA staff estimates.

B. Use of IDA13 Burden Shares

23. There was broad agreement on the use of the IDA13 burden-sharing framework as a basis for the increase in resources for the MDRI. In IDA13, the G-8 countries' burden shares collectively accounted for 70.19 percent of donor resources. Participants also agreed that the structural gap in IDA13 of 9.39 percent should be closed to achieve full financing of IDA's MDRI costs. With regard to the structural gap for the IDA14 period, most Deputies agreed to scale up their basic burden shares proportionately to cover their share of the gap. Individual G-8 countries also declared their readiness to help fill any remaining structural gap during that period. For the period after IDA14, Participants considered as well whether to scale up donor shares proportionally so as to close the structural gap. They agreed that further discussions would be held amongst donors on whether this should be achieved through additional contributions or from other sources of income. The burden-sharing framework may be reviewed by donors periodically, in conjunction with regular IDA replenishments.

C. Effectiveness of the Increase in Resources for Debt Relief Costs

24. Participants discussed the effectiveness thresholds for the addition of donor resources to finance IDA's debt relief costs under the MDRI. They agreed that debt cancellation be made subject to effectiveness of the increase in resources for debt relief costs. The purpose of such a condition would be to provide assurance when debt cancellation is implemented that most donor financing is in place to finance IDA's share.
25. Under IDA13 and IDA14, the effectiveness threshold was set at 60 percent of total donor contributions, to be provided through Unqualified and Qualified Commitments. Participants agreed to maintain this established threshold for the increase in resources for debt relief costs under the MDRI. The 60 percent effectiveness threshold will apply towards the estimated costs of debt cancellation for the 18 completion point HIPC countries that are expected to qualify as of July 1, 2006 (SDR 17,390 million¹²).¹³ Nevertheless donors will continue to provide financing commitments for debt relief costs, with a view to providing

¹² See the table in Annex 2.2 for details on IDA's estimated MDRI costs by group of HIPC countries.

¹³ This recognizes that donors are undertaking legislative or other government decision-making processes to make appropriate unqualified or qualified commitments, and that for some these processes may take additional time.

IoCs, by IDA15, for at least 60 percent of total projected costs of IDA for all of the 42 countries that are expected to qualify for debt relief over time (SDR 24,796 million). This would constitute a priority item on the agenda for the IDA15 discussions in 2007.

26. In addition, to allow for predictability in operational planning during the remainder of the IDA14 period, Participants recommended that at least 75 percent of donor contributions received for IDA's total projected costs in FY07 and FY08 (SDR 546 million) should be Unqualified Commitments before declaring the new increase in resources effective.
27. Table B illustrates the current status of indicative pledges received from donors for financing of the MDRI (see Annex 2.4 and 2.5 for details). These pledges take into account the legislative constraints that many donors face on their government's capacity to make firm financial commitments now respecting the latter three decades of the MDRI (FY17–FY44). Participants reaffirmed, however, their universal commitment to full financing based on as firm and far-reaching financial commitments for these outer years as country systems would permit.
28. The target date for the effectiveness of the increase in resources for debt relief costs is May 31, 2006.

D. Payment, Encashment, and Applicable Foreign Exchange Rates

29. Participants agreed that the contribution and payment arrangements for donors and non-donors will follow normal practices used in regular IDA replenishments. *Donors* will provide their contributions in the form of cash or promissory notes, in accordance with a payment schedule to be attached to the IoC. In general, payments will be due on January 15 of each year. Adjustments in the amounts due on each payment date will be made, normally at the time of a regular IDA replenishment, to reflect updated cost estimates. Subscription and payment arrangements for *non-donors* will allow for payment in three installments over a 40-year period. Similar adjustments will also be made to the amounts of these subscriptions over time.
30. The payment schedule attached to the IoC corresponds to an encashment schedule reflecting the timing of IDA's forgone credit reflows. The timing of encashments affects IDA's resource base. Donors may, with the agreement of IDA Management, adjust their payment schedule to reflect their legal and budgetary requirements and can indicate any special preferences in this regard to IDA Management when

Table B: Summary of Indicative Donor Pledges

Financing indications from IDA donors	Remaining IDA14 Period (FY07-08)		Remainder of First Decade (FY09-16)		Subsequent 3 Decades (FY17-44)		Total MDRI Costs (FY07-44)		Costs for 18 CP HPCs (FY07-44)	
	SDRm	in %	SDRm	in %	SDRm	in %	SDRm	in %	SDRm	in %
Firm Financing Qualified	427	78.1%	1,948	41.3%	82	0.4%	2,456	9.9%	2,456	14.1%
Financing	113	20.6%	1,515	32.1%	11,179	57.2%	12,807	51.6%	12,807	73.6%
Subtotal	539	98.7%	3,462	73.3%	11,261	57.7%	15,263	61.6%	15,263	87.8%
To be committed	7	1.3%	1,259	26.7%	8,267	42.3%	9,534	38.4%	2,127	12.2%
Total	546	100.0%	4,721	100.0%	19,529	100.0%	24,796	100.0%	17,390	100.0%

depositing their IoC. In exceptional cases, should unavoidable delays occur, the amount due from the affected donor would be adjusted to take into account any past payment delays by that donor and any related lost income to IDA. As is the case with regular donor contributions to IDA replenishments, IDA may also agree with any member on a revised payment schedule that yields at least an equivalent value to IDA.

31. Contributions will be denominated in national currencies, in SDRs, or, with the approval of IDA, in any convertible currency of another member country. For Unqualified Commitments, the specific currency of payment for each donor contribution will be determined as of the date of conclusion of the Deputies discussions (December 7, 2005) for MDRI compensation. This is necessary for IDA to be able to minimize its foreign exchange exposure by hedging donor contributions as soon as the increase in IDA's resources under the MDRI becomes effective. To help maintain the value of contributions from donors with high inflation rates, contributions from donors with a domestic annual inflation of 10 percent or higher in 2002–2004 will be denominated in SDRs; this would be reassessed every 3 years, normally at the time of a regular IDA replenishment.
32. For the purpose of establishing the equivalence of value among different currencies and the SDR, the average daily exchange rate for the period April 1, 2005, through September 30, 2005 will apply for contributions to compensate IDA for debt relief costs during the IDA14 period. Regarding the cost of debt relief arising during the IDA15 period and future replenishments periods, the foreign exchange reference rates to be agreed for these regular replenishments would normally apply.¹⁴ For donors providing an Unqualified Commitment to cover debt relief costs beyond the IDA14 period, the changing foreign exchange reference rates—combined with changes in the underlying SDR cost estimates—would lead to a modification to the national currency contributions for debt relief costs in the outer years.

E. Voting Rights

33. Following normal practices in regular IDA replenishments, voting rights will be allocated for subscriptions and contributions to finance costs associated with IDA's participation in the MDRI. In accordance with IDA's current voting rights system, each member will have the

¹⁴ *In the event of a delay of a regular replenishment of IDA, donors could establish a separate set of foreign exchange reference rates, every 3 years, which would apply for financing of the cost of debt relief.*

opportunity to maintain its relative share of voting rights in the Association (see Table 3 of the draft Resolution). Such additional voting rights will be recorded from time to time, normally at the time of the general adjustment of votes in the next regular replenishment cycle. In light of the relatively small adjustment necessary for the IDA14 period, voting rights for contributions during the IDA14 period will be recorded at the time of the IDA15 replenishment. Any updates in the amount of donor contributions to reflect current estimates of debt relief costs will also affect IDA's voting rights. Consequently, adjustments to members' voting rights will be made every three years, normally in conjunction with IDA's regular replenishments.

F. Commitment Authority

34. Participants noted that contributions made under IoCs will become available for commitment by the Association in accordance with the IDA commitment authority framework as approved by the Executive Directors. As in IDA's normal practice, contributions provided under Qualified IoCs will become available for commitment once they have become Unqualified.

G. Baseline to Establish Additionality of Donor Financing

35. Participants welcomed the introduction of a contribution baseline to establish the additionality of donor financing to IDA. They stressed the importance of such financing as additional to donors' regular financial support to IDA.
36. In IDA14, regular donor contributions amounted to SDR 10,193 million.¹⁵ In addition, donors have committed to meet the ongoing costs to IDA over time from grants and from the Enhanced HIPC Initiative. Implementing this commitment for the period covered by IDA14, donors agreed to provide SDR 1,160 million for HIPC compensation during IDA14 and SDR 470 million to cover forgone charges due to IDA13 grants.¹⁶

¹⁵ Donors also provided SDR 495 million of supplemental, incentive, and accelerated contributions in IDA14.

¹⁶ Financing of forgone charges on IDA13 grants was a one-off cost item for donors. Starting in IDA14, donors agreed that IDA recover forgone charges due to IDA grants through a volume discount on grants. Donors also committed to compensate IDA for forgone principal reflows due to the making of grants in IDA13 and IDA14. In view of the 10-year grace periods on IDA credits, forgone principal reflows due to grants made in the IDA13 period (FY03–05) would start by FY13, which falls into the IDA16 period (FY12–14).

37. With the contribution baseline set with reference to IDA14 regular contributions and assuming an inflation rate of 2.0 percent per annum for the SDR basket of currencies, regular contributions in IDA15 would increase by 6.12 percent over each donor's regular contribution to IDA14 in SDR terms. This would lead to an aggregate contribution baseline for regular contributions of SDR 10,817 million in IDA15. That amount would continue to increase by the SDR inflation rate for subsequent replenishments. The actual SDR inflation rate over the preceding 3 years would be used to determine the baseline volume of regular contributions in each future replenishment.
38. Participants agreed that compensatory financing of IDA's forgone credit reflows due to the MDRI will be additional to this contribution baseline. The financing framework of future replenishments will also include the previously agreed special financing items referred to above, viz., compensation for IDA's HIPC-related costs and financing of forgone principal reflows due to IDA grants.
39. The agreed contribution baseline would be indicative in nature and intended to demonstrate transparently the delivery by donors on their strong commitment to the additionality of debt relief financing. The aggregate level of successive IDA replenishments will ultimately depend on each member's sovereign decision on its future contributions to regular IDA replenishments. The agreed contribution baseline will provide a basis for mutual accountability among donors, and an important public signal of donors' commitment to ensure debt relief financing as clearly additional to regular contributions.

H. Monitoring of Donor Contributions

40. Participants agreed that there should be ongoing monitoring of donor contributions to the MDRI. For transparency, donor contributions will be recorded separately from regular IDA replenishment contributions, as additional to donors' normal financial support to IDA. Contributions for debt relief compensation will be monitored and reported regularly in IDA's financial statements, which will contain information on the volume of debt relief delivered and the amount of compensatory donor resources received under the MDRI.
41. The monitoring will be carried out against the amount of donor contributions required based on the political commitment for full financing of IDA's costs over the entire duration of the MDRI. Tables 2a and 2b of the draft Resolution show the increase in IDA's resources, assuming the application of basic IDA13 burden shares for the period after IDA14 for most donors. A number of donors indicated their intention

to apply their scaled-up IDA13 burden shares for the 40-year period, while others did not (see also Annex 2.4 and 2.5 for the current status of indicative financing pledges).

V. CONCLUSIONS AND RECOMMENDATION

42. Participants reaffirmed their commitment to the MDRI and its objective of assisting poor countries in achieving the MDGs. Participants also reiterated the view that IDA's central role in development assistance should be sustained and enhanced, and that its financial strength should be preserved. They concluded that debt cancellation under the MDRI, appropriately financed, would enhance IDA's contribution to development, and recommended that IDA proceed with the debt cancellation on the basis of full financing of IDA's debt relief costs over time. In particular, they emphasized the importance of securing financing commitments covering at least 60 percent of MDRI costs for all eligible HIPC countries by IDA15; progress to that end would be the first order of business for the IDA15 discussions. They affirmed their unanimous commitment to provide MDRI financing additional to donors' regular support to IDA in real terms with IDA14 as the baseline, and they emphasized that this commitment should be sustained over the entire 40-year period of IDA's forgone credit reflows.
43. On this basis, Deputies proposed that the Executive Directors recommend to the Board of Governors the adoption of the draft resolution. . .¹ to increase IDA's resources.

(This report was approved and its recommendation was adopted by the Board of Governors on April 21, 2006)

¹See page 211.

REPORTS OF THE BOARD OF DIRECTORS OF MIGA

May 8, 2006

Czech Republic: Proposed Reclassification of the Czech Republic from a Category Two Member Country to a Category One Member Country

1. The Czech Republic, as one of the successor states to the rights and obligations of the former Czech and Slovak Federal Republic (Czechoslovakia), became a member of the Multilateral Investment Guarantee Agency (“MIGA”) effective January 1, 1993.
2. For the purposes of the MIGA Convention, the Czech Republic was, and is presently classified as a Category Two member country. By letter dated April 13, 2005, the Government of the Czech Republic has requested MIGA to reclassify the Czech Republic from a Category Two member country to a Category One member country.
3. Subsection (vi) of Article 31 of the Convention vests in the Council of Governors the power to reclassify a member of the Agency as a Category One or a Category Two country. There are no objective parameters to classify a country as Category One or Category Two. Since the establishment of MIGA, four countries (Greece, Portugal, Slovenia, and Spain) have been reclassified from Category Two to Category One and one country (South Africa) has been reclassified from Category One to Category Two.
4. As a Category Two member country and having exercised the option contemplated in Article 8(a) of the Convention, the Czech Republic paid twenty-five percent of the paid-in cash portion of its capital subscription (equivalent of US\$120,373.00) in its local currency. As a Category One country, the Czech Republic will be required to substitute the equivalent amount in a freely usable currency.
5. Accordingly, the Board of Directors recommend that the Council of Governors adopt the proposed resolution. . .¹ reclassifying the Czech Republic as a Category One member country and asking the Czech Republic to substitute a freely usable currency for the twenty-five percent of the paid-in cash portion of the capital subscription it originally paid in local currency.

(This report was approved and its recommendation was adopted by the Council of Governors on June 20, 2006)

¹ See page 227.

July 5, 2006

2006 REGULAR ELECTION OF DIRECTORS

1. Resolution No. 68, adopted by the Council of Governors on August 18, 2004, provides that a Regular Election of Directors shall take place in connection with the 2006 Annual Meeting of the Council of Governors. It is proposed that this Regular Election be conducted by rapid means of communication so as to conclude a reasonable time in advance of November 1, 2006, when the term of office of the elected Directors shall commence.
2. Since the 2004 Regular Election of Directors, three Category Two countries (Antigua and Barbuda, Maldives and Solomon Islands) completed all of their membership requirements.
3. The Report of the Ad Hoc Committee on the Rules for the 2004 Regular Election of MIGA Directors stated once again in paragraph 3 that:

The Committee expressed the view, as reflected in the Report of the Board of Directors, that at a time when membership in MIGA became equivalent to that of the Bank (International Bank for Reconstruction and Development), the MIGA Board of Directors would become identical in size and composition with that of the Board of Executive Directors of the Bank and would be based on the same principles of preserving a broad geographic pattern of representation and of allowing all major groups of countries to be represented.
4. The Board is now composed of 24 Directors, representing roughly the same constituencies as in the Bank; these Directors represent 164 MIGA member countries (as opposed to 184 IBRD, 165 IDA and 178 IFC member countries), while, as stated in paragraph 2 above, at least another three member countries will participate in the upcoming election.
5. This increase in membership since 2004 indicates that efforts should continue toward achieving homogeneity among the Boards of MIGA and the other institutions of the World Bank Group. Moreover, the number of common issues being dealt with by the Executive Directors/Directors of the World Bank Group institutions have continued to increase in number and complexity.
6. In view of these developments and noting that Article 2 of the MIGA Convention mandates the Agency to complement the activities of other members of the World Bank Group, the Board of Directors makes the following recommendations.

Recommendations

A. Size of the Board

7. The Board of Directors recommends that the number of Directors remain at its present twenty-four.

B. Composition of the Board

8. The Board of Directors urges the Governors to form, as closely as possible, the same constituencies in the MIGA Board of Directors as those for the Boards of other World Bank Group institutions.
9. During the informal meeting held on May 20, 1991, it was the consensus of Directors that, beginning with the 1992 Election of Directors, Governors should be urged to nominate candidates based in Washington, D.C., and all Governors complied with this suggestion in the 1992, 1994, 1996, 1998, 2000, 2002, and 2004 Regular Elections. It is again recommended that Governors be urged to nominate the same persons as Directors of MIGA as those nominated to the Boards of the other World Bank Group institutions.
10. It is further recommended that Directors, particularly those elected by more than one Governor, appoint the same persons as Alternate Directors of MIGA as those appointed to be Alternate Executive Directors/Alternate Directors to the Boards of the other World Bank Group institutions.

C. Term of Office

11. Article 32(c) of the Convention and Section 10 of the Bylaws provide that the Council of Governors shall determine the term of office of the Directors. It is desirable that the term of office of MIGA's Directors should coincide with those of the Boards of the other World Bank Group institutions to facilitate elections of persons holding positions on these boards. Thus, the Board of Directors recommends that the Council continue this practice. It is also recommended that the 2006 Regular Election of Directors be held by requesting nominations and conducting ballots by rapid means of communication so as to conclude a reasonable time in advance of November 1, 2006, when the term of office of the elected Directors shall commence.

D. Maximum and Minimum Percentages of Votes Applicable to the Election

12. For the purpose of Schedule B to the MIGA Convention, paragraph 9 of the Rules for the 2004 Regular Election of Directors set the

maximum and minimum percentages of voting power applicable to the 2004 Regular Election at 15 and 3, respectively, of eligible votes. These percentages appear appropriate for the election of the number of Directors to be recommended in the attached report, and therefore the Board of Directors recommends that they be made applicable to the 2006 Regular Election of Directors. In the unlikely event that these percentages are inappropriate due to additional new countries having become members of the Agency and subscription to additional shares prior to the 2006 Regular Election, the Council of Governors could modify them before the start of the election.

13. On October 3, 2004, the Council of Governors adopted Resolution No. 70 entitled “Parity of Voting Power in MIGA” so that the aggregate number of votes of Category One members would be the same as the aggregate number of votes of the Category Two members as required by Article 39 of the Convention. Therefore, a member country’s vote is calculated on the basis of its membership votes plus its subscription votes plus the parity votes.
14. A new provision has been added to the attached Rules for the 2006 Regular Election of Directors to address the situation where a nominee withdraws before the end of the election period, but after the nomination period has been closed. In such cases, the Secretary shall inform all Governors eligible to vote of such withdrawal and invite them to submit nominations by rapid means of communication within the new prescribed period. At the end of this nomination period, the Secretary shall circulate a new list of candidates by rapid means of communication to all Governors eligible to vote with an invitation to vote through similar channels before the end of the balloting period.
15. The Board of Directors recommends that the subsequent Regular Election of Directors take place in connection with the Annual Meeting of the Council of Governors in 2008.
16. Accordingly, the Board of Directors recommends that the Council of Governors adopt the draft resolution. . .¹ and Rules for the 2006 Regular Election of Directors embodying the above recommendations.

(This report was approved and its recommendation was adopted by the Council of Governors on August 3, 2006)

¹See page 228.

RULES FOR THE 2006 REGULAR ELECTION OF DIRECTORS

DEFINITIONS

1. In these Rules, unless the context shall otherwise require,
 - (a) “Convention” means the Convention establishing the Agency.
 - (b) “Council” means the Council of Governors of the Agency.
 - (c) “Chairman” means the Chairman of the Council or a Vice Chairman acting as Chairman.
 - (d) “Governor” includes the Alternate Governor or any temporary Alternate Governor, when acting for the Governor.
 - (e) “Secretary” means the Corporate Secretary or any acting Corporate Secretary of the Agency.
 - (f) “Election” means the 2006 Regular Election of Directors.
 - (g) “Eligible votes” means the total number of votes that can be cast in the election of the Directors to be elected pursuant to the provisions of paragraphs 6 to 11 of Schedule B to the Convention.
2. All actions taken under these Rules, including communications by the Secretary and the Chairman and nominations and balloting by the Governors, may be taken by rapid means of communication.

TIMING OF ELECTION

3. The 2006 election shall be held by requesting nominations and conducting ballots so as to conclude a reasonable time in advance of November 1, 2006, when the term of office of the elected Directors shall commence.

BASIC RULES—SCHEDULE B

4. The provisions of Schedule B of the Convention shall apply to the conduct of the election. For this purpose:
 - (a) Twenty-four Directors shall be elected.
 - (b) Six Directors shall be elected separately, one each by the Governors of the six members having the largest number of shares. The person nominated by each of the said Governors shall be deemed to be elected upon being so nominated.
 - (c) The Directors not elected separately pursuant to paragraph 4(b) above shall be elected in accordance with the rules in paragraphs 5 through 12 below.

SUPERVISION OF THE ELECTION

5. The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.

NOMINATIONS

6. (a) The Secretary shall request nominations from Governors during a suitable period specified by the Secretary. As noted in the Report of the Board of Directors to the Council of Governors dated July 5, 2006, Governors are urged to nominate the same persons as the Directors of MIGA as those elected to the Boards of the other World Bank institutions, and to form the same constituencies in the MIGA Board of Directors as those in the Boards of the other World Bank Group institutions. In addition, the Directors, particularly those elected by more than one Governor, are urged to appoint the same persons as Alternate Directors of MIGA as they have in the Boards of the other World Bank institutions.
- (b) Each nomination shall be made on a nomination form furnished by the Secretary, signed by the Governor or Governors making the nomination and submitted to the Secretary.
- (c) Any person nominated by one or more Governors entitled to vote in the election shall be eligible for election as Director.
- (d) A Governor may nominate only one person.
- (e) If a nominee withdraws from the ballot after the closing date of the nomination period, but before the closing date of the ballot, the Secretary shall inform all Governors eligible to vote of such withdrawal and invite them to submit nominations of a candidate by rapid means of communication during a suitable period specified by the Secretary. At the end of the prescribed period of time for this nomination, the Secretary shall compile a new list of candidates with all individuals who were nominated by at least one Governor in either nomination period, and circulate that list by rapid means of communication to all Governors eligible to vote with an invitation to vote through similar channels before the end of the balloting period.

BALLOTING

7. (a) Upon the closing of nominations, the Secretary shall send to all Governors entitled to vote in the election the list of candidates for the election, together with the invitation to Governors to vote in the first ballot, and announce the deadline for receipt of ballots.
 - (b) One ballot form shall be furnished to each Governor entitled to vote. On any particular ballot, only ballot forms distributed for that ballot shall be counted.
8. Each ballot shall be taken as follows:
 - (a) Ballots shall be conducted by deposit of ballot forms, signed by Governors eligible to vote, with the Secretary. The first ballot shall take place after the close of nominations concluding no later than the first day of the 2006 Annual Meeting of the Council of Governors.

- (b) When a ballot shall have been completed, the Secretary shall cause the ballots to be counted and, as soon as practicable after the tellers have completed their tally of the ballots, shall announce the names of the persons elected. If a succeeding ballot is necessary, the Secretary shall announce the names of nominees to be voted on, the members whose Governors are eligible to vote, and the time period for balloting.
 - (c) If the tellers shall be of the opinion that any particular ballot is not properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before tallying the results; and such ballot, if so corrected, shall be deemed to be valid.
9. For the purposes of paragraph 6 of Schedule B to the Convention, the following percentages of total votes are decided, namely, a maximum of 15 percent of eligible votes and a minimum of 3 percent of eligible votes.

ANNOUNCEMENT OF THE RESULT

10. After the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.

EFFECTIVE DATE OF ELECTION

11. The effective date of the election shall be November 1, 2006, and the term of office of the elected Directors shall commence on that date. Incumbent elected Directors shall serve through the day preceding such date.

GENERAL

12. 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 Council. Whenever possible, any such questions shall be put without identifying the members or Governors concerned.

**MULTILATERAL INVESTMENT GUARANTEE AGENCY
2006 REGULAR ELECTION OF DIRECTORS
STATEMENT OF RESULTS OF ELECTION,
SEPTEMBER 19, 2006**

Directors elected separately by the Governors of the six member countries having the largest number of shares:

Candidate Elected	Members Whose Votes Counted Toward Election	Total Votes
Jennifer DORN	United States	32,830
Makoto HOSOMI	Japan	9,245
Eckhard DEUTSCHER	Germany	9,202
Pierre DUQUESNE	France	8,831
Tom SCHOLAR	United Kingdom	8,831
ZOU Jiayi	China	5,796

Directors elected by the Governors of member countries other than those listed above:

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Svein AASS			8,094
	Denmark	1,531	
	Estonia	381	
	Finland	1,323	
	Iceland	356	
	Latvia	437	
	Lithuania	453	
	Norway	1,498	
	Sweden	2,115	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Abdulrahman M. ALMOFADHI	Saudi Arabia	5,794	5,794
Gino ALZETTA	Austria	1,632	11,571
	Belarus	499	
	Belgium	3,843	
	Czech Republic	1,050	
	Hungary	1,260	
	Kazakhstan	634	
	Luxembourg	470	
	Slovak Republic	657	
	Slovenia	446	
	Turkey	1,080	
Felix Alberto CAMARASA	Argentina	2,476	5,881
	Bolivia	486	
	Chile	1,121	
	Paraguay	407	
	Peru	923	
	Uruguay	468	
Otaviano CANUTO	Brazil	2,872	
	Colombia	1,036	
	Dominican Republic	413	
	Ecuador	587	
	Haiti	341	
	Panama	497	
	Philippines	750	
	Trinidad and Tobago	624	
Joong-Kyung CHOI	Australia	3,285	7,038
	Cambodia	430	
	Korea, Republic of	1,057	
	Micronesia, Fed. States of	316	
	Mongolia	324	
	Palau	316	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
	Papua New Guinea	362	
	Samoa	316	
	Solomon Islands	316	
	Vanuatu	316	
Mat Aron DERAMAN		6,652	
	Fiji	337	
	Indonesia	2,115	
	Lao People's Dem. Rep.	326	
	Malaysia	1,286	
	Nepal	388	
	Singapore	538	
	Thailand	1,008	
	Vietnam	654	
Jorge FAMILIAR			6,380
	Costa Rica	472	
	El Salvador	388	
	Guatemala	406	
	Honduras	444	
	Nicaragua	446	
	Spain	2,531	
	Venezuela, Rep. Bolivariana de	1,693	
Merza H. HASAN			8,310
	Bahrain	402	
	Egypt, Arab Republic of	1,075	
	Jordan	437	
	Kuwait	1,905	
	Lebanon	516	
	Libya	815	
	Maldives	316	
	Oman	432	
	Qatar	507	
	Syrian Arab Republic	562	
	United Arab Emirates	922	
	Yemen, Republic of	421	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Mulu KETSELA			11,218
	Angola	453	
	Botswana	354	
	Burundi	340	
	Ethiopia	389	
	Gambia, The	316	
	Kenya	569	
	Lesotho	354	
	Malawi	343	
	Mozambique	437	
	Namibia	373	
	Nigeria	1,753	
	Seychelles	316	
	Sierra Leone	398	
	South Africa	1,928	
	Sudan	472	
	Swaziland	324	
	Tanzania	514	
	Uganda	499	
	Zambia	584	
	Zimbabwe	502	
Dhanendra KUMAR			7,246
	Bangladesh	865	
	India	5,637	
	Sri Lanka	744	
Alexey KVASOV			5,794
	Russian Federation	5,794	
Giovanni MAJNONI			8,016
	Albania	368	
	Greece	759	
	Italy	5,236	
	Malta	398	
	Portugal	939	
	Timor-Leste	316	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Michel MORDASINI			6,449
	Azerbaijan	381	
	Kyrgyz Republic	343	
	Poland	1,030	
	Serbia	673	
	Switzerland	2,909	
	Tajikistan	340	
	Turkmenistan	332	
	Uzbekistan	441	
Louis Philippe ONG SENG			8,195
	Benin	374	
	Burkina Faso	327	
	Cameroon	373	
	Cape Verde	316	
	Central African Republic	326	
	Chad	326	
	Congo, Dem. Rep. of	862	
	Congo, Republic of	381	
	Cote d'Ivoire	576	
	Equatorial Guinea	316	
	Gabon	435	
	Guinea	357	
	Guinea-Bissau	316	
	Madagascar	442	
	Mali	409	
	Mauritania	377	
	Mauritius	419	
	Rwanda	398	
	Senegal	522	
	Togo	343	
Shuja SHAH			7,266
	Afghanistan	384	
	Algeria	1,410	
	Ghana	698	
	Iran, Islamic Republic of	1,925	
	Morocco	879	
	Pakistan	1,429	
	Tunisia	541	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Samy WATSON			10,496
	Antigua and Barbuda	316	
	Bahamas, The	442	
	Barbados	386	
	Belize	354	
	Canada	5,491	
	Dominica	316	
	Grenada	316	
	Guyana	350	
	Ireland	916	
	Jamaica	585	
	St. Kitts and Nevis	316	
	St. Lucia	354	
	St. Vincent and the Grenadines	354	
Herman WIJFFELS			11,784
	Armenia	346	
	Bosnia and Herzegovina	346	
	Bulgaria	909	
	Croatia	596	
	Cyprus	449	
	Georgia	377	
	Israel	1,101	
	Macedonia, FYR	354	
	Moldova	362	
	Netherlands	4,088	
	Romania	1,244	
	Ukraine	1,612	
Total Number of Members Voted 166			218,039

_____/s/
Cedric Nicolas Crelo (Luxembourg)
Teller

_____/s/_____
Antonio Fernando Laice
(Mozambique)
Teller

ACCREDITED MEMBERS OF THE DELEGATIONS AT THE 2006 ANNUAL MEETINGS

Afghanistan

Governor

Anwar ul-Haq Ahady

Alternate Governor

Wahidullah Shahrani

Adviser

Paul Banerjee
Abdul Qadeer Fitrat
Narendra Jadhav
Lisa Pinsley

Albania

Governor

Ridvan Bode

Alternate Governor

Fatos Ibrahim

Adviser

Gramoz Kolasi
Genci Mamani

Algeria

Governor

Mourad Medelci

Alternate Governor

Abdelhak Bedjaoui

Adviser

Hadji Babaammi
Sid Ahmed Dib
Soraya Mellali

Angola

Governor

Antonio Gomes Furtado

Alternate Governor

Antonio Manuel Ramos Da Cruz

Adviser

Alcino Izata Conceicao

Antigua and Barbuda #

Governor

Errol Cort

Alternate Governor

Whitfield Harris

Argentina

Alternate Governor

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Gerardo M. Hita*
Oscar Tangelson*

Adviser

Felix Alberto Camarasa
Alfredo Vicente Chiaradia
Alieto Guadagni
Federico Molina

Armenia

Governor

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Australia

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Roger Brake
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Nicolas Keith Brown
Penelope-Ann Burtt
Michael J. Callaghan
Philippa Campbell

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Not a member of IDA

Mark Carroll
Merylin Coombs
Scott Dawson
Ricky Andrew Deverell
Simon Duggan
Deborah Eban
Amanda Fitzpatrick
Philip Gaetjens
Carla Giuca
Yvonne Grawert
Richard Griffin
Andria Hutchins
Miles Kupa
Avryl Lattin
Michael Mann
Andrew Martin
Kirsty McNichol
Terrence K. O'Brien
Kelly Odwyer
Charmaine Quade
Jasmin Seah
Fiona Smith
Christopher Tinning
Charmaine Toh

Austria

Governor
Thomas Wieser

Alternate Governor
Konstantin Huber

Adviser
Norbert Feldhofer
Walter Mayr

Azerbaijan

Alternate Governor
Samir Sharifov*

Adviser
Tapdyg Amiraslanov

Bahamas, The #

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James H. Smith

Alternate Governor
Ruth R. Millar

Adviser
Jerry Butler
Michael Halkitis
Simon D. Wilson

Bahrain #

Governor
Ahmed Bin Mohammed Al-Khalifa

Adviser
Rima Al-Kilani
Salman Al Khalifa
Jane Dellar
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Mohammad S. Islam
Mohammad Sarwar Mahmood
Kazi Nurun Nabi
Noor-e-Helal Saifur Rahman
Abdus Salam Sarker
Yasmin Sultana

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Lejla Simon
Ljubisa Vladusic

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Baledzi Gaolathe

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Ontefetse Kenneth Matambo
Kelapile Ndobano
Peggy Onkutlwile Serame

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Ricardo de Moraes Monteiro
Alvaro Luiz Vereda Oliveira
Augusto Brauna Pinheiro
Cicero Figueiredo Pontes
Sergio Savino Portugal
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Alexandre P. Rego
Tatiana Rosito
Paulo Fontoura Valle

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Nurliati Idris
Nuralia Rahim
Zakaria Serudin

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Plamen Oresharski

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Gergana Beremska
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Svetlana Dimitrova Panova

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Lassane Kabore
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Venant Kamana
Mathias Sinamenye

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Phalla Phan
Bun Vuth Sieng
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Ana Marija Holzer Werft
Bozidar Kalmeta
Anton Kovacev
Zdravko Maric
Hrvoje Radovanic
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Petr Pavelek
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Mohamed A. Elzorkany
Mohamed Zaazou

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Woldai Futur

Estonia #

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Kersti Kasak
Riina Laigo
Madis Muller
Martin Poder
Aet Sallaste

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Sufian Ahmed

Adviser
Habba Haaleo Addisu
Bekalu Zeleke Ewunetu
Newyaychristos Gebreab
Seife Desta Haile
Mulu Ketsela
Fiseha Aberra Kidane
Abie Sano
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Anne Hautamaki-Huuki
Inkeri Hirvensalo
Satu Huber
Pekka Hukka
Pauli Kariniemi
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Ari-Pekka Latti
Risto Rekola
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Clelia Chevrier
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Olivier Georges Ma Cuny
Aude de Amorim
Jean-Marie Demange
Alain Demarolle
Bertrand Marie J. Dumont
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Pierre Jacquet
Jean-Pierre Jouyet
Alexis Kohler
Jean-Sebastien Lamontagne
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Gilles Mentre
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Regis Pelissier
Vincent Perrin
Reynold Prevost de la Boutetiere
Jean-Michel Severino
Jerome Walter
Pierre-Francois Weber

Gabon

Governor
Casimir Oye-Mba

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Eliane Dovi Kouassigan-Bailly
Hyacinthe MOUNGUENGUI-MOUCKAGA
Jean Philippe Ndong Biyogho

Gambia, The

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Abdou B. Touray

Adviser
Serign Cham

Georgia

Governor
Aleksi Aleksishvili

Adviser
Zviad Kharebava

Germany

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Heidmarie Wiczorek-Zeul

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Eckhard Deutscher*
Gudrun Grosse Wiesmann*
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Susanne Dorasil
Martin Dorschel
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Guenter Haselier
Dorothee Heidorn
Clemens Maria Kerres
Winfried Maus
Sonja Menne-Hainz
Joachim Meyer
Michael Plessow
Gerhard Ressel
Rosel Schmidt-Rommeis
Stefanie Schneider-Mouchbahani
Heiko Schulze
Lars Selwig
Folkmar Stoecker
Kai Taenzler
Gerhard Thiedemann
Ernst Thien
Bernhard Tilemann
Thomas Tutsch
Karsten Warnecke
Heinz Wirth
Juergen Zattler

Ghana

Governor
Kwadwo Baah-Wiredu

Alternate Governor
Anthony Akoto Osei

Adviser
Regina Ohene-Darko Adutwum
Ernest Ako-Adjei
Cecilia Isabella Akwetey
Michael Ayesu
Edward Boakye-Agyeman
Drusilla Frimpong Addo

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Paul S. M. Koranteng
Kwabena Boadu Oku-Afari
Kwadjo Adjei Opere-Hammond
Yvonne Odoley Quansah

Greece

Governor
George Alogoskoufis

Alternate Governor
Plutarchos Sakellaris
Petros G. Doukas*

Adviser
Ioulia Armagou
Heleni Dendrinou-Louri
Charalambos Dimitriou
Zoi Evangelopoulou
Iakovos Georganas
Dimitrios Giannos
Tryphon Kollintzas
Emmanouela Markoglou
Efsthios Paizis-Paradellis
Konstantinos Papadopoulos
Spyros P. Papanicolaou
Loukas Papazoglou
Alexios Pilavios
Georgios Politakis
Paraskevi Protopapas
Vasileios Tokakis

Grenada

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Anthony Boatswain

Alternate Governor
Crispin Frederick

Adviser
Timothy Antoine

Guatemala

Governor
Hugo Eduardo Beteta Mendez-Ruiz

Alternate Governor
Julio Roberto Suarez

Adviser
Carlos Castillo

Guinea

Governor
Eugene Camara

Alternate Governor
Sekou Traore

Adviser
Abdoulaye Yero Balde

Guinea-Bissau

Governor
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Vasco Da Silva
Eric V. Guichard
Alfredo Paulo Mendes
Megan Sibole
Romao Lopes Varela, Jr.

Guyana

Governor
Bharrat Jagdeo

Alternate Governor
Kwabena O. Frimpong
Gobind Nauth Ganga*

Haiti

Governor
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Alternate Governor
Marie Victoire Vanette Vincent

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Honduras

Governor
Rebeca Patricia Santos Rivera

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Orlando Garner*

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Eva Lardizabal
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Governor
Janos Veres

Alternate Governor
Zsuzsanna Varga*

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Sandor Karacsony
Tamas Magda
Laszlo Takacs
Peter Vitenyi

Iceland

Alternate Governor
Baldur Gudlaugsson*
Hermann Orn Ingolfsson*
Thorsteinn Ingolfsson*

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Alternate Governor
A. K. Jha
Dhanendra Kumar*
Ashok Lahiri*
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Ajay Bisaria

Rajendiran Chinnasami
Saurabh Garg
A. K. Misra
Deepak Mohanty
Kamal Nath
Alok Prasad
Rajesh Sachdeva
Krishnan Saranyan
Raj Pratap Singh

Indonesia

Governor
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Alternate Governor
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Boediono*

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Rosmalawati Chalid
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Inarno Djajadi
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Arsi Firdausy
Erry Firmansyah
Nasri Gustaman
Edward Robert Gustely
Andin Hadiyanto
Weibinanto Halimdjati
Herwidayatmo
Hoesen
Mohamad Ikhsan
Bambang Indiarso
Muhammad Irwan
Reza Kamarullah
Yulia Kurniawan
Sahala Lumbangaol
Othaniel Lyman
Makhlani
Bambang Santoso Marsoem
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 Rabaa Ahmed Elkhalfifa
 Mohammed Elhassan Elshiekh
 Elsanousi
 Omer Ibrahim Elsayed
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Choraros Chanurai
Pongsak Chewcharat
Boonsak Chiempricha
Somporn Chitphentom
Surasak Chuasukonthip
Nattapon Dejvitak
Kanchit Kunakorn
Sukmeena Kunrapaporn
Sukuman Ladpli
Hataitait Mahasukon
Pairoj Piemongsant
Namthip Potisat
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Vanuatu

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Ukraine

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September 18, 2006

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