THE WORLD BANK GROUP

2003 Annual Meetings of the Boards of Governors

Summary Proceedings

Dubai, United Arab Emirates
September 23–24, 2003

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SUMMARY PROCEEDINGS

DUBAI, UNITED ARAB EMIRATES
SEPTEMBER 23–24, 2003

INTRODUCTORY NOTE

The 2003 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 during September 23rd and 24th, 2003 in Dubai, United Arab Emirates. The Honorable Kaspar Villiger, Governor of the Bank and the Fund for Switzerland, served as the Chairman.

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

W. Paatii Ofosu-Amaah
Vice President and Corporate Secretary
THE WORLD BANK GROUP

Washington, D.C.
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STATEMENT BY
H.H. SHEIKH HAMDAN BIN RASHID AL MAKTOUM
DEPUTY RULER OF DUBAI AND
MINISTER OF FINANCE AND INDUSTRY
UNITED ARAB EMIRATES

Your Highnesses, Mr. Chairman, Governors, Mr. Wolfensohn, Mr. Köhler, ladies, and gentlemen, I have the great honor to welcome you to the United Arab Emirates, on behalf of His Highness Sheikh Zayed bin Sultan Al Nahyan, President of the UAE; His Highness Sheikh Maktoum bin Rashid Al Maktoum, Vice-President, Prime Minister, and Ruler of Dubai; and the members of the Federal Supreme Council; on the occasion of the 2003 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund.

This gathering of representatives from the Bank and Fund's 184 members symbolizes the equality of all the peoples of the world, and underscores that the problems and challenges facing the global economy and the international financial system today are of concern to all countries and can only be addressed effectively through cooperation and if all of our voices are heard. The Annual Meetings are for the first time being convened in an Arab country, and we hope that this will be the first of many such gatherings in our part of the world. The selection of the United Arab Emirates as host for your meetings recognizes that this region is an integral part of the world economy and a key player in today's multilateral system.

The Arab world is a region of tremendous richness, diversity, and potential, bound together by close historical and cultural ties. It is one of the oldest centers of learning and tolerance, and the birthplace of many of the world's magnificent civilizations and religions. Most importantly, it is filled with talented and resourceful people who have a strong desire to contribute to the progress and prosperity of mankind. But this part of the world will not be able to realize its full economic potential until a just and permanent solution to the regional conflict is found and the international community makes a serious effort to bring peace and security to the region.

In Iraq, rays of hope are starting to emerge for a free society founded on the rule of law. A stable Iraq, at peace with itself and with its neighbors, is in the collective interest of all of us, particularly those of us in this region of the world. Iraq must once again become stable, prosperous, and a responsible partner in the international community, and the Iraqi people must be free to determine their own political future and control their own natural resources. We believe that the international community must contribute to the reconstruction of Iraq in all areas.

Moreover, the present situation in the occupied Palestinian territories is sadly marked by deteriorating living conditions and increasing social and economic despair. Without a lasting settlement that guarantees justice, peace, and security to all the peoples of the region, as well as an independent state to the Palestinian people, instability will continue to undermine economic progress in this part of the world. The international community must do its utmost to help the Palestinian people build a better future for themselves.

The United Arab Emirates has been completely transformed since its formation in 1971. A relatively undeveloped region has become, as you can see, a modern state that enjoys a high standard of living and is well integrated with the rest of the world. The UAE serves as an excellent example of what a country can accomplish if it pursues economic liberalization, creates an environment conducive to private sector activity, and preserves political and social stability. This success is a result of the government's policy of diversifying revenue sources by supporting and encouraging the non-oil sector and investments in the domestic and foreign private sectors. Our country has become a model of how to combine the technologies and advances of the western world with the traditions and values of the east. We are proud that the UAE is in many ways a melting pot of nationalities and cultures, with people from all over the world working together in harmony.

We realize that as we move forward and try to accelerate growth, we will have to diversify further our economy and export base. As part of this strategy, the government is working to create a suitable investment climate that will enable Dubai to become an international financial center as well as a popular tourist destination in the years to come. However, we recognize that we are in the early stages and that much remains to be done. We must continue to develop our infrastructure, legislation, and business climate if we are to attract additional investments and absorb our growing labor force.

In this regard, we applaud the efforts of the IMF and the World Bank and their cooperation with local institutions in the UAE, which have enabled us to benefit greatly from the experience and expertise of the two international organizations. While the United Arab Emirates is blessed with vast oil and gas reserves, we recognize that it is our citizens who are our most valuable resource and the real wealth of our country. The government has sought to develop the nation's human resources and improve living standards by providing education, health care, and equal employment opportunities for men and women. In the wise and well-known words of our president, His Highness Sheikh Zayed bin Sultan Al Nahyan, "Wealth is of no real value unless is it used to serve the people." This strategy has enabled the UAE to obtain a high ranking in the UNDP's Human Development Index.

The United Arab Emirates is deeply committed to international cooperation and continuing its support of development efforts in developing countries. The government has a well-established policy of providing assistance to developing countries in the form of grants and unrestricted development aid. It provided AED106 billion in assistance through end-2002 to a number of developing countries, of which over 75 percent was in the form of grants. The government has also provided material assistance through the Abu Dhabi Fund for Development, as well as multilateral regional and international organizations and funds, thus demonstrating its firm commitment to international cooperation.

Reducing the levels of poverty in many parts of the world remains an issue of the utmost importance. Despite the commitments made by the international community in this respect, over three billion people still live in abject poverty, earning less than two dollars a day and lacking even the barest essentials. Greater efforts to achieve development goals must be made in the new millennium, and it is disappointing to see that flows of official development assistance have been declining. It is critical that the developed countries honor their shared objective of providing 0.7 percent of their GNP as official development assistance if the Millennium Development Goal of reducing poverty by half by 2015 is to be met, along with working to reduce the debt burden.

But increased official development assistance by the advanced countries is not by itself sufficient to reduce poverty; generous technical assistance is also needed to help developing countries build their human capital. Successful and durable economic development requires not only aid, but also the empowerment of, and investment in, people so that they can make a meaningful contribution to the development of their society and realize their aspirations. For their part, developing countries have to increase investment in the education and training of their own citizens.

In this regard, we applaud the role of the World Bank in focusing its strategy on poverty reduction and we call for further efforts to increase the size of loans, credits, and private sector support in future years, while continuing efforts to achieve development goals, simplify procedures, and reduce the debt burden of the borrowing countries.

We also welcome the IMF's initiative to review the substance of reform programs, aimed at focusing on a limited number of pivotal conditions clearly linked to macroeconomic objectives, thus helping member countries adopt reform policies and improve their economic performance. This will also encourage countries to seek advice and assistance from the Fund before their problems get out of control.

No meaningful discussion of poverty reduction can take place unless it addresses the issue of trade, as a more open trading system will help poor countries achieve sustainable development. In this regard, a critical

contribution to poverty reduction can be made if the advanced economies improve market access for developing country exports and reduce trade-distorting subsidies, which cause greater hunger and poverty in developing countries throughout the world.

It was hoped that progress in this important area would be achieved during the recent meeting of the World Trade Organization in Cancun. As this did not happen, we look forward to continued negotiations and we hope that the Board of Governors will issue a positive statement on the determination of all countries to cooperate on this crucial issue.

Embracing free trade is equally important for developing countries. Their implementation of more open trade policies can potentially boost domestic productivity through increased competition, spur foreign direct investment, create employment opportunities, and thereby raise the overall standard of living.

The free flow of trade should also be accompanied by the steady transfer of the modern technologies of the developed world to developing countries. It is regrettable that the technological gap between developed and developing countries is growing larger. The lack of technical assistance and technology is unfortunately denying developing countries a chance to participate fully in the global economy. As foreign direct investment is the main external driver for technology transfer, developing countries will need to create a domestic climate even more conducive to private sector activity if they wish to receive higher levels of FDI flows and reduce this technology gap.

We all agree that we would like to live in a world free of poverty and conflict. A much stronger and more determined international effort with the full participation of both developed and developing countries is necessary if we are one day to live in such a world. It is only by working together and cooperating with one another that the nations of the world can achieve the goals that they cannot realize separately or in conflict with each other.

I wish you all the very best as you carry out your very important deliberations over the next few days. I hope that your discussions will assist the World Bank Group and the IMF to continue improving the quality of life of people everywhere.

I wish you all a very pleasant stay in Dubai, and hope that you will find some time outside of your busy schedules to enjoy our beautiful country and experience our warm hospitality.

OPENING ADDRESS BY KASPAR VILLIGER THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND GOVERNOR OF THE BANK AND THE FUND FOR SWITZERLAND

President Wolfensohn, Managing Director Köhler, my fellow Governors, Excellencies, ladies, and gentlemen, I am honored, on behalf of Switzerland, to chair these 2003 Annual Meetings of the World Bank Group and the International Monetary Fund, which are being held for the first time in the Middle East. On behalf of the Boards of Governors, I would like to express our deep appreciation to the host government of the United Arab Emirates, and the authorities and people of the beautiful and modern city of Dubai for the excellent arrangements for our meetings and the warm hospitality extended to us all.

Our meetings here in Dubai come at an opportune time for the membership. Despite recent events and tensions in some parts of the region, many countries have undertaken difficult economic reforms to strengthen and liberalize their economies. These efforts have been successful in achieving macroeconomic stability and greater integration into the world economy for the betterment of their peoples.

Fellow Governors, as we are meeting at a time of continuing economic uncertainty, we all must continue to work together to send a strong signal to governments, markets, and our populations of our resolve to promote peace and prosperity throughout the world. In this regard, it is crucial that we reaffirm our belief that the United Nations and the Bretton Woods Institutions continue to have a vital role to play in their respective areas of expertise in contributing to these objectives, sometimes under very difficult and dangerous circumstances, as we have seen recently.

I would like to begin these meetings by remembering Dr. Alya Sousa, who, while working for the World Bank in Iraq, tragically lost her life along with many others as a result of the terrorist attack on the UN Headquarters in Baghdad on August 19, 2003.

There is no question that international crime and terrorism should be fought with all the means at our disposal. But it is important that we do not lose sight that we also need to make equally strong if not stronger efforts to fight poverty, enforce human rights, and resolve conflicts peacefully according to international law. Success in these areas will help to ensure that terrorism finds no breeding ground.

Fellow Governors, it is not by accident that the Bretton Woods Institutions have chosen to hold their Annual Meetings this year in the United Arab Emirates. The remarkable story of the United Arab Emirates is a shining example of how the pursuit of sound economic policies and

wide-ranging structural reforms can boost economic growth and lead to higher standards of living. Our gathering in Dubai demonstrates that there is a strong dialogue between this region and the rest of the world. We are sending a clear signal that we have common values, that we respect one another, and that we desire to live together peacefully. It is in this spirit that we meet in Dubai to discuss the current economic issues of the day.

Fellow Governors, the global economy continues to face uncertainty, stemming from the aftereffects of the bursting of the equity price bubble, the investment overhang, and continuing geopolitical insecurities. However, a recovery now appears to be underway, and the balance of risks has improved significantly. The U.S. economy is performing relatively well. There are encouraging signs from Japan, and several European countries have started to implement some long-delayed reforms. It is now the duty of all policymakers around the world to try to turn these early signs of an economic rebound into a truly sustainable recovery. In this regard, macroeconomic policy in the major currency areas will have to continue to be supportive, and structural reform efforts will have to be strengthened in order to reduce vulnerabilities over the medium-term. Looking forward, the question is whether the U.S. economy will be able to continue as the sole engine driving global economic growth, especially as many take the view that the rising current account and fiscal deficits in the United States could threaten its medium-term outlook, as well as exacerbate global imbalances.

In light of these circumstances, I can only regret that Europe cannot fully play its role in supporting the global recovery. In my view, the weak European performance would best be addressed by pushing forward the reform agendas. Some initial progress has been made, but it needs to be followed up forcefully. One of the most important priorities is the need to address the challenges that aging populations throughout Europe will pose to longer-term fiscal positions, labor supply, and economic growth.

In the emerging markets, the recovery has largely remained solid, despite a variety of shocks. To some extent, this can be attributed to the higher risk-taking by international investors, given the low-yield environment in developed countries. Efforts by many of these countries to improve their domestic fundamentals have certainly also played an important role. Many challenges remain in the areas of fiscal consolidation, public debt sustainability, and banking sector reform. Now, in an improved economic environment, is the time to implement these reforms.

Growth in low-income countries has remained relatively robust, but there are wide differences among countries. The weak economic performance in sub-Saharan Africa remains particularly worrisome, as it stands in stark contrast to what would be needed to reach the targets set under the Millennium Development Goals (MDGs), in particular the halving of poverty by 2015.

There are positive developments as well, including NEPAD and the joint initiative for seven low-income countries in the Commonwealth of Independent States, called the CIS-7 Initiative. Important first steps have been taken, but it is clear that the ultimate success of these initiatives lies with the countries themselves.

Fellow Governors, over the last several years the IMF's lending has become increasingly concentrated on a few emerging market members that received exceptional access to Fund resources. It now unfortunately appears that these Fund-supported programs will most likely be prolonged and extend over a number of years. This could reduce the availability of Fund financial assistance to other countries.

This development has raised two important issues for us to consider. First, to ensure that the Fund is able to respond quickly in crisis situations, it should adhere strictly and consistently to its policy rules on exceptional access. Second, to improve the Fund's crisis prevention and resolution frameworks further, it should continue to strengthen surveillance, improve debt sustainability analysis, and increase transparency. We also need a better framework to deal with financial crises, especially when they involve unsustainable sovereign debt. In this regard, I welcome the IMF's efforts to strengthen surveillance by taking a fresh perspective on the policy frameworks of program countries, incorporating international standards and codes into surveillance, and undertaking analysis based on the balance sheet approach.

Fellow Governors, strong global economic growth is an important condition for making progress toward meeting the commitments that we made under the Millennium Declaration. But growth is not enough. I would like to share with you some thoughts on the formidable challenges ahead of us. The Millennium Development Goals describe a vision of a better world for all. They also provide quantifiable targets for the global community to measure progress toward the important fight against poverty.

Last year in Monterrey, we launched a partnership to achieve these targets. We agreed that successful poverty reduction depends on the active collaboration of three main partners: the governments and civil societies in low-income countries, the public and private sectors in donor nations, and the multilateral institutions. It requires sound national policies and good governance in developing countries, increased and more effective assistance from donors, as well as the support of the international financial institutions in putting in place strong policies, and building capacity through policy surveillance and technical assistance.

I am pleased to see that a number of low-income countries have already started to reap the first fruits from implementing good policies in a sustained manner. The strongest performers in Africa have seen real growth rates of above 5 percent over the past five years, although

growth in sub-Saharan Africa as a whole remains at about 1 percent. Important progress has also been achieved under the HIPC Initiative, where 27 countries have reached the decision point and 8 of them have succeeded in reaching the completion point. Their adherence to strong policies has allowed these countries to receive considerable debt relief. This has freed critical resources for social spending.

Fellow Governors, the sad fact remains that this substantial progress by the best-performing countries is not sufficient even for them to halve poverty by 2015. What else is necessary? It is my firm belief that growth can be increased by enhancing the role of the private sector through encouraging local and foreign private investment in these countries. Attracting such investment will not only require macroeconomic stability, but also the carrying out of critical structural reforms. This must be complemented by policies to improve governance, build and strengthen institutions, as well as create a legal and regulatory environment conducive to private sector activity. All of these steps can help create what I would call a culture of credibility. While encouraging progress in this regard is evident in some countries, many other countries have experienced difficulties in fostering private sector activity. The Bank and the Fund can contribute in this area, in collaboration with other development partners, by providing low-income countries with advice and technical assistance to help them develop a vibrant and flourishing private sector.

Fellow Governors, the Millennium Development Goals are the framework for the World Bank's activities, in partnership with other international institutions. The Bank, together with other donors, has also recognized the need to engage much more actively in low-income countries through improved analytical work, capacity-building, and the identification of innovative project mechanisms to improve governance and deliver basic social services.

Sound domestic policies in low-income countries are an important precondition to meet the goals of the Millennium Declaration. But they are not enough. They need to be matched by greater financial assistance from the international community. We reached a consensus at Monterrey on the need to increase substantially the quantity and effectiveness of official development assistance (ODA) if developing countries are to be able to achieve the Millennium Development Goals. However, the donor countries might not be able to generate sufficient additional ODA. We might therefore have to look for other, more innovative ways to provide the resources that are needed, as envisaged in the Monterrey Consensus.

Fellow Governors, sustainable poverty reduction requires more than development assistance. Further trade liberalization can make an important contribution in this regard. It cannot only raise growth in

both developed and developing countries, but also offer developing countries a real chance to trade their way out of poverty. A successful conclusion of the Doha Trade Round is, therefore, of utmost importance if developing countries are to be integrated better into the multilateral trading system and the global economy.

The inability to reach agreement last week in Cancun is a setback for all, developed and developing countries alike. It is even more disappointing, as success at Cancun could have helped to strengthen the global economic recovery. Nevertheless, I am very hopeful that this is only a temporary stumbling block, and will not prevent World Trade Organization (WTO) members from eventually reaching a timely conclusion to the Doha Round. Greater trade liberalization through a multilateral process will increase prosperity in all nations, and help to achieve the Millennium Development Goals. If the Doha Round is to succeed, all countries must be prepared to be flexible and realistic if they wish to put the Round back on track. However, even a successful conclusion of the Doha "development round" will not allow low-income countries to benefit immediately from these new trading opportunities. Their ability to engage more actively in the global trading system can be enhanced through support for reform and technical assistance. I am happy to see that the Bretton Woods Institutions are active in this area. Fellow Governors, let me return to the Monterrey Consensus document and its call for enhancing the voice and participation of all developing and transition countries in decision-making in the Bretton Woods Institutions. We all have a role to play in this endeavor: the shareholders, the Bretton Woods Institutions, and the developing and transition countries themselves. Let me first call your attention to the progress made in stimulating participation at the country level. Many programs in developing and transition countries are now based on Poverty Reduction Strategies. They are drawn up by country authorities, who rely on input from civil society. These Poverty Reduction Strategies have developed into a powerful instrument to ensure ownership of a country's reform program. The Bank and the Fund play a valuable role in supporting countries' capacity to address poverty with technical assistance and financial support.

Nonetheless, while it is important for developing countries to participate in shaping their own economic programs, it is equally important for them to feel well represented in the Bretton Woods Institutions, and to participate in their decision-making. We have already made some progress in strengthening the capacity of the offices of those Executive Directors that represent a large number of developing and transition countries. As for measures to directly affect representation, I believe that an increase in the number of basic votes should be considered, as it

would strengthen the relative voting power of countries with smaller quotas.

Fellow Governors, in the World Bank and the IMF, Switzerland chairs a so-called mixed constituency of countries from Eastern Europe, the Balkan Region, and some countries of the former Soviet Union. Some of these countries are quite advanced in the process of transition. Indeed, one of them, Poland, will be joining the European Union very soon. However, many other countries, for instance in Central Asia, face more formidable challenges.

I believe that mixed constituencies representing both debtor and creditor countries have a great potential to help raise the voice of debtor countries. The intense debates between partners within the same voting group allow all of us to better understand the various sides of an issue. Mixed constituency chairs are also able to act as effective bridge builders when the entire membership is wrestling with a delicate issue.

Fellow Governors, the prospects of the world economy have clearly improved since we last met in Washington. But we still face serious economic issues that require tough decisions and forceful action. Nonetheless, I am confident, that by vigorously implementing our respective commitments to one another, we will succeed in meeting the enormous challenges that are before us, and thereby provide a better world for future generations. The multilateral problems of today require multilateral solutions. No nation should feel excluded from the discussion. Given their universal membership and cooperative nature, our two institutions remain the relevant organizations for us to tackle these challenges together.

Fellow Governors, I hereby declare open the 2003 Annual Meetings of the World Bank Group and the International Monetary Fund.

OPENING ADDRESS BY JAMES D. WOLFENSOHN THE PRESIDENT OF THE WORLD BANK GROUP

It gives me great pleasure to welcome you to this remarkable city of Dubai for the Annual Meetings of the World Bank and the International Monetary Fund (IMF).

I would like to express my profound appreciation to the government and people of the United Arab Emirates for their warm hospitality, their magnificent preparations, and their commitment to making our meetings a success.

Thank you, Chairman Kaspar Villiger, for your remarks and for your leadership of these meetings.

I wish also to thank my friend, Horst Köhler, and our colleagues in the IMF for another year of working together in close and effective partnership.

The Region and the World

We meet in the Middle East for the first time, and at a vital moment. The eyes of the world are on the region. They are also on us.

We meet, 184 nations strong, with a responsibility to show leadership, and set a clear course for development and peace.

We meet in the shadow of conflict and loss.

The horror of the attack on the United Nations compound in Baghdad is seared in memory, and we were reminded of it by yesterday's attack. We mourn Sergio de Mello, an exceptional humanitarian who dedicated his life to development, and with whom we worked closely in many post-conflict countries.

We mourn also Dr. Alya Sousa, our Bank colleague whom we lost to terrorism. She was a committed professional who took pains to look after her co-workers. An outstanding person.

I visited with both just days before the attack. Like all of you, I feel for the families of those killed, and injured, in the blast. How sad our world when peacemakers become the targets.

We honor Sergio, Alya, and all who have died by continuing their work.

I can assure you of the Bank's commitment to help the people of Iraq, just as we have worked to support the people of Afghanistan, Bosnia-Herzegovina, Kosovo, Timor-Leste, and the West Bank and Gaza. One result of our effort is the needs assessment we and our IMF and UN colleagues will deliver to donors in Madrid next month. We look forward to assisting with the reconstruction process in the years ahead.

The Bank has been at work in this region for more than half a century. Our first loan here was, in fact, to Iraq, in 1950, for flood control on the Tigris and Euphrates.

The projects we support today finance low-income housing in Jordan, micro-credit to women in Yemen, and capacity building for a new nation state in West Bank and Gaza. We also support cooperation by 10 Nile basin countries to provide water for 300 million people today, and 600 million just a quarter century from now. We provide reimbursable technical assistance to Saudi Arabia.

Knowledge and the exchange of ideas are key to our collaboration. That is why we have prepared, together with scholars and experts in the region, new reports on employment, trade, gender, and governance. That is why our Web site and its wealth of development experience are available in Arabic.

This is an ancient region that has given civilization so much, in science, mathematics, culture, and religion. And yet, it is also a young region where an astonishing 60 percent of its people are under the age of 25.

I would like to offer my remarks today particularly to the young people of the Middle East, and of the world.

Last week, in Paris, I met with youth leaders who represented organizations with more than 120 million members worldwide. The meeting also included rural youth and street kids, children orphaned by AIDS and civil conflict, youth from the excluded Roma community, and young people with disabilities.

They met in peace and with mutual respect. They asked why our generation could not do the same.

They said: we are ready to be part of the solution, to be partners. But, they also said, we do not want a future based only on economic considerations, there must be something more. They challenged us about values and beliefs.

My colleagues and I were inspired by their passion and idealism. We invited four representatives to join us here today to witness our shared commitment.

Soon, young people will start working in the Bank's country offices, to help review projects and suggest initiatives, as is already the case in Japan and Peru. We will also ask governments to make it possible for youth to participate in discussions of poverty reduction strategies. And we will come together in 12 months time to take stock of how far we have been able to come in our partnership.

By the year 2015, there will be 3 billion people under the age of 25. They are the future. But, as the young people in Paris said most forcibly, they are also the *now*.

And their expectations of us are high.

To respond to them, we must address the fundamental forces shaping our world. In many respects, they are forces that have caused *imbalance.*

In our world of six billion people, one billion own 80 percent of global gross domestic product (GDP), while another billion struggle to survive on less than a dollar a day. This is a world out of balance.

Over the next 25 years, 50 million people will be added to the population of the rich countries. About one and a half *billion* people will be added to the poor countries. Many will experience poverty and unemployment, as well as disillusion with what they will see as an inequitable global system. A growing number will leave their home countries to find work. Migration will become a critical issue.

There is further imbalance between what rich countries spend on development assistance, $56 billion a year, and what they spend on agricultural subsidies, $300 billion, and defense, $600 billion. The poor countries themselves spend $200 billion on defense, more than what they spend on education. Another major imbalance.

Developing countries are projected to grow at twice the rate of developed countries. But many will need help to bridge the gap between rich and poor. Pressures on environment and natural resources, like water, will become central issues. Interdependence will be more evident. Opportunities will expand, but so will dangers.

Three years ago, world leaders gathered at the Millennium Summit to assess the future. They committed to cut poverty in half by 2015. They agreed on Millennium Development Goals, for health, education, and equal opportunity for women. They set targets for the environment, from the air we breathe to the preservation of our forests and oceans. These are remarkable goals. Many leaders spoke of them as being morally right. Our human responsibility, but also in the global interest.

They agreed on a bargain, one that was spelled out in meetings in Monterrey and Johannesburg.

- *Developing* countries promised to strengthen governance, create a positive investment climate, build transparent legal and financial systems, and fight corruption.
- *Develop*ed countries agreed to support these efforts by enhancing capacity building, increasing aid, and opening their markets for trade.

There was unprecedented consensus on the bargain and the actions required to achieve it. What are the results?

The developing countries' policies and governance have never been stronger. As I mentioned, the developing countries are growing significantly faster than rich countries. But this good news about strengthened governance should not blind us to other important realities. Progress on poverty differs sharply among regions.

China, with 1.3 billion people, will achieve most of the Millennium Development Goals. India, with a billion people, is on track to meet the poverty goal.

But in many other countries, the Millennium Development Goals will not be met.

Sub-Saharan Africa, with 600 million people, will fare the worst. The number of people living in absolute poverty will increase, not decrease. Only half of Africa's children will complete primary school; one in six will die before they reach the age of five, many from AIDS.

Like the young people I met in Paris, I ask: why?

Part of the reason is that reform is not happening fast enough in the developing nations. There is still too much cronyism and corruption. In nearly every country, it is a matter of common knowledge where the problems are and who is responsible. Frankly, there is not enough bold and consistent action against corruption, particularly at the higher levels of influence.

What about the developed countries' part in the global bargain? Here too, there has been progress:

- Commitments made in Monterrey to an increase in aid of around $16 billion a year by 2006;
- Substantial pledges to fight HIV/AIDS and malaria, and for conflict prevention and reconstruction; and
- Better allocation and use of resources, including enhanced donor harmonization, as in the Rome Agreement earlier this year.

But these actions, while laudable, do not match the promises made.

In Dakar, donors said no sound primary education project would go unfunded. They committed to an "Education for All" initiative requiring several billion dollars of incremental grant funding for a 5 to 10 year period. Yet, today, under the "fast track" program, only seven countries have received a promise of funding, only for a total of $200 million over three years, and reaching less than 5 percent of the 115 million children who are not in school.

This disparity between promise and action naturally leads developing countries to be concerned about where the additional resources will come from—to help them open schools, hire teachers, and plan for secondary (as well as primary) education.

They worry that resources needed to meet other goals are not forthcoming. That debt relief is not sufficient. And that monies go to the latest crisis or to fight drugs or terror—rather than to long-term development They worry that only half of existing aid flows actually reach them in direct cash transfers for their programs. And they worry that repayments of debt are crippling their capacity to grow. Developing countries feel they have made significant efforts to fulfill their part of

the global bargain. But they do not see enough delivery on the other side.

The recent impasse at Cancun is a case in point. Two-thirds of the world's poor people depend on agriculture for their livelihood. As the developing countries see it, rich nations put forward proposals that did not respond to their central demands in this crucial area. They also found unacceptable a view of negotiations in which they are expected merely to respond to rich countries' proposals.

At Cancun, developing countries signaled their determination to push for a *new equilibrium.* They signaled that there must be greater balance between the rich and powerful, and the poor and numerous. They signaled that for there to be peace and sustainable development, there must be a different set of priorities. There must be greater cooperation.

The fact is that aid today is at its lowest level ever. It has fallen from 0.5 percent of GDP in the early 1960s to about 0.22 percent today. And this at a time when incomes in developed countries have never been higher.

Against this background, the Bank has taken a close look at how progress toward the Millennium Development Goals could be accelerated, through better policies, more effective use of aid, and higher aid levels. Our analysis, based on current plans, finds that

- aid is being used more effectively today than ever before because of improvements in many developing countries and improvements in the allocation of development
- developing nations could easily absorb double the extra $16 billion per year promised in Monterrey for 2006.

And this is a conservative estimate. The $50 billion in additional aid per year proposed by Chairman [of the International Monetary and Financial Committee] Gordon Brown could be put to effective use very quickly.

The prospect of such funding would encourage developing countries to make more rapid reforms. Leaders are more likely to take action if they know that resources are forthcoming on a consistent basis. They will not move if the financing and benefits of reform cannot be ensured.

Action on trade is equally important. It is inconsistent to preach the benefits of free trade and then maintain the highest subsidies and barriers for precisely those goods in which poor countries have a comparative advantage. Developing countries also need to help themselves on this point, since they pay substantial tariffs in South-South trade.

Restoring balance to our world will not happen unless there are serious efforts to build greater public understanding about the importance

of poverty and inequity. My generation grew up thinking that there were two worlds, the haves and the have-nots, and that they were, for the most part, quite separate. That was wrong then, and is even more wrong now.

The wall that many people imagined to separate the rich countries from the poor countries came down on September 11 two years ago.

We are linked in so many ways: not only by trade and finance, but by migration, environment, disease, drugs, crime, conflict, and yes, terrorism. We are linked, rich and poor alike, by a shared desire to leave a better world to our children. And by the realization that if we fail in our part of the planet, the rest becomes vulnerable. That is the true meaning of globalization.

We know elections are won and lost on local issues. But it is global issues, and especially poverty, that will shape the world our children live in. Leaders must make the case for development. It *is* a domestic as well as an international issue.

Learning about other countries and cultures, and respecting their values and aspirations, is imperative. We need to teach our children about the rest of the world. The young people I met in Paris live as global citizens. They have a grounding in their own cultures, but they respect others.

So do the young people of Dubai. Last Sunday, the Bank convened a conference at the Women's College here. We connected by videoconference to young women students in Afghanistan, Ethiopia, Jordan, Turkey, Uganda, the United States, and Yemen. We asked them which issues they would like to discuss. They said education of girls, respect for different cultures and religions, stereotypes, dreams, gender equity, ethics, art, and unity through diversity.

This was the view of young women students right here. They are global citizens. And Dubai can be very proud of them, as I am.

We can feel encouraged that a global poll conducted earlier this year indicated that many people around the world see the connection between poverty and stability. In some cases, they see it more clearly than their leaders.

I have suggested how nations can rise to their responsibilities. So too must development institutions rise to theirs.

Together, working with governments, civil society, and the private sector, we have supported the developing countries in their achievements over the last 40 years: increasing life expectancy by 20 years and reducing illiteracy by half. But now, with just 12 short years left to reach the Millennium Development Goals, multilateral and bilateral organizations must raise their game. That means moving away from single projects we call them "feel good" projects, and going for results on scale in 50 or 500 villages, or 5000.

Speaking for the Bank Group, we are taking a hard look at how we can do better, how successful programs can be scaled up.

We now have more than 2,500 staff in the field, to be closer to our clients. We are speeding up project preparation time. Success rates in the projects we support have risen, from 71 percent in 1995 to 85 percent last year. Policy performance and good governance are now priorities in our country dialogues.

We are driving hard on AIDS, education, and water, and expanding our efforts in basic infrastructure. Working with the IMF and our HIPC Initiative [Initiative for Heavily Indebted Poor Countries] partners, we are providing some $52 billion in debt relief to 27 low-income countries. And we continue to respond to the needs of middle-income countries, where many of the world's poor people live.

We are leveraging technology, with more than 100 of our offices connected through satellite. We do 1,500 video conferences every month and reach more than 60 countries every day. The Development Gateway has about 100 partners helping to build capacity and provide an information base for the development community.

We are introducing a new "client card" that gives policymakers and team leaders the same Web-based information we use to manage projects, provide financial information, and research on a confidential basis. It is a powerful tool for implementation and, above all, transparency. Our other members of the Bank Group family also are making progress:

- The International Finance Corporation is encouraging private sector investment in small and medium-size enterprises, including Africa, and introducing new approaches like carbon emissions trading.
- The Multilateral Investment Guarantee Agency has continued to increase its focus on low-income countries, last year over half of its guarantees were in IDA-eligible nations [nations eligible for a replenishment from the International Development Association].

In the poll I mentioned earlier, people said they see the Bank as increasingly client-oriented, effective, and relevant. But they warned us to continue our efforts to be less bureaucratic, more flexible, and deliver more results. We take this feedback seriously.

Next spring, we will be cosponsoring, together with the Chinese government, a conference in Shanghai on how to enhance poverty reduction efforts. How to take successful programs and scale them up, how to enable poor people to be the central force for change and not an object of charity, how to manage programs over time for results that truly make a difference. I hope many of you will join us in Shanghai.

Taking our efforts to the next level is the challenge for the international community. It is the challenge for the Bank, and our world-class team is determined to do it.

A Time for Action

It is time to take a cold, hard look at the future. Our planet is not balanced. Too few control too much, and too many have too little to hope for. Too much turmoil, too many wars. Too much suffering.

The demographics of the future speak to a growing imbalance of people, resources, and the environment. If we act together now, we can change the world for the better. If we do not, we shall leave greater and more intractable problems for our children.

We must rebalance our world to give everyone the chance for a life that is secure, with a right to expression. Equal rights for women. Rights for the disabled and disadvantaged. The right to a clean environment. The right to learn. The right to development.

These are not exotic objectives. All of us, rich and poor alike, want the same thing. There is no better time than now to join in a common effort to make a better world.

You are the global leaders to make it happen. Delay is reckless. This is a time for courage and action for a new vision of the future.

I do not speak as a dreamer or a philosopher. Like all of you, I too have a family and worry about its future. We have the resources to make a difference. We know how to make a difference. We have the courage to make a difference. We must now act to make a difference.

We all share one planet. It is time to restore balance to the way we use it. Let us move forward to fight poverty, to establish equity, and to ensure peace for the next generation.

Let us respond to the youth from Paris and the students in Dubai that they can trust us and that we will act today, here, in Dubai.

REPORT BY TREVOR MANUEL
CHAIRMAN OF THE DEVELOPMENT COMMITTEE

As Chairman of the Development Committee, I am pleased to report to you on the Committee's work during the two meetings held in 2003. The central focus of our meetings has been on implementing the strategies, partnerships and actions agreed in Monterrey and Johannesburg to achieve the Millennium Development Goals. The partnership set out in Monterrey identified clearly the need for strengthened efforts by both developed and developing countries, as well as international institutions. For developing countries, three areas in particular were emphasized: improving the environment for investment and private sector activity, strengthening governance, including public financial management and increasing human capital through broader and more effective delivery of basic services to the poor. For developed countries, increased market access, debt relief and increases in the volume, predictability and effectiveness of aid were highlighted.

We have asked the Bank and the Fund, working closely with institutional partners, to provide us yearly with a global monitoring report to allow the Committee to regularly assess progress and to reinforce accountabilities among developing and developed countries, as well as the international agencies, for the policies and actions necessary for achieving the MDGs. As part of this process, we urged the Bank to continue to improve the Country Policy and Institutional Assessment (CPIA) methodology and the transparency of its application and to help facilitate statistical capacity building, especially for those countries most at risk of not meeting the MDGs. We will receive the first full report at our next meeting.

The centrality of the Poverty Reduction Strategy approach in defining country strategies and providing a country context in which donors and international agencies can align support has been emphasized throughout our discussions. At our last meeting, we reviewed progress in the implementation of this approach. We welcomed the increasing openness of policy dialogue with all stakeholders, the improved focus on sources of growth and the investment climate and the policies needed to reduce poverty, greater realism and better prioritization, increased pro-poor public spending as well as efforts to strengthen public expenditure management. At the same time, we recognized that PRSPs are charged with multiple and sometimes competing objectives. The challenge now is to achieve successful implementation, including through much more effective donor alignment and harmonization around national strategies. In particular, we issued a strong call for swift progress in implementing the results agenda and the agreements in the Rome Declaration on Harmonization.

We have stressed that, as part of the Monterrey partnership, sound policies by developing countries must be supported by adequate and appropriate financing. Ensuring this and enhancing aid absorptive capacity through policy and institutional reforms is critical to the virtuous cycle of actions needed to meet the MDGs. We urged all countries, without delay, to take specific steps to meet their commitments to provide additional aid resources by 2006. We have also asked the Bank, working with the Fund, to examine various policy options to mobilize the substantial additional resources that are needed to scale up progress towards the MDGs, and to report to us at our Spring Meeting.

Trade remains of crucial importance to growth and poverty reduction. The ambitious targets set for the Doha Development Agenda are a necessary precondition for our strategy to meet the MDGs. Developed countries must do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture, textiles and clothing. It is in this context that we particularly regretted the disappointing outcome of Cancun and we urged all participants to put the process back on track as soon as possible. We welcomed the Bank and Fund's pledge to support countries to benefit fully from a more liberalized trading system and urged the Bank to continue to tailor its lending activities to support country-owned trade initiatives.

The committee has reviewed progress under the HIPC Initiative and reconfirmed its commitment to its implementation and full financing. The achievement of long-term debt sustainability will require actions on the part of HIPC countries as well as development partners. We have requested further work on providing additional relief, where appropriate, at the completion point. Some HIPCs face a continued challenge to reach the decision point and we have encouraged further staff efforts to assist these countries. We expect to review a Bank/Fund report on a forward-looking framework for debt sustainability in low income countries at our next meeting, and we have also encouraged further staff work on ways to help reduce the vulnerability of these countries to exogenous shocks.

Infrastructure makes an important contribution to economic growth and reaching the MDGs by improving the investment climate and supporting the development requirements of low and middle income countries. We therefore have welcomed the Bank report on the infrastructure action plan, as well as the follow-up to the recommendations of the World Panel on Financing Water Infrastructure and we have asked the Bank Group to work with member countries to secure its early implementation and we will return to this issue at a future meeting.

Finally, as called for at Monterrey, we have continued our discussion of innovative and pragmatic ways to enhance the voice and effective participation of developing and transition countries in the work and

decision making of the Bank and the Fund. There is no single approach to accomplish this, but rather action is required over time across a range of issues. Strengthening the responsiveness of the Bretton Woods Institutions to country-owned strategies and priorities through the PRS approach, complemented by on-going efforts to promote greater openness and transparency, decentralization and staff diversity all contribute to this objective.

Our Executive Directors have made some progress on measures to enhance capacity in developing and transition EDs' offices and in capitals. We welcome this work and urge its completion by next spring. We have urged developing countries to take up their full subscription to IDA and noted that the IDA-13 Mid Term Review and IDA-14 provide a timely opportunity to enhance borrower participation in the IDA replenishment process and its Board's decision-making.

As to the most challenging issues of voting structure and composition of the Boards, it is recognized that these will require time and effort to arrive at the necessary political consensus. We are committed to continue our efforts on these matters. For our consideration at the Spring Meeting, we have asked for a framework specifying the precise issues concerned, a schedule, and a set of procedures which will provide the basis for our discussions at future meetings of the Development Committee.

On a final point, at both meetings we have, of course, noted the significant challenges posed by the present situation in Iraq. We have called on the Bank and the Fund to play their normal role in Iraq's redevelopment.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS

AFGHANISTAN: ANWAR UL-HAQ AHADY

Governor of the Bank

It is always a great honor to address the Annual Meetings of the World Bank Group and the International Monetary Fund. Last year, I stated before this forum that news from the Islamic State of Afghanistan was good. I am pleased to once again bring you good news from Afghanistan.

In the past year, socioeconomic and political developments in Afghanistan have been in accordance with the Bonn Agreement, which establishes the framework for a post-conflict polity in Afghanistan. Let me first briefly comment on the sociopolitical situation. In the past few months, our major political development has been the drafting of a new constitution. As we all know, a constitution is a collection of major values of a polity and the prescribed institutions for the realization of those values.

Once again I am happy to report that the process of drafting of the constitution has been marked with openness and genuine discussions. The values included in the draft constitution are those of Islam, democracy, individual freedom, pluralism, equality of all citizens before the law, good governance, gender equality, and national integration and open economy. The ratification of this draft constitution by the Loya Jirga (Ground Council) is expected in December 2003. With adoption of this new constitution, the people of Afghanistan will be formally subscribing to the universal values of human rights, women's rights, bill of rights, democracy, tolerance, and pluralism. Indeed, I can assure you that soon the people of Afghanistan will benefit from one of the more progressive constitutions in the region.

Even though I can talk about other positive sociopolitical developments in my country, I would rather report on good economic news. Last year, when I stood before this forum, multiple currencies were in circulation in Afghanistan, and the economy was suffering from a very high inflation rate, a rapidly depreciating exchange rate for the national currency, and a nonfunctioning banking system.

I am delighted to report that we have made great progress in economic matters. Last October, we launched a very successful currency conversion program, which took us three months to complete. Now we have a single currency that is accepted throughout the country. Our currency conversion program enabled the central bank to establish a monopoly over the printing of banknotes and, consequently, control over the money

supply. As a result of our monetary policy, in the past nine months, on average, we have had no inflation, and the exchange rate for our national currency has been stable. Such financial stability is particularly remarkable in a post-conflict economy with considerably large amounts of both foreign and domestic new expenditures. Similarly, in the past year, the Afghan economy had a remarkably high rate of 30 percent growth and is expected to grow by another 20 percent next year. The government has adhered to strict fiscal discipline and has committed no overdrafts. Furthermore, the fiscal authorities have successfully reformed the country's revenue collection system; consequently, domestic revenues in 2003 have almost doubled. Thus, in terms of economic management and outcome, the past year has been a very good year for Afghanistan.

We have also made significant progress in the area of building economic institutions based on widely accepted international principles. Just last week, President Karzai signed a new central bank law and the banking law. The central bank law allows Da Afghanistan Bank to be autonomous from the government. This is a milestone in the development of our monetary institution. Similarly, the new banking law calls for the establishment of a liberal banking system, which allows foreign banks to open their offices in Afghanistan, and encourages competition among commercial banks. Indeed, we have already licensed two foreign banks to open branches in Kabul and a new microfinance bank that is registered in Afghanistan but is owned by foreign investors.

I can mention other very positive economic developments, but suffice it to say that the Karzai administration has been very busy and successful in laying the foundation for a democratic and pluralistic polity and an open economy. We started this journey with the help of the international community, especially the Bretton Woods organizations. We believe that we have achieved considerable progress; however, it will be very difficult to complete this journey without continued significant support from the international community.

Thus, on behalf of my government, I appeal to your continuous adequate support in the next few years so that our political, social, and economic institutions can gain strength, and, like so many other nations, the people of Afghanistan can enjoy the benefits of freedom and prosperity in a democratic-pluralistic society with an open economy.

AUSTRALIA: PETER COSTELLO

Governor of the Bank and the Fund

On behalf of Australia, I would like to take this opportunity to thank the government of the United Arab Emirates and the people of Dubai for their gracious hospitality in hosting these meetings.

The past 12 months have been challenging for the international community. A number of downside risks have receded, and there are some promising signs that global growth may be strengthening. However, our economies still face many challenges, and a number of downside risks continue to weigh on the outlook.

Restoring confidence in the world economy will require continued efforts by member countries to ensure a sustained recovery in growth. Of significant concern is the world's continued over reliance on the U.S. economy as the major source of growth, with European growth remaining weak and on-going Japanese growth uncertain.

The sustainability of a number of large global macroeconomic imbalances are a concern. The fiscal positions of most advanced industrial economies have deteriorated, with all G-7 countries except Canada running large fiscal deficits. In the case of the United States, the deterioration of the fiscal position has put pressure on the current account deficit, creating the possibility of a rapid and disorderly adjustment when it unwinds.

Aging populations will soon, and in some cases are already beginning to, affect the economic performance of a number of industrialized economies, placing further pressure on existing fiscal positions. There is an urgent need now for many countries to adopt credible fiscal frameworks that embed today's necessary fiscal stimulus in a medium-term program of fiscal consolidation.

The Australian economy has remained resilient over the past year despite a weak world economy and the most extensive drought in Australian meteorological records. Key factors behind this robust economic performance have been sound macroeconomic management based on the government's medium-term fiscal and monetary policy frameworks, combined with a sustained commitment to structural reform. Accordingly, the IMF described the Australian economy ". . . as one of the strongest economies of the developed world. . . ." Looking forward, the Australian economy is expected to grow solidly in 2003/04, albeit at a little below trend, underpinned by a gradual recovery in global economic conditions and recovery from the drought.

Australia is not complacent, however, and recognizes that it is not immune to the challenges faced by other economies. We will continue to pursue sound long-term economic policies to avoid fiscal pressures and maintain living standards in the context of an aging population. We are therefore actively pursuing policies to increase labor force participation and raise productivity—importantly, this includes a continuing commitment to vigorous action at reducing barriers to trade and investment.

The progress of the Doha round of trade negotiations is very disappointing given the obvious potential benefits of trade liberalization to the international community. We have all lost by the failure in

Cancun, but particularly those in developing countries. As part of the Monterrey Consensus, developed countries agreed to deliver lower trade barriers—the deadlock at Cancun highlights how far we are we are from making tangible progress on this front.

Agricultural support and protection from OECD countries, which totaled over US$300 billion last year, represents a crippling tax on the agricultural exports of developing countries. To put it into further perspective, agricultural subsidies are worth over five times annual aid flows to developing countries. Aid will not compensate developing countries for the denial of economic opportunities caused by trade restrictions.

The key developed countries must now exercise leadership to bring the Round back to life. They, and other WTO participants, must put aside their individual differences in favor of the overall benefits of multilateral trade liberalization, as demonstrated by the experience of the GATT. As finance ministers, we have a critical role to play in pushing for comprehensive trade liberalization. In that regard, Australia welcomes the vocal support of the IMF and World Bank in promoting successful outcomes for the Doha round, including through packaging their support to assist countries in implementing commitments made as part of the Doha round.

This year's IMF/World Bank Annual Meetings serve as a timely reminder of the importance of international efforts to ensure peace, stability, and economic prosperity in the Middle East. Since we met last year, we all face a new challenge in seeking to aid the Iraqi people to build an open, outward-oriented economy in a free and democratic Iraq. The task is a formidable one. Australia has committed significant humanitarian aid and has provided staff for the Coalition Provisional Authority. The latter have made a substantial contribution working with free Iraqi colleagues in areas such as agriculture and the development of the 2004 Iraqi budget.

The IMF and the World Bank have a crucial role to play. Australians were horrified by the bombing of the UN headquarters in Baghdad, and our sympathy goes out to those who were injured in the blast and to the families of those who died. We have been heartened that despite the bombing, the international financial institutions and the UN family are maintaining their commitment to Iraq. At the conference in Madrid next month, we hope the international donor community will demonstrate a strong resolve to help the Iraqi people meet the significant challenges of reconstruction.

The Pacific region has faced a particular set of challenges over the past year. Despite the best efforts of many, the Solomon Islands has gradually slipped into disorder and lawlessness. The people of the Solomon Islands have been living in fear, and the economy has collapsed; a humanitarian crisis has been in the making. For those reasons, regional

economies came together to respond to the request of the Solomon Islands government this year to provide help. Together with New Zealand, Fiji, Papua New Guinea, and other nations of the South Pacific, we have joined a multi-country regional assistance mission, concentrating on the areas of law and order and economic and budget stabilization.

The problems of the Solomon Islands cannot be remedied overnight. Long-term economic reform will be needed to create a viable future for the Solomon Islands. Australia has been pleased at the willingness of the international financial institutions to reengage and bring their expertise and financial resources to bear on these problems.

IMF

The legacy of the capital account crises of the last decade continues to raise issues of how to best prevent economic crises, and manage the fallout when they occur. The IMF has responded to these challenges and has taken a number of steps to enhance the effectiveness of its surveillance activities. The ultimate test, however, of the Fund's surveillance strategy is the impact of its advice on member countries. On this key criterion, further progress could be made.

In the case of developing and program countries, central to the Fund's effectiveness is its ability to act as a "confidential policy adviser." This involves encouraging country ownership of program policies and developing strong, candid working relationships between staff and country authorities to ensure advice reflects political realities. In this regard, we welcome staff initiatives to bring a fresh perspective to the surveillance of program countries.

But surveillance is not just about program and developing countries. At the present time, there is just as much riding on the quality of economic policies in the major economies as there is on the policies of developing economies. The IMF must therefore remain as vigilant in promoting sound policies in the more advanced economies as it is in developing and emerging markets.

The challenge for the Fund in industrial countries is to ensure that its advice adds value among a number of competing sources of advice. The key to enhancing the effectiveness of IMF advice in these countries—indeed in all countries—is its ability to tailor its advice to addressing the individual policy weaknesses of its members, bearing in mind the broader implications for the stability of the international financial system.

While crisis prevention is the preferred means of promoting financial stability, the international community must be in a position to deal effectively with the possibility of new crises emerging. The IMF's work on the SDRM provided valuable impetus for the wider use of collective

action clauses and the development of ideas on a voluntary code of conduct for debt restructuring.

The Fund's new criteria for exceptional access provide another important element to improving the crisis resolution framework. The measures adopted by the Fund should help ensure appropriate financial assistance is provided within the context of a sustainable policy framework in the recipient country. For the new policy to work, it will be incumbent on the Board to build up a track record of applying the new access principles in practice—in doing so, it must resist short-term pressures to provide funding when policy settings are not consistent with a sustainable economic position.

The recent improvements in growth rates in low-income countries are a welcome development. But further improvements are needed to ensure adequate progress towards poverty reduction and the Millennium Development Goals. While we all recognize the Fund has an important role to play in these countries, its role needs to complement and not duplicate that of the World Bank, other multilateral development banks, bilateral donors, and the private sector.

Moreover, the Fund must ensure that it has the appropriate tools to deal with the challenges of low-income countries in their various stages of development. The owners of the Fund need to ensure that what we ask of the institution in low-income countries is within its capabilities and areas of comparative advantage. Strengthening the Fund's surveillance capacity is a necessary condition in this regard.

These Annual Meetings provide an important forum for the owners of the Fund to consider the future direction of the institution in these challenging times and provide sign-off on its agenda. For such a dialogue to be meaningful, the Fund must represent all its membership adequately. It is therefore crucial that future quota increases include a rebalancing of quota shares to reflect the relative under representation of certain countries, particularly in the Asia region, relative to economic weight. It is also important that all countries have the capacity to express their voice in the debate. In this light, Australia supports recent initiatives to increase the capacity of the largest member constituencies at the IMF and World Bank to contribute more effectively to the operation of the institutions.

World Bank

Australia welcomes the efforts by the World Bank in progressing the Monterrey Consensus and promoting the attainment of the Millennium Development Goals (MDGs). The international community has made encouraging progress in identifying the preconditions for sustainable development.

One thing that is striking from the Bank's research is that a great deal of the recent reduction in global poverty has occurred in Asia, despite it receiving relatively low levels of official development assistance (ODA) per capita. This is consistent with the G-20's work on globalization, which has highlighted the importance of good policies, good governance, outward-looking approaches to trade and investment, and market access in promoting development.

The World Bank can do more in stressing the fundamental role of trade in promoting development, particularly by emphasizing enhanced trade capacities in Poverty Reduction Strategy Paper (PRSP) and Country Assistance Strategy work, and including appropriate trade facilitation measures in Bank assistance. When used effectively, aid can support countries in developing sound policies and institutions to mobilize additional resources for development from a variety of sources, including domestic resources, international investment, and trade.

Accordingly, Australia strongly supports the argument that the bulk of aid dollars should flow to countries with good policies and governance to maximize aid effectiveness. It is still apparent that aid flows do not sufficiently take into account recipient countries' capacity to successfully absorb aid without undermining macroeconomic stability and/or fiscal and external debt sustainability. A number of Asian countries have the policies and institutions in place to successfully absorb additional aid, and yet current relative aid flows do not reflect the region's capacity to contribute to the achievement of the MDGs.

It is also clear that countries with poor policies and institutions represent a significant challenge for the international community. Unless this challenge is addressed, these countries will not achieve their MDG targets. It is critical that the international community remains engaged with these countries and finds new ways to build local support and capacity, so that over time additional assistance can be provided through traditional channels.

Australia has supported the Bank's efforts in engaging with poorly performing countries in our region, and we look forward to continuing to work with the Bank on the Low Income Countries Under Stress (LICUS) initiative. We also note that, among LICUS countries, those in post-conflict situations often have unique needs, and require a sustained commitment from the international community in order to rebuild infrastructure and provide basic social services.

Australia remains a strong supporter of the Heavily Indebted Poor Country (HIPC) Initiative, and we place considerable importance on efforts to ensure debt sustainability in developing countries. Debt relief alone, however, is not sufficient to address poverty. Debt reduction is important, but needs to be accompanied by sustained improvements in countries' growth potential. This again brings us back to the importance

of good policies, good governance, increased access to world markets, and expanding export and investment opportunities.

The role of country policies and institutions and vulnerability to shocks in determining debt sustainability is also critical, and we welcome the forthcoming IMF/World Bank review of debt sustainability in low-income countries examining these issues. PRSPs also can play a vital role in promoting good governance. However, despite recent progress, weak institutional capacity continues to limit PRSP implementation and poverty reduction efforts. To be effective, PRSPs must be integrated into policy formulation and budget planning processes.

Conclusion

The world economy continues to strengthen from some recent turbulent times, but challenges remain. It is important that countries continue to implement necessary reforms to reduce their susceptibility to economic and financial shocks.

Moreover, we need to deliver on our commitment to the MDGs in order to improve the welfare level of the most impoverished nations and individuals. While aid has an important role to play in achieving the MDGs, it can only be a complement to sustained efforts to mobilize domestic resources through better policies and governance. But the developed economies have to match this commitment by providing greater trade and investment opportunities for the developing world.

We continue to support the involvement of the Bretton Woods institutions in this process. We look forward to the Bretton Woods institutions improving their sphere of influence and policy advice, equally with regard to both developing and developed economies.

The well being of our nations is dependent on the development of sound domestic policies, meaningful trade liberalization, and good governance, which are fundamental if countries are to experience sustainable economic growth and ongoing poverty reduction.

BELARUS: ANDREI KOBYAKOV

Governor of the Bank

I would like to join the previous speakers in thanking the government of the United Arab Emirates and the Dubai authorities, as well as the management and staff of the World Bank and the International Monetary Fund (IMF) for their cordial welcome and excellent organization of the meeting.

Long-term experience of the International Monetary Fund and the World Bank confirms that these organizations are not only international centers providing financial support to countries with transition economies,

but also entities that strive to facilitate stability within an immense geopolitical space. It is no accident that these meetings of the leading international financial institutions are being held in the region, stabilization of the situation of which in many respects underlies global well-being.

The current paradigm of world development demonstrates that stable, sustainable, and progressive development of countries, and sometimes the existence of nations, is impossible without mutual and comprehensive consideration of interests of all the participants of the international relations. This is the reason that ensuring full-fledged integration of the Republic of Belarus into the world economy has been our major objective since the country gained its independence.

The Republic of Belarus, a new state that emerged in the very center of the political map of Europe more than 10 years ago, has taken an adequate place in the world community as a stable, peaceful, and democratic state.

The economic situation in Belarus reveals that a certain macroeconomic stability has been achieved over recent years. If we look at the levels and trends of per capita gross domestic product (GDP) and the purchasing-power parity of the countries of the Commonwealth of Independent States (CIS), we see that Belarus, along with Russia, has the highest indicators. In the other CIS countries they are considerably lower. According to United Nations data, Belarus ranks higher than these countries on the Human Development Index. It has moved from 68th to 53rd position in the last five years.

Long-standing positive GDP dynamics, the absence of considerable foreign debt, and export growth can also be considered our achievements.

A positive estimation of economic transformation in the Republic of Belarus by the Executive Board of the IMF at the meeting on April 16, 2003, is a confirmation that we are on the right track. Among positive developments, the Executive Board noted accelerating de-nationalization and privatization; stable GDP growth; reduced inflation; tightened budget, fiscal, and monetary policy; and exchange rate market and price liberalization.

Belarus is welcoming such an approach and hopes it will become a solid basis to start negotiations on preparing a Stand-By Credit Program Agreement as well as expanding the range and amount of technical assistance provided by the IMF. We highly appreciate IMF technical assistance. Belarus is making efficient use of the funds provided by the IMF.

During the recent visit of the IMF mission to Belarus, our government once again confirmed its determination to cooperate with the Fund. We are open and ready to discuss any forms and variants of the cooperation that are acceptable for Belarus.

In the framework of our cooperation with the World Bank, a Social Infrastructure Retrofitting Project is being implemented.

We are grateful to the World Bank for understanding the problems associated with abatement of the impact of the Chernobyl catastrophe. Our cooperation in preparing the Post-Chernobyl Recovery Project will contribute to minimizing consequences of the catastrophe and solve a range of problems in the Chernobyl-affected areas.

We attach serious importance to consultative and analytical work in our cooperation with the World Bank. In this framework, reports on health system, environmental, and natural resource management to minimize the impact of the Chernobyl catastrophe were prepared. Reports on private and social sector reform, public expenditures review and fiscal discipline, and poverty assessment are being finalized. The preparation of a New Country Economic Memorandum has been launched.

Belarus is determined to consistently develop its cooperation with the International Monetary Fund and the World Bank because that cooperation is a prerequisite for reforming the national economy and accelerating its integration into the system of world economic relations.

Given the extensive practical experience of the IMF and the World Bank, Belarus relies on their recommendations in formulating its economic policy. We have considerably tightened our monetary and exchange rate policy. We consider the IMF recommendations during forecast preparation and budget planning.

While relying primarily on its own efforts to create an environment for stable yet dynamic economic development (average annual GDP growth over the past seven years amounted to 5.8 percent; industrial growth, about 8.5 percent, budget deficit, not more than 2 percent of GDP), the government is urging the International Monetary Fund and the World Bank to actively support the ongoing economic and structural reforms in the country.

A distinguishing trait of the present economic policy of the government is a continued shift of focus on the liberalization of the economy. We proceed from the necessity to maintain and further strengthen macroeconomic stability on the basis of tightened monetary policy.

We assign great importance to development of small and medium-size businesses and take measures to create business incentives and establish a favorable environment for attracting foreign investment.

The Bretton Woods institutions should keep on playing the leading role in encouraging international cooperation so that globalization and associated processes further contribute to human development and make its benefits available to everybody. Regional characteristics and specificity of each country should underlie global and regional cooperation in development financing. As proved by the commitments made at Monterrey and Johannesburg, such cooperation is possible in coordination with the United Nations, the European Union, international financial institutions, and donor-countries. Only by

consolidating the resources of Bretton Woods institutions and their shareholders can the main outcome—stability in all regions and each country—be achieved.

In our view, preparation by the world financial community of a joint action plan for designing a new architecture of the world financial market deserves special attention. The new financial architecture requires considerable strengthening of the role of international institutions, primarily that of the International Monetary Fund, meaning not only strengthening of the IMF's financial capacities, but also development of a legal and administrative framework as well as new regulation and procedures that would enable the IMF to take on more responsibility for ensuring stability of the world financial system.

New challenges of the millennium are putting forth more and more complicated problems for mankind to solve. I hope the International Monetary Fund and the World Bank will realize their high mission to assist their client countries in their striving for an effective market economy and sustainable development.

BELGIUM: DIDIER REYNDERS

Governor of the Bank

I am honored to have the opportunity to once again address our Joint Discussions to present my country's views on a number of important international cooperation matters of fundamental importance to the missions and activities of our institutions. Before doing so, I would like to express my thanks to the authorities of the United Arab Emirates for their hospitality and their excellent organization of these meetings.

My country, which is at the heart of an expanding Europe and is embarking on its own institutional reform, maintains its keen interest in promoting international cooperation in the political as well as economic spheres. Accordingly, I would like first to comment on the global economic environment, then to discuss surveillance and the promotion of stability, and finally to address the issue of the Millennium Development Goals.

Economic Situation

Following a significant slowdown in growth, and indeed recession in a number of countries, most economic indicators are now pointing toward global economic recovery. In view of the remaining uncertainties and imbalances, the major question facing policy makers is that of consolidating this recovery and ensuring its sustainability. The key to doing this is likely to be found in more balanced macroeconomic policies and strengthened structural actions.

In the euro area it is anticipated that, following a disappointing year, growth will resume in the second half of 2003 and be strengthened in 2004. The European countries have already implemented major structural reforms and remain resolved to undertake the other reforms called for under the Lisbon agenda. In these circumstances, the growth potential of the European economy should thus be expected to improve in the future.

Economic growth in the United States is robust. The fiscal stimulus that has supported economic activity has undeniably had a positive impact. However, the deficits it has engendered are unsustainable in the long-term and mandate a credible consolidation program in order to ensure that they do not further push interest rates upwards and cancel out the earlier stimulative effect.

Japan's economy has recently shown signs of recovery. This is a positive development. But there are still significant challenges facing the Japanese authorities, such as combating persistent deflation and the necessary consolidation of public finances. Anchoring the economic recovery will require further structural reforms, in particular in the financial sector.

External disequilibria continue to pose a threat to the global economy and the stability of the international financial sector. Adjusting these imbalances requires both stronger growth outside the United States, based in particular on a strengthening of structural reforms, and an orderly development of exchange rates, including on the part of countries with sizable external surpluses. In this connection, I welcome the agreement reached within the IMFC on the need for the IMF to continue its focus on exchange rate issues across the membership.

The development of world trade is of critical importance for global economic growth. Robust world trade will not only lead to greater real growth, but will also have a positive impact on general confidence in the economy and can make a critical contribution to combating poverty. It is consequently of great importance, following the troublesome failure in Cancún, that the negotiations of the Doha Round get back on track. A consensus has emerged to this effect. The IMF can help us get this process moving again, on the one hand by reemphasizing the fact that everyone stands to gain from further trade liberalization and, on the other hand, by enabling countries experiencing transitional financing difficulties in conjunction with such liberalization to have access to its resources.

Surveillance and the Promotion of Stability

I salute the efforts made by the IMF to further enhance its efforts in the area of surveillance and crisis prevention. As this preventive

approach is of critical importance, it should be strengthened as a fundamental pillar of IMF activities.

Belgium, which has undertaken major reforms as regards its financial sector surveillance framework, including the establishment of a Financial Stability Committee, will soon join a number of other member countries in its constituency in undergoing the IMF's review in the context of the Financial Sector Assessment Program. Resolving the problems of the banking system has required major financial efforts, including in the industrial countries. Monitoring the observance of international standards and codes generally requires sustained attention, and the following initiatives should be undertaken:

- perfecting the analytical tool on the basis of assessing balance sheet vulnerabilities rather than flows alone. This is a method we are developing at the national level. Such an initiative may be expected, moreover, to mesh seamlessly with Article IV consultations. It concerns all of us, both emerging economies and the industrial countries;
- along the same lines, further developing the example of debt sustainability through sensitivity analyses and perhaps "stress tests" as well. The foundations of this approach are reflected in the stability and convergence programs examined at the European level. The relevance of such an approach is particularly evident as regards the policy on access to Fund resources. It would also appear necessary in view of the expansion of public indebtedness in the emerging economies and other developing countries;
- illustrating more clearly the extent to which countries have failed to observe the recommendations made during periodic surveillance exercises and taking this into account in the preparation of programs;
- further strengthening the transparency of data and information, so as to enable the market to play its role properly. It should be an assumption that Article IV consultation reports, reports on the use of Fund resources, and the IMF's Public Information Notices (PINs) will be published. The publication of information, which must remain consistent with the requirements of the Articles of Agreement, is of particular relevance in cases where the IMF itself is contemplating major financial commitments vis-à-vis a given country.

As regards crisis prevention in general, the institutional framework in place at the national level plays an essential role. In effect, supervisory, planning, and decision-making bodies should have specific mandates and clear missions, be adequately staffed, and have the ability to analyze future prospects on the basis of reliable statistics. Institution building is therefore of particular importance. It should be the object of increased surveillance and, where necessary, technical assistance efforts by the Bretton Woods institutions.

Generally, strengthened IMF surveillance is essential to the prevention of the emergence of new crises. Its interaction with other institutions, such as the Financial Stability Forum, is also necessary in order to detect residual weaknesses.

Again as regards preventive actions, the forthcoming disappearance of the Contingent Credit Lines (CCLs), which is now inevitable in view of their intrinsic flaws, does not mean that the problems they were intended to address have been resolved. Accordingly, it would be advisable to make better use of precautionary arrangements in order to achieve our objective and to reassure markets of the adequacy of the policies followed and, in so doing, prevent erratic market behavior and contagion effects.

Crisis Resolution

Alongside the strengthening of preventive actions, it is important to strengthen the mechanisms for crisis resolution. To achieve this objective, a more orderly and more transparent mechanism for restructuring sovereign debt is required. In this connection, we welcome the progress made in recent months with the introduction of collective action clauses (CACs) and in the development of a code of conduct. We also wish to stress the importance of a strengthened IMF strategy as regards loans to countries facing payments arrears.

The inclusion of CACs in sovereign debt contracts is a component that can ensure, on the one hand, that any possible debt restructuring will be carried out in as orderly a manner as possible and, on the other hand, that a minority of creditors will no longer be able to initiate actions, which might prevent the majority of creditors from preserving the value of their assets. In keeping with the political commitment made by the European Union last June, Belgium has indicated its willingness to include majority action clauses and collective representation clauses in all international sovereign bonds.

In the last year, many emerging economies and industrial countries introduced CACs in their sovereign borrowing contracts. We are pleased by the favorable response to these clauses on the part of the financial markets: their introduction has neither increased borrowing costs nor reduced access to financial markets. With the latest issues of international sovereign bonds by Italy and the United Kingdom, the EU has implemented the commitment made at last April's meeting of the IMFC.

Last year, a G-10 working party (the Quarles group), with the assistance of representatives of the private sector and of emerging economies, examined the legal modalities underlying this contractual approach. It proposed specific wording. We encourage sovereign bond

issuers to introduce CACs as espoused by the G-10. On this basis and with a view to achieving greater harmonization, the EU member states, represented by their finance ministers, have recently reached agreement on a common approach for introducing CACs in their international bond contracts. A more standard approach to CACs will, to be sure, provide the markets with greater clarity and transparency.

The work toward developing a code of conduct is another important step toward the effective resolution of financial crises. We encourage those working on this code of conduct to take into account various issues of relevance for the orderly resolution of financial crises already covered by the proposal for a Sovereign Debt Restructuring Mechanism (SDRM). In particular, these relate to questions of inter creditor equity, improved transparency and disclosure, and the problem of aggregation. While it is perhaps not possible to establish the SDRM at the present time, we do not believe that consideration of this issue should be abandoned prematurely. A strengthened sovereign debt restructuring mechanism will make it possible not only to resolve crises in a more orderly manner, but will also improve the observance of the rules on access to IMF resources.

Achievement of Millennium Development Goals (MDGs)

Eighteen months ago in Monterrey, the international community reached agreement on an ambitious plan of action for reducing poverty and achieving the Millennium Development Goals. This important challenge can be met only if the developed countries and developing countries alike shoulder their own part of the burden. While progress has been made, in particular as regards identifying the actions to be undertaken, the MDGs can be achieved on schedule only if urgent steps are taken. Accordingly, we cannot allow ourselves to scale back our efforts if we seek to give the poor of this world the hope of a better future.

The industrial countries should honor their commitments and ensure that there is an increased and continual flow of long-term resources. In this connection, Belgium will fully assume its responsibilities. I wish in particular to refer to my country's commitment to achieve the goal of 0.7 percent of GDP by 2010. In turn, the developing countries should continue to strengthen the reform process and ensure that it is ongoing, in particular with a view to improving the investment climate, the management of the public sector, governance, and the availability of public services. This new partnership is reflected specifically in poverty reduction strategies that are formulated and implemented by countries in the most participatory manner possible.

I call upon the Bank and the Fund, as well as other multilateral and bilateral donors and lenders, to adjust their policies and procedures better to those of the developing countries so as to enhance aid effectiveness. To these ends, I also encourage the donor community to assist beneficiary countries in building their institutional capacity. Indeed, we must avoid granting development assistance in the absence of adequate governance structures. The experience of the HIPC Initiative has taught us that establishing more transparent and better performing institutions is essential for the effective use of the resources freed by debt relief operations.

This said, the international donor community must not disregard the needs of countries in post conflict situations. In this regard, Belgium, in collaboration with its partners, will continue to play a dynamic role in supporting a peace and reconstruction process in the Great Lakes region.

Finally, I wish to reiterate that increased aid and the development objectives of the Doha agenda are complementary. Given the disappointment at Cancún, I encourage both the developed countries and the developing countries to renew their dialogue so that an acceptable compromise can be achieved as rapidly as possible. A positive result in this regard is essential if we wish to achieve the Millennium goals.

Belgium will participate in the reconstruction of Iraq insofar as the United Nations and the Bretton Woods institutions are called upon to play a central role in it. Security arrangements which enable these institutions to function normally will have to be ensured. In the final analysis, it is up to the Iraqi authorities themselves to assume responsibility for the reconstruction of their country. Belgium stands ready to support the concept of the creation of a trust fund under the auspices of the Bank.

In conclusion, I wish once again to thank the authorities of the United Arab Emirates and to express the strong desire and fervent hope that the efforts of the International Monetary and Finance Committee and the Development Committee may lead to concrete actions in the year ahead.

BOSNIA AND HERZEGOVINA: ADNAN TERZIC

Governor of the Bank

In the period after the war, with the support of international community, Bosnia and Herzegovina has gone a long way toward reaching economic self-sustainability. The government of Bosnia and Herzegovina is very grateful to donors for the support given to our country in the last seven years, and especially to the World Bank and European Commission on their very successful coordination in mobilization and implementation of international assistance.

In the last seven years significant results have been accomplished:

- Peace was stabilized.
- A significant level of political agreement was accomplished regarding the most important questions about implementation of the Dayton Peace Agreement, including the process of strengthening the state level.
- The return of greater numbers of refugees and displaced persons was ensured.
- Collaboration with countries in the region was strengthened.
- Membership in the Council of Europe was achieved.
- The process of integration into the European Union started as well as the process of getting full membership in the World Trade Organization.

In the same time period, on the economy plan, good results have also been noted in the following:

- GDP was tripled in comparison to the period just after the war.
- The infrastructure that was destroyed during the war was reconstructed.
- Macroeconomic stability was sustained: current inflation in the country is about 1 percent.
- The convertibility of the currency has been maintained. This convertibility is based on the monetary policy based on the currency board. National reserves have increased 15 times.
- Consolidated budget deficit has been decreased to 3 percent compared to gross domestic product.
- Foreign debt was regularly serviced.
- The process of tax reform has began with a goal of introducing a value added tax until 2005.
- The reform of judiciary and public sector administration is under way with a goal to increase efficiency and decrease corruption.
- The International Monetary Fund stand-by program has been kept, and next year we are beginning with negotiations on a new midterm program.
- The privatization of banking sector has been finalized. The result was the return of trust in the domestic banking sector: the level of deposits in the last year increased 25 percent.
- In a great number of companies the privatization process has been finalized.
- The process of liberalization in the sectors of telecommunications and energy has begun.

- The level of foreign investment in comparison to last year has doubled. The following investors are already in Bosnia and Herzegovina: VW, Coca Cola, Austria Bank, Volksbank, SIEMENS, Heidelberg Cement Group, and many others.

However, we are still faced with numerous challenges:

- The unemployment level in the country is at around 40 percent.
- The level of poverty is 20 percent.
- Trade deficit is still high. Therefore the current account deficit is also high and is 17 percent of gross domestic product.

In this year, we are planning to complete preparations of the development strategy of Bosnia and Herzegovina (Poverty Reduction Strategy Paper), so that we can start with its implementation in the period 2004–07.

Significant objectives of the PRSP are to:

- regain the creditworthiness of the country by 2007;
- decrease level of poverty for one third; and
- decrease the current account deficit to around 10 percent of gross domestic product.

To accomplish these objectives, we are determined to:

- ensure a higher level of real economic growth from the current 3.5 percent to about 6 percent by 2007;
- maintain macroeconomic stability and monetary policy based on the currency board;
- decrease the level of public expenditures from the current 56 percent in relation to GDP to about 46 percent;
- reorganize the tax system (introduce VAT) and establish joint customs administration at the state level;
- ensure faster private sector growth and increase the level of foreign direct investment by (a) creating better business environment for domestic and foreign investments, (b) speeding up the process of privatization, (c) decreasing the tax burden on the economy, and (d) reforming the judiciary system and public administration;
- implement welfare reforms;
- implement reforms in education and health system; and
- implement labor market reform.

The aforementioned reforms should lead to increasing export and decreasing current account deficits, which now represents a threat to macroeconomic stability. The second big threat to macroeconomic stability is the high level of domestic debt, which is about 90 percent in relation to GDP. The governments will adopt a plan for decreasing the domestic debt by the end of this year.

Parallel to the process of speeding up reforms, the governments are working actively on the integration of Bosnia and Herzegovina into the European Union and this represents the highest priority of our country in the coming period.

We appreciate the fact that we have made considerable results for a country that not long ago came out of the war. We are aware of the fact that big credit for our success belongs to the international community, which has in many ways, and especially through the Office of the High Representative, been present in Bosnia and Herzegovina. However, our wish is that in the following period we decrease the influence of the international community and fully take over the decision-making process concerning all matters with regard to the future of our country. Just to illustrate this, I would like to mention the fact that last year, for the first time, we organized elections on our own. Moreover, this summer, without influence of the international community, we agreed and adopted the action plan for realization of urgent reforms in the next six months. The implementation of this plan is going very well.

Our wish is to return the creditworthiness of the country in the next midterm and to make a significant movement toward European integration. We regard further developing the private sector and attracting more foreign investments as the main motors of the economic development in the next period. We are very encouraged by the fact that for the first time, one large international investment bank such as Bear Stearns made a very positive report on the numerous possibilities to invest in our country. However, the reality is that Bosnia and Herzegovina is still not creditworthy. On the other hand, the current investment crisis in the world, and the big drought we suffered this year, will slow economic growth for this year and the best part of next year. Therefore, in the next midterm period we will continue to need international assistance. It is an important to secure a gradual and avoid a sharp decline in international assistance.

Bosnia and Herzegovina is a unique success story for a post-conflict country, and the unique case in which donor assistance managed to make a great impact in rebuilding the society. We are very close to creditworthiness and self-sustainability—all the more reason to prevent a sharp decline in donor assistance to our country. For their part, governments in Bosnia and Herzegovina will remain committed to the reform program, which is formulated in the PRSP that we plan to approve by the end of this year.

BURKINA FASO: JEAN BAPTISTE COMPAORE

Governor of the Fund
(on behalf of the African Governors)

Introduction

We African Governors thank the authorities of the United Arab Emirates for hosting the 2003 Annual Meetings of the World Bank and IMF and for the hospitality extended to us. We commend them for the excellent facilities and the efficiency in the preparations of the meetings.

Global Economic Outlook, Risks and Policies

We note that there are encouraging signs of an upturn in the global economy, after a prolonged period of sluggish recovery. At the same time, we are mindful of the risks that continue to weigh on the upturn. In particular, the recovery is not broad-based across the major industrial countries, with the United States remaining the major engine of global output growth. The recovery is also associated with major current account and fiscal imbalances that have the potential to spark disorderly adjustment in major currencies and undermine export led recovery. Moreover, the failure of the Cancun WTO Ministerial meeting is a major setback to efforts to enhance growth and reduce poverty in Africa and other developing regions. In addition, structural impediments in major economies, uncertainties in the oil market and geopolitical uncertainties are sources of concern to the nascent recovery.

In this context, there is need for a global cooperative approach on policies to strengthen the recovery process and to avoid the disorderly unwinding of global imbalances. Structural reforms need to be accelerated in the labor and product markets in the Euro area while aggressive measures are needed to address deflation in Japan. Emerging market economies need to persevere with strong macroeconomic policies while addressing structural impediments and strengthening financial systems to reduce vulnerabilities.

Enhancing Growth Prospects and Poverty Reduction in Africa

Growth in Africa, though low compared to potential, has remained resilient, in spite of the global slowdown, reflecting major improvements in our macroeconomic policies and the positive impact of debt

relief under the HIPC Initiative. Most countries on the continent have achieved macroeconomic stability and undertaken key structural reforms. Fiscal deficits for Africa have been reduced and annual average inflation is leaning towards the single digits. Notable progress has also been made in reducing current account deficits and in liberalizing trade and exchange systems.

Notwithstanding these achievements, economic growth rates remain far lower than needed to halve extreme poverty by 2015. The continent has the highest rates of unemployment in the world; it remains the most afflicted by the HIV/AIDS pandemic, and is most vulnerable to exogenous shocks, particularly to adverse weather and commodity price fluctuations, and most prone to regional conflicts and civil strife. The current international geopolitical situation and the related security concerns is adversely affecting our tourism sectors and is also contributing to higher insurance premiums, adding new areas of vulnerability.

Against this background, we acknowledge that Africa faces the greatest challenge in meeting the MDGs. With this bleak outlook, we have resolved to redouble our efforts on a number of fronts: addressing conflicts which hinder economic development and undermine the effectiveness of private sector investment, of which our political leadership expressed strong commitment during the recent African Union Summit in Maputo, Mozambique; sustaining prudent economic policies; intensifying the fight against HIV/AIDS and Malaria; investing in infrastructure and accelerate economic integration in Africa, which offers many opportunities for trade expansion and economic diversification; and, strengthening the role, design, and monitoring of our PRSPs. To complement our efforts, we count on the support of the Bank, Fund and the donor community in mobilizing adequate financial resources and technical assistance to enable Africa and other poor regions

Mobilizing International Support for the MDGs

In Monterrey, the international community expressed support for mobilization of financial resources, estimated at US$100 billion per year, needed to achieve the MDGs. Since then, a number of commendable initiatives and undertakings have been announced by the United States, Canada, the EU, and the UN, to raise additional financing and to increase ODA. Also the International Finance Facility proposal by the U.K. authorities has the potential to raise the extra US$50 billion per year needed to achieve the MDGs and deserves the support of the international community. We wish to underscore that failure to urgently address the financing gap could jeopardize the objective of having a critical mass of countries achieve the MDGs.

Fighting HIV/AIDS and Malaria

We recognize that important steps have been taken by the Bank and the Fund to help combat the HIV/AIDS pandemic. However, these efforts are currently limited to a few countries. As HIV/AIDS knows no boundaries, such restrictions will hamper region-wide attempts to stop the spread of this disease. Hence, it is imperative that HIV/AIDS is confronted in both middle-and low-income countries. We urge the international community to pool resources to fight the HIV/AIDS pandemic in a regional context and to make global funds for HIV/AIDS more accessible.

As we intensify our efforts at combating HIV/AIDS, we should not lose sight of the devastating impact of Malaria on our human capacity and our economies. It is estimated that Malaria costs Africa more than US$12 billion annually, yet it can be controlled for a very small fraction of that amount. We urge the Bank and the international community to provide adequate financial resources as well as research support aimed at eradicating Malaria.

Education for All by 2015

We reiterate our commitment to give the Education For All (EFA) Initiative every support necessary to make it successful by increasing budgetary support, transparency and efficiency, and strengthening monitoring of outcomes in the education sector. At the same time, we request our development partners to allocate larger and more predictable assistance to our education programs, including long-term financing commitments for recurrent expenditures. We urge the Bank to increase its financial and technical support and to strengthen the advocacy role for the EFA Initiative.

African Economic Integration

Promotion of regional trade and economic integration initiatives are gaining currency worldwide and our political leaders have committed themselves to this goal in the context of NEPAD. Africa's economic integration will allow our individual economies access to a bigger market, attract FDI, diversify the productive and export base, and achieve the high and broad based growth rates needed to achieve the MDGs. In this vein, the NEPAD framework should be used as a hub for channeling assistance for Africa's economic integration by the BWIs.

To facilitate and accelerate Africa's economic integration, there is a need to develop and modernize regional infrastructure, merge and

strengthen capacity of regional institutions, and develop regional capital markets and financial instruments. We commend the work being done by the Bank in these areas. The Bank's Regional Integration Strategies for West Africa and Central Africa are important initiatives which should be extended to other regions, including Eastern, Northern, and Southern Africa. Overall, we urge the Bank, Fund, and other development partners to support Africa's economic integration and to forge cohesion and build capacity in our regional institutions.

Infrastructure Development

A major constraint to economic growth and regional integration in Africa is the lack of modern infrastructure. In particular, the high cost of air, road and sea transportation, electricity, and telecommunications makes it difficult for most African countries to foster private sector-led growth and to attract FDI. Moreover, lack of access of the rural population to roads, telecommunications, railways, ports, water and electricity hinders progress towards achieving the MDGs. To address this key challenge, we are gearing our efforts towards developing efficient domestic and regional financial systems with a view to mobilizing domestic and regional resources in support of infrastructure development. We will also promote partnerships with the private sector in developing infrastructure.

We welcome the Bank's commitment to leverage funds for infrastructure services using a blend of IBRD/IDA, IFC, and MIGA instruments and products. In addition we urge the donor community to facilitate the pooling of resources for regional infrastructure development in Africa, and the Bank and the Fund to catalyze the pooling of such resources.

Economic Diversification

To attain the minimum 7 percent growth that is needed to meet the MDGs, African economies need to expand and diversify their productive and export base. The need for diversification has long been recognized but very little has been achieved. Deliberate and targeted policy initiatives are also necessary to promote diversification as has been the case in such countries, as Mauritius and the Asian Tigers. These policies involved identification of the drivers of economic growth and the provision of the necessary support, including temporary access to concessional financing and fiscal incentives. We are eager to engage in a debate with the BWIs and the donor community on these incentives, with a view to drawing lessons from successful cases.

Private Sector Development

Promoting private sector initiative is critical to enhancing Africa's growth potential. While some African countries have experienced high growth rates, these were mainly driven by large FDI projects and this growth has not been instrumental in reducing the high rates of unemployment, while broad-based private sector participation remains constrained. Small- and Medium-Scale Enterprises (SMEs) represent a major engine of growth and employment in African countries and can contribute to accelerated progress towards the MDGs. In this context, there is need to address these constraints that hinder private sector activities in general and SMEs in particular. We recognize the World Bank Group's initiative to coordinate support to micro, small- and medium-scale enterprise development in sub-Saharan Africa (SSA) and recommend that these initiatives be strengthened. We urge the World Bank to review the role of MIGA and enhance its effectiveness in facilitating more FDI in Africa. We urge the IMF, in the design of programs, to promote fiscal and monetary frameworks that facilitate access to affordable domestic credit to SMEs.

Trade

Industrial countries maintain wide-ranging tariff and non tariff barriers against exports from developing countries, contrary to WTO rules and the Uruguay and Doha trade rounds. It is estimated that total public support to agriculture in OECD countries is more than US$300 billion annually, six times their ODA budgets. Barriers to developing countries' textiles exports cost 27 million jobs. The benefits of full liberalization of world trade in goods are enormous and could lift an additional 300 million people out of poverty by 2015 and it is estimated that income from exports of agricultural products could triple from US$10 billion to US$30 billion if OECD agricultural subsidies are removed.

We welcome that a number of African countries are benefiting from special initiatives like AGOA and EBA and others that offer opportunities for expanding exports. At the same time, we caution that these initiatives should not undermine the conclusion of the more comprehensive trade agreement under the Doha Round. Against this background we cannot but express our deep disappointment with the failure of the Cancun WTO Ministerial meeting to make progress on the many important issues that were put on the table during the Doha Round, particularly the removal of agricultural subsidies in developed countries. As pointed out in your joint letter prior to the Cancun meeting, progress on the removal of agricultural subsidies would strengthen our effort in reaching the MDGs. Accordingly, we urge the Bank and the

Fund to intensify their advocacy role for a faster conclusion of the Doha Round in order to create a level playing field in areas of trade where developing countries have an interest and comparative advantage.

Progress in HIPC Initiative Implementation

The heavy debt burden remains a key constraint to achieving the MDGs and we are concerned that there are a number of outstanding problems that undermine the effectiveness and credibility of the HIPC Initiative. These include:

- progress in implementation has stalled, as only two countries have reached the completion point since our meeting last year and only eight countries have reached this milestone since the launching of this initiative;
- creditor participation remains problematic as many non-Paris Club bilateral creditors have not agreed to deliver debt relief under HIPC terms;
- a number of creditors have resorted to litigation against HIPCs, forcing our countries to spend scarce resources in legal fees;
- outstanding HIPC-to-HIPC claims continue to pose a financial and moral dilemma for our countries;
- the HIPC Initiative remains under-funded as a number of countries, particularly those in protracted arrears were not included in the initial costs of the Initiative;
- lack of realism in the projection of macroeconomic variables and the impact of exogenous factors, including fluctuations in commodity prices has contributed to the need for continuous topping-up of debt relief at the completion point;
- notwithstanding the delivery of debt relief under the HIPC Initiative, debt sustainability remains illusive for many of our countries that have reached the completion point; and
- the sunset clause should continue to be extended to allow the remaining eligible countries to benefit from the HIPC Initiative.

These have been our major concerns since the launching of the HIPC Initiative and we have raised them every year. It is becoming increasingly evident that addressing these issues entails taking serious measures that may include revisiting the HIPC framework. In addition to the heavy external debt burden, our countries' efforts are crippled by high domestic debt, which limit the scope for increasing budgetary allocations to social sectors and other poverty reducing initiatives. We urge the BWIs and the donor community to assist our countries in alleviating the burden imposed by high domestic debt. Moreover, there are those low income African countries that are classified as non-HIPC even

though their socioeconomic characteristics are similar to those of HIPC countries. We urge the Bank and the Fund to consider extending the eligibility criteria so that these countries can benefit from the HIPC Initiative and from the Evian Agreement.

Some countries in protracted arrears have come a long way in strengthening their cooperation with the BWIs and the international community, yet the resolution of their arrears situation and their simultaneous access to the HIPC Initiative and other concessional resources remain uncertain. We urge the BWIs to catalyze innovative solutions for this group of countries.

Regarding post-conflict countries, it should be recognized that they face enormous challenges in consolidating peace and internal stability and rebuilding physical and institutional infrastructure, while attempting to pursue sound economic policies. Accordingly, we urge the BWIs and the international community to exercise greater flexibility in dealing with these countries and, in particular, to accelerate access of these countries to the HIPC Initiative. The Fund should also continue to mobilize resources to enable access to post conflict emergency assistance on concessional terms. We urge the Fund to revisit the repayment terms under the Emergency Post-Conflict Assistance with a view to aligning them to PRGF or more concessional terms.

Program Content and Design

The PRSP is gaining wide acceptance and ownership is deepening. Our goal is to make our PRSPs the springboards of our development efforts, mobilize external support and assess our progress towards meeting the MDGs. The BWIs should complement our own efforts in further enriching the micro- and macroeconomic content of our PRSPs, identifying new sources of economic growth, developing alternative policy scenarios and contingency planning to hedge against exogenous shocks, developing comprehensive statistical databases and conducting poverty and social impact analyses (PSIAs). We will seek to continue catalyzing domestic consensus to further strengthen ownership in the PRSP process. In this regard, we welcome the outreach programs being developed by the Bank and the Fund to enhance communication with national legislators. In designing the PRGF/PRSC, we urge the Bank and the Fund to continue to be guided by the objectives and priorities in our PRSPs and we urge donors to align their assistance programs to our PRSPs. In addition, we urge the donor community to harmonize the criteria and procedures for disbursement of aid and to synchronize their assistance programs with our PRSPs and domestic budget cycles.

While recognizing the traditional role of the Fund in providing temporary balance of payments assistance, we are of the view that program

design in low-income countries should be better adapted to take into account the necessity to provide technical and financial assistance over a longer time period and on more concessional terms. We are pleased to note that the IMF Board shares our views as was reflected in the recent Board discussion on the Role of the Fund in Low-Income Countries. Indeed, these are the countries which are the most vulnerable to exogenous shocks, to natural calamities as well as epidemic and pandemic diseases. In this regard, we urge the Fund to move speedily to develop modalities for timely assistance in response to shocks experienced by PRGF-eligible countries. This should include augmentation of PRGF arrangements and other options that are necessary to boost medium-term growth prospects. In addition, for countries that are graduating from use of IMF resources, there is need for the donor community to begin de-linking their assistance from Bank/Fund programs and to rely more on our PRSPs.

Assistance to Middle-Income Countries

A number of countries in Africa are classified as middle-income, yet they are among those with the highest income inequality in the world as reflected by high Gini Coefficients, the implication being that a large segment of their populations live in absolute poverty. The HIV/AIDS pandemic has imposed an additional and severe burden on some of these countries. Also, some have heavy external and domestic debt burdens and many depend on export of a single commodity. We urge the Bank, including IDA Deputies, the Fund and the international community to provide concessional resources needed to reduce poverty and to fight the HIV/AIDS in these countries.

Capacity Building in Africa

Institutional and human capacity building is critical for sustainable development and poverty reduction. It is a long-term process which requires strong political will as well as adequate and predictable funding. The African Union passed a resolution declaring 2002–11 as the capacity building decade for Africa. We commend the Bank for its continued commitment to help our countries achieve this objective and welcome the proposed secondment of professionals from our countries to the World Bank. We urge the Bank to implement this program immediately. We also welcome the full membership of the IMF in the ACBF and we urge the recently established AFRITACs to work closely with our regional institutions, including on issues of staffing. We urge the BWIs to further increase their financial support to, and advocacy for, capacity building in Africa.

Voice and Participation of Developing Countries in the BWIs

As declared in Monterrey Consensus and later affirmed in the spring 2003 Development Committee Communiqué, enhancing the voice and effective participation of developing and transition countries in the work and decision-making of the BWIs can significantly contribute to enhancing the effectiveness of reform programs as well as promoting international cooperation. In this regard, we remain concerned that as many as 47 countries of sub-Saharan Africa are represented by only two chairs on each of the BWI's Executive Boards. Furthermore, the quota share and voting right of Africa continue to decline, further undermining our voice and effective participation in the two institutions.

Against this background, and while welcoming the recent increase in staff for our Executive Directors' offices, we urge the BWIs to support and undertake further reforms aimed at strengthening the capacity and voice of African countries. In particular, we recommend the provision of additional chairs for Africa. Regarding the continuous decline of our countries' quotas in the IMF we strongly urge that in the context of the Thirteenth Review of Quotas, this trend be reversed. Furthermore, we urge the two institutions to reestablish relative size of the basic vote to its original level. These would be important steps in restoring the voting power of African countries to allow them to fully participate in the decisions that affect them in the BWIs.

Regarding IDA, our key concern is the limited involvement of our countries in the decisions taken by IDA Deputies. We acknowledge the progress made in the IDA replenishment process by involving borrower country representatives, albeit in a limited way. That said, we feel that more progress in this regard is needed, particularly by reasserting the role and mandate of IDA's Board in setting and approving the policies of IDA. This is more so given that all developing member countries are represented in the IDA Board. This action will be consistent with the appropriate governance structure of IDA under its Articles of Agreement.

African Staffing Issues in the Bretton Woods Institutions

African staff in the IMF and the World Bank are part of the strong assets of these institutions as much as for the development of Africa. However, their ability to contribute their fullest potential is still constrained by a number of visible and other invisible barriers. We welcome progress being made to address this issue but urge the management of the two institutions to do more to ensure that African nationals are accorded level playing field and equal opportunity to give their best and acquire rounded experience and expertise in the two institutions.

CAMBODIA: CHEA CHANTO

Governor of the Fund

It is a great pleasure and honor for me to address the 2003 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund in this very nice city of the United Arab Emirates. On behalf of the Royal Government of Cambodia (RGC), I would like to take this opportunity to express our deep appreciation to the Bretton Woods institutions for assisting Cambodia in its efforts to reconstruct and develop its nation after the 1991 Paris Peace Agreement and for continuing to support the RGC' s economic and administrative reforms that are crucial for broad-based economic growth and sustainable development. I would like also to extend our sincere gratitude to the UAE government for the high quality of the arrangements that have been made for these meetings and the warm hospitality extended to our delegation during our stay in the UAE.

Cambodia has achieved relatively high economic growth during the last several years, boosted by rapid growth in the garment sector for export and tourist-related activities in the context of peace and political stability. Since the economy has relied significantly on garment export, tourism, and foreign direct investment, the strength of the global and regional economy is an important factor in achieving high economic growth for Cambodia. In this regard, we are pleased to note mounting expectations for a global economic recovery this year and beyond. It is good especially to know that the U.S. economy at large begins to show some positive trends; the economic recovery outlook for Japan has improved, and the 2003 growth projection is higher than the previous year; other major economies in Asia also show improved performance. We hope to see improvement in the Euro economy during the rest of the year as well. The prospects for continued economic growth in ASEAN countries look good—an optimistic view expressed by the delegates at the Thirty-Fifth ASEAN Economic Ministers Meeting in Phnom Penh, Cambodia on September 2, 2003—despite the effects of severe acute respiratory syndrome and terrorism on the economy.

The economy of a developing country like Cambodia depends also on its successful integration into the global and regional system. Cambodia has made a lot of progress in this area. In 1998, the RGC reclaimed its official seat at the United Nations. Then, Cambodia's relations with the IMF, the World Bank, and the Asian Development Bank were normalized. In April 1999, Cambodia became a full member of the regional grouping, the Association of South East Asian Nation (ASEAN). In addition, Cambodia is now a full member in many key international organizations including the UN System, World Customs Union, Multilateral Investment Guarantee Association, and the International

Centre for Settlement of Investment Disputes. Recently, Cambodia hosted a large number of historic international events in the context of ASEAN, ASEAN+1, ASEAN+3, ASEAN+India, and the First Great Mekong Sub-region Summit, etc. Just this month, Cambodia' s entry to the World Trade Organization (WTO) has been made official. Cambodia is the first least-developed country to be admitted into the WTO. Cambodia's successful accession to the world trade body has been hailed as a revolution in the history of the WTO as no poor country has ever gained such status. All current WTO members warmly welcome Cambodia's membership. They have commended the RGC for being able to meet the stringent and voluminous conditions for WTO membership. In particular, they appreciate Cambodia's strong commitment to democracy, principled respect for human rights, transparent and predictable promotion of a market economy.

Cambodia has embarked on trade liberalization in the context of the ASEAN arrangements and the IMF-supported programs. Although this trade liberalization exercise brings some risks, the RGC finds it to be a necessary means to achieve economic growth and to facilitate its global economic integration. The global integration should offer an opportunity to developing countries to survive a harsh and fierce global competition through a package of concessions and commitments from more-developed members. To allow poor countries to fully benefit from globalization, industrialized countries should open more widely their economy to developing countries, especially those countries that have committed themselves to liberalizing their trade. In this respect, we would like to call on more-developed members to positively respond to the demand of developing countries for major concessions, including the slashing of subsidies and tariffs on farm products and to produce a more pro-poor treaty on liberalizing international trade.

Now let me brief you on the recent economic development and economic issues in Cambodia. Economic performance was good during the last several years. The economy was estimated to grow by 5.5 percent in real term in 2002 compared with 6.3 percent and 7.7 percent in 2001 and 2000, respectively. This 2002 growth estimate was based on robust construction activities, strong performance of garment exports, and tourist-related activities. The agricultural sector, which accounted for more than one third of the total product, suffered from flooding and drought. During the first several months in 2003, the economy was adversely affected by the SARS outbreak. Garment export and agricultural sector are expected to be strong this year. Nevertheless, the 2003 growth is projected to be a little lower than the 2002 growth because of weaker tourist sector and lower level of investment.

The last five years were characterized by a remarkable macroeconomic stability due to a prudent monetary policy. The inflation rate was

less than 1 percent between 1999 and 2001, and 3.1 percent in 2002; that was still within the government's determined target range of below 5 percent. For the first seven months in 2003, CPI rose by 0.34 percent and the annualized inflation rate for July 2003, based on three-month CPI average, was 1.53 percent. The value of domestic currency was largely stable during these years, depreciating by less than 2 percent annually on average against the U.S. dollar. This positive state of the economy was also reflected in the steady increase in the international reserves, which grew by more than double during the last six years. During the first eight months, the riel depreciated by 2.5 percent in relation to the U.S. dollar while the international reserves increased a little.

The macroeconomic stability was also underpinned by good fiscal performance. During this period of stability, fiscal balance was more or less maintained and bank financing of the government's budget was avoided. In 2002, domestic revenue and budget expenditure were more or less at the level stipulated in the 2002 budget law despite the conduct of the first commune election in the country during that year. However, revenue collection during the first seven months in 2003 was weak and use of domestic bank financing was observed. The National Bank of Cambodia has monitored closely the bank financing of the government's budget to ensure it is within the range permitted by law and has worked with the Ministry of Economy and Finance on an appropriate policy mix to mitigate any impact of this financing on the macroeconomic stability.

Despite the progress made in the last few years, the RGC is conscious of challenges associated with international trade and investment and the creation of foundation for a broad-based economic growth and sustainable development. To meet these challenges, the RGC has committed itself to accelerating and deepening a wide range of reforms aimed at strengthening government capacity, enhancing transparency in government interaction with the private sector, promoting private sector enabling environment, strengthening governance, promoting financial intermediation, and other reforms that are conducive to broad-based growth. Successful implementation of these reform measures will help develop not only a broad-based economy, but also enhance Cambodia's competitiveness in the world market, which is one of the biggest challenges as Cambodia is now a WTO member.

As you may know, Cambodian people have cast their vote in the country's third general election that took place just two months ago and that has been considered in general as free and fair. The political parties are now working to solve their differences and a new government will be formed soon according to the people's will and the constitution of the Kingdom of Cambodia. The next government will need to continue to implement the reform measures with the aim of creating a

solid foundation for a broad-based economic growth and sustainable development.

It is worth mentioning the valuable contribution of the Bretton Woods institutions to the stability and economic growth that Cambodia has achieved during the last several years. Cambodia has received technical assistance from the IMF in many areas as well as financial assistance in the context of ESAF and its successor PRGF arrangements. The first three-year PRGF arrangement for Cambodia was successfully concluded early this year. In the context of this PRGF arrangement, a wide range of government reforms have been implemented, thus improving the foundation for a sustainable development and facilitating the country' s global and regional integration. The World Bank has actively assisted Cambodia from the outset in its reconstruction after the 1991 Paris Peace Agreement, in development of physical infrastructures as well as in implementing many important projects that have promoted economic growth and poverty reduction. We are sure that the IMF and the World Bank will continue to support Cambodia and other developing countries in their efforts to achieve a sustainable development and successful participation in the global and regional system.

Finally, I would like to express our deep gratitude and appreciation to the management and staff of the IMF, the World Bank, other international and regional institutions, and donor communities for their valuable assistance and support to Cambodia. Given our limited capacity and lack of human and financial resources, we continue to look forward and welcome technical and financial assistance in any form in any area from the international and regional financial institutions as well as from other donor communities. We thank you for your good will towards Cambodia, its people and its government.

CANADA: JOHN MANLEY

Governor of the Bank and the Fund

I would like to begin by thanking our hosts, the United Arab Emirates, for providing the venue for the first Bank/Fund meetings in the Middle East. Our meeting in Dubai comes at a particularly critical time for the region, where many states have taken important steps towards greater democratization and reform, and where recent events in Iraq provide us with both opportunities and serious challenges. More broadly, the global economic outlook is clearly more favorable than it was six months ago. There are signs of stronger growth in many countries, but major risks remain and continued vigilance is needed to sustain more robust growth over the coming year. A sustained period of more rapid economic growth in the developing world is required for further progress toward poverty reduction in low-income countries.

Canadian Economic Prospects

Canada's economy grew strongly through the early part of this year. The negative impacts of a recent series of shocks are expected to be short-lived, and Canada's strong fundamentals and a strengthening U.S. recovery are expected to support growth in the second half of 2003. Both the IMF and OECD forecast Canada to perform near the top of the G-7 in growth in 2003 and 2004.

Risks to the Global Outlook

Global economic prospects look brighter than in the spring, with signs of stronger growth in the United States and Japan, and some improvement in consumer indicators in select European countries. Nevertheless, there are areas of the world where the outlook is still lackluster. Growth in much of Europe continues to languish and has been uneven in some of the key emerging market countries.

Major risks to the outlook remain, and a major challenge is to make the structural changes necessary to underpin solid medium-term growth. Fiscal policy needs to be put on a sustainable medium-term track, especially in industrial countries with aging populations, but also in emerging market economies, which remain vulnerable to shifts in financial market sentiment. Financial systems have to be strengthened, particularly in emerging market economies playing an increasingly important role in international financial markets. However, industrial countries also have regulatory gaps and vulnerabilities that need to be addressed. And external payment imbalances pose a risk of exchange rate instability and increased trade tensions. These imbalances have to be addressed cooperatively and constructively with effective structural reforms and sound monetary and fiscal policies that are aimed at promoting sustained growth, open trading regimes, and flexible exchange rate adjustment.

Enhancing Crisis Prevention and Resolution

The Fund's surveillance role is critical in identifying emerging problems and policy imbalances before they become crises. Although the Fund has made progress in making surveillance more effective, including through strengthened debt sustainability assessments, more candor is still needed in the Fund's assessments of country situations.

The Fund's more holistic approach to surveillance is encouraging. It is putting an increased emphasis on sound institutions and the rule of law, and more closely examining political economy issues and ownership of programs. The Fund could do even more to help build ownership

by publishing more of its documents, facilitating a meaningful dialogue with interested parties, and leading to better policy design and enhanced public support for reforms. Program ownership could be further strengthened if Fund documents included scenarios that clearly spell out the costs of policy inaction, assuring publics that often difficult reforms are indeed necessary and have significant medium-term benefits.

Good progress has also been made in improving the crisis resolution framework over recent years, including setting out the criteria and procedures for exceptional access lending and the widespread adoption of collective action clauses in international sovereign bond contracts. Work is underway to develop a code of conduct to guide debtor-creditor relations. But the framework should be regarded as a work in progress, with more work still to be done on issues related to debt restructurings, such as inter-creditor equity and aggregation issues.

Achieving the Millennium Development Goals

Low-income countries face significant challenges to put themselves on a more sustainable growth path and reduce poverty. Last year at Monterrey a strong consensus emerged between developing and developed countries on an approach to achieving the Millennium Development Goals. We all recognized that for developing countries, there is no substitute for sound economic and social policies. Moreover, there is consensus that a strong commitment to good governance, including strong anticorruption measures, the protection of human rights, and respect for the rule of law are key elements of good policy frameworks. In Canada, CIDA increasingly is underlining the importance of good governance and the ability to use aid effectively in channeling incremental resources to poor countries.

Poverty Reduction Strategy Papers (PRSPs) are assuming ever greater importance in guiding national development strategies and in providing frameworks for development cooperation. The Monterrey Consensus, however, also includes commitments from developed countries in areas such as increased ODA, debt relief, and more effective development assistance. In this respect, donors have committed to increase aid volumes by US$16 billion annually by 2006. But developed countries could improve aid effectiveness by aligning their development assistance with national priorities and by improving the coordination and harmonization of their development activities with developing country partners and with each other.

A long-term goal is to help low-income countries grow more quickly and reduce poverty to the point where they are relying predominantly on private sources of financing. The Fund can help facilitate this objective through more intensified support in its traditional areas of

macroeconomic competence, but there is also scope for the Fund to work more in conjunction with other development partners in areas such as institution building and in encouraging greater developing country ownership of programs.

Voice and Participation

It has long been recognized that country ownership contributes to the success of development programs. Similarly, more effective developing country voice and participation in the Bank and Fund policy deliberations is critical to ensuring that programs take into account individual country circumstances and are realistic and sustainable. There is now a strong consensus among Bank and Fund members that further capacity building measures are needed to enhance the voice of developing and transition countries within the two institutions.

Steps have been taken to bolster both human and physical resources in developing country Executive Directors' offices, but there are a number of deficiencies that still need to be addressed. A recent proposal to establish a program to second mid-level African officials to the World Bank is worth closer study. Such a program, which in our view should be extended to developing country candidates beyond Africa, would provide strong benefits to sponsoring governments and the World Bank alike. Consideration might also be given at the Bank to enhancing the recruitment of young professional candidates from the developing world. To improve the dialogue between Bank staff and country authorities, the Bank could institute further decentralization of its country bureaus to the regions.

Trade

For many developing countries, trade is more important than development cooperation funding in generating the resources necessary to achieve the Millennium Development Goals. An equitable, open, and rules-based international trading system would enable developing countries to tackle the root causes of poverty. Based on the Doha Declaration and the work that was achieved at Cancun, trade negotiations need to continue to ensure that developing countries are better integrated into the global trading system. We share the view that this can best be achieved by making real progress on reform of agricultural trade.

We all need to demonstrate a more constructive approach to the trade agenda. While furthering progress in agriculture and improving market access for goods and services, we need to work harder to reach agreement on a range of provisions that ensure that trade reform

benefits the poor in developing countries. We also need to bolster our collective effort to provide effective and targeted technical assistance for building trade capacity in developing countries.

Both the Bank and Fund will continue to have an important role to play in providing policy advice and in building this trading capacity. Moreover, trade issues need to be given greater prominence in Bank and Fund support programs in poorer developing countries.

Looking Forward

Looking ahead, Canada's growth prospects are encouraging. The prospects for the global economy are much brighter than in the spring, although major risks remain. A key challenge is to ensure solid medium-term growth. The international financial institutions are well positioned to support stable growth and help low-income countries achieve reductions in poverty. However, successful trade reform would help developing countries better integrate into the global economy and improve prospects for poverty reduction.

CHINA: JIN RENQING

Governor of the Bank

I am pleased to come to this zealous and hospitable country for the World Bank/International Monetary Fund Annual Meetings. At the outset, I would like to express my sincere appreciation to the government and people of the United Arab Emirates for their thoughtful preparation and wonderful arrangement for the meetings. It is my honor to join my colleagues from all over the world to discuss the issues regarding development and prosperity of the world.

The world economy has started to pick up slowly since 2002, after a period of economic adjustment. Although geopolitical uncertainty and SARS in certain regions have affected, to some extent, the process of the world economic recovery, the positive development in some emerging-market economies and countries with a strong global influence has contributed to the gradual recovery of the world economy. It is encouraging to note that a number of developing countries have achieved good performance in economic growth by continually implementing policy reforms and overcoming the difficulties posed by decelerating international capital inflows and an unfavorable external environment.

Nevertheless, we should also be aware of the fact that world economic development still lacks robust stimulus; the growth rate of the United States, Japan, and Europe remains low at the same time. Furthermore, the instability of international financial markets has increased. World trade growth tends to be slower, with increasing trade

protectionism. In the long-term perspective, improved productivity resulted from technological innovation, and structural problems deeply rooted in many countries have created excessive productivity capacity and an over-supply situation. The ensuing rising unemployment rate and heightened deflationary pressure have added further difficulties to the world economic recovery and readjustment.

In the past year, the Chinese government continued to adopt proactive fiscal policy and appropriate monetary policy that have effectively stimulated domestic demand. Despite the unfavorable external environment and quickly spread SARS, the Chinese economy has maintained high growth. In the first half of 2003, China's gross domestic product grew by 8.2 percent over the same period last year. The projected target of 7 percent annual growth will be achieved.

Looking at the business cycle, the Chinese economy has entered a new growth stage. The intrinsic vitality of the economy has been remarkably enhanced, and a number of new growth points are emerging in areas such as automobiles, real estate, electronics, and telecommunications. Meanwhile, private sector development has been booming continuously, and spontaneous investment demand has been accelerated. On the other hand, China's opening to the outside world has entered a new phase marked by China's accession into the World Trade Organization, broadening the room for further economic growth.

In order to achieve the overall objective of maintaining stable economic growth, the government will continue to stimulate domestic demand, ensure the continuity of macroeconomic policies, and push forward reforms to address the structural problems of the economic system. Emphasis will be given to rural development, corporate and financial restructuring, and government-institution improvement. The government will take all possible measures to improve the quality and efficiency of economic performance and to maintain the economic development and social stability.

We take note of the concern about the Renminbi (RMB) exchange rate. The Chinese government has always held a serious and responsible attitude about this issue. Since the eruption of the Asian financial crisis in 1997, the stability of the RMB exchange rate has not only enhanced China's economic and financial stability, but also contributed to financial and economic stability in the Asia region and the world. A country's foreign exchange regime should be determined by its economic development stage, its financial regulatory capacity, and the solvency of enterprises. The market-based, single, managed floating exchange regime as adopted by China complies with China's fundamentals. In tandem with deepening financial reform, the Chinese government will further improve the mechanism of the RMB exchange rate, prudently liberalize capital account, gradually relax

constraints on using foreign currencies by firms and residents, and closely monitor and adjust the balance of payments. We believe that the stability of the RMB exchange rate is conducive to stable economic and financial development not only in China but also in the region and the world.

In the era of globalization, the role of the World Bank and the IMF in promoting sustainable economic development has been getting the attention of the whole world. We welcome discussion on such important issues as implementing the Monterrey Consensus, enhancing the voice and participation of developing and transition countries, opening up markets to developing countries, and promoting infrastructure development to accelerate poverty reduction. This is a good demonstration of the unique role that the Bank and the IMF have played by listening to developing countries and paying due attention to their needs.

The mandate of the Bank is to promote economic growth, reduce poverty by transferring real resources, and achieve equitable global economic development. To meet these goals, the Bank should stick to its mainstream business by providing investment loans to client countries and scale up efforts to support infrastructure development. In this connection, we welcome the Bank's infrastructure action plan. We hope that the plan will be translated into real action as soon as possible. To ensure the success of infrastructure projects, due attention should be given to the balance of costs and benefits. The Bank should formulate practicable and feasible safeguard policies that are based on the realities of borrowing countries so as to effectively promote economic growth and poverty reduction.

The inadequacy of official development assistance (ODA) is a big hurdle in achieving the Millennium Development Goals (MDGs). The shortage of funds has created a negative impact on the continuity of policy reform and sustainability of economic growth in developing countries. It is our view that the volume of development aid and the sequence and formality of aid flows should be in line with recipient countries' specific circumstances, such as development stage, poverty incidence, and structural adjustment agenda, which vary from country to country. Developed countries should further increase development assistance to achieve the 0.7 percent UN target, which is critical to achieving the MDGs. We have noted that some countries have made constructive proposals with regard to implementation of the Monterrey Consensus. We hope that the High-Level Dialogue on Financing for Development during the UN conference this year will come up with more detailed and comprehensive initiatives to enhance the accountability of all parties involved in implementing the Monterrey Consensus. Such initiatives should be progressive, selective, practicable, and measurable. It is our hope that the active participation of the World Bank

and the IMF will lend an impetus to the international community in implementing the Monterrey Consensus.

We welcome the role that the Bank and the IMF have played in promoting the Doha development round and in advocating a fair and open multilateral trade system that addresses the needs of developing countries. We attach great importance to the complementarity of increasing market access and providing additional development assistance. The developed countries' reduction of trade barriers, especially in the area of agriculture subsidies, holds the key to the success of the Doha development round. This reduction would be a concrete demonstration of the commitment the developed countries made in Monterrey. We regret that the Cancun trade ministers' meeting failed to result in an agreement. We hope that all parties will make concerted efforts to promote the Doha development round. Developed countries, in particular, should take due responsibility to abandon trade protectionism, lower barriers, and further open up their markets so as to create a favorable external environment for developing countries. We hope that the new round of WTO negotiation will contribute to global development and poverty reduction.

CROATIA: MATO CRKVENAC

Governor of the Bank

It is my great honor and privilege to address the IMF and the World Bank Annual Meetings in Dubai, UAE. I would like to express my gratitude to our host for their warm hospitality and for their admirable organization of these meetings.

Let me take this opportunity to pay tribute to both Bretton Woods institutions for the manner in which they have handled the global development issues. I would like to congratulate Mr. James Wolfensohn and Mr. Horst Köhler on their achievements over the past year and applaud them for the many new initiatives. I am certain that they will be of great benefit to member countries, especially those in the developing world.

Over the past year, both institutions have clearly shown that they adapt and implement their policies to the needs of a changing global economy. In that context, we support the Bank and IMF in contributing to the fight against the financing of terrorism, as well as the fight against money laundering through their surveillance activities.

We understand the Bank's need for broadening its activities in order to support stability and geopolitical security, as a necessary precondition for sustainable development, and this should therefore remain an integral part of the development agenda. We appreciate the Bank's cooperative approach with other key actors given the complex political, social, economic, and international dimension of the global adjustment

process. There is room to strengthen its post-conflict policy performance within its scope of work.

Further enhancing the ownership of client countries and greater involvement of developing and transition countries in the Bank's operations, especially in the CAS process, is of a great importance. We welcome the spirit of shared responsibility and mutual accountability in achieving the Millennium Development Goals (MDGs) and support the idea of adopting concrete monitoring measures to ensure that development partners deliver on their promises. Although the financial roles of both institutions remain indispensable, we see the great value of technical assistance (TA) as being essential to continue reforms by improving economic policies and strengthening public institutions.

The subject of enhancing the voice and participation of developing and transition countries is rather challenging and not simple. The proposal to set up an independent expert task force to deal with the issues of the voting and capital structure of the Bank seems to be a reasonable one. The mixed country constituencies, consisting of both borrower and donor countries have advantages. There is a question of their adequate proportion in order to fully promote the interests of both groups of countries. As regarding the idea of establishing a trust fund to support research and policy advice in EDs' offices, besides the issues of raising funds (contributing with adequate resources), the over reliance on developed country researchers and advisers also could be elaborated further.

We encourage activities on the decentralization as well as enhancing transparency of both institutions. Let me say that Croatia publishes Article IV reports as well as program documents, and we welcome the recent IMF Board decision to move towards presumed publication of country reports. These reports are a useful source of information for the banking and business community and could serve the purpose of making economic and financial risk assessment available for each individual country and not only the regional risk context.

Turning to Croatia, allow me to present some recent activities and achievements.

The Stabilization and Association Agreement (SAA) with the EU signed in May 2002, strongly emphasizes the individual country achievements and depends on the regional cooperation, which we strongly welcome. In that respect we have made significant progress with regard to political stabilization and fostering economic ties with neighboring countries. In March this year, Croatia officially applied for accession to the EU, and we are looking forward to its future development as a process of integration in the European Union. Our overall achievements so far are giving us reason to believe that by the end of 2007 we will fulfill all conditions required by the EU from its potential new member countries. As a WTO and CEFTA member, Croatia has opened its

borders to potential partners from the region and all over the world. We believe Europe to be a unique association having a great advantage in international relations. Becoming a part of such an association will be a benefit for the union that we have always considered as our homeland. Furthermore, we have significantly improved our relationship with NATO through the Partnership for Peace Program, which we believe to be one of the major contributions for the successful development of stability and peace in the region.

Lastly, let me say a few sentences about the macroeconomic situation and trends in the Croatian economy. In spite of the generally weak level of economic activity in the major EU member countries, Croatia continues to achieve positive results and provides proof of a good macroeconomic performance of the Croatian economy in the course of the last several years. Real GDP growth was 5 percent (as projected) mainly due to the increase of industrial production and infrastructure investments, as well as tourist-sector activities. Unemployment is still high but is constantly decreasing. We expect that macroeconomic policies would remain adequate and supportive for further structural reforms to strengthen economic growth on a sustainable basis.

For the first half of this year inflation was 0.9 percent, while at the end of last year 2.3 percent was recorded. Inflation was lower and international reserves reached a larger level than originally programmed. Fiscal targets were materialized with a further reduction of the deficit of the consolidated central government from 5.4 percent of GDP in 2001 to 4.25 percent of GDP in 2002. Fiscal consolidation remains a priority in order to enhance stable and sustainable growth.

Finally, we are interested to develop further our relations with the Bank and the Fund as a continuation of traditionally good cooperation using all possibilities that those institutions offer for sustainable development and a better living standard for the Croatian population. Mr. Chairman, let me assure you that Croatia will continue to pursue the development of a close and beneficial cooperation with the Bank in the future.

Ladies and gentlemen, thank you for your kind attention.

CYPRUS: MARKOS KYPRIANOU

Governor of the Bank

It is an honor to submit a statement to the 2003 Annual Meetings of the Governors of the International Monetary Fund and the World Bank Group. Although this statement addresses global economic and financial issues, it is made from the perspective of a small open economy that will accede to the European Union (EU) in May 2004 and that aims to participate in the European Monetary Union as soon as possible.

Although there is now some evidence of a recovery in the world economy, the global economic environment has remained unfavorable for Cyprus and other small open economies. Output in the main European trading partners is stagnant, and the threat of international terrorism compounds negative effects on the export of tourism services in particular. More generally, it could be said that the small open economies, which are heavily dependent on air travel, have been affected more harshly by the adverse international environment of the last two years.

To contain the negative effects emanating from the fall in tourism, the government of Cyprus adopted a more expansionary fiscal stance and has managed to keep the economy growing at an annual rate of around 2 percent. However, the stimulating of government expenditure comes at a time when cyclically determined tax revenues are subdued and EU harmonization and structural reform costs are mounting. In accordance with this fiscal policy stance, Cyprus, along with many other European countries, is finding EU fiscal rules, including the convergence criteria established for government deficits and public debt under the Maastricht Treaty, more demanding.

In addition to the great effort that has been made to contain government expenditure in the forthcoming budget for 2004, a sustained and strong recovery in global output and world trade would help considerably in reviving growth and correcting the imbalances in the Cypriot economy. Indeed, fiscal consolidation constitutes the backbone of the 2003 Pre-Accession Economic Programme of Cyprus, which is premised on the recovery of the annual growth rate of the Cypriot economy to its potential of 4.5 percent over the medium term.

In the current international environment of sluggish economic growth and trade, there is a tendency by certain countries and regional groups to attempt to maintain and even enhance their market shares by keeping their currencies undervalued and resorting to protective trade measures. However, such practices and behavior will only distort world trade and keep its growth below that of output. Cyprus welcomes the efforts of the World Trade Organization, the World Bank, and the International Monetary Fund to encourage advanced economies to phase out trade-distorting policies so as to ensure that commitments to free trade made in Doha in November 2001 are implemented on schedule by 2004.

In terms of policies of the international community to assist with significant poverty reduction in the poorest countries through the Monterrey Consensus, there is concern that the momentum built up 12 months ago to bring about the effective delivery of the Consensus seems to be losing steam. There is an immediate need for donors to fulfill their Monterrey commitments on large increases in aid and to pursue proposals for new financing facilities and modalities so as to help meet the

Millennium Development Goals (MDGs). In terms of the policies and efforts of the international community and developing countries to achieve the MDGs, the World Bank's *World Development Report 2004* is particularly illuminating, especially in its central theme of how to make services work for poor people. Indeed, the process of providing development assistance should be directed toward making developing countries ultimately dependent on their own resources and infrastructure to generate and to sustain healthy economy growth.

But what also is an essential pre-requisite for promoting sustained development is the establishment of conditions of peace and security. The awful experiences of countries such as Afghanistan, Iraq, and Liberia demonstrate that conditions of stability and public order must be restored to support any sustainable reconstruction process. International efforts must be taken to prevent post-conflict countries from reverting to instability and violent conflict, so that all developing countries have conditions of peace and security vital for sharing in the global development process.

Finally, it can be stated that Cyprus benefits both directly and indirectly from the IMF's surveillance activities. The Fund's Article IV consultation reports provide an invaluable input into the analysis of economic developments and prospects and the assessment of our policies. Although IMF surveillance helps in averting international financial crises, there are areas in which this surveillance can be improved. In this connection, trade liberalization comprises an important element of crisis prevention and resolution. Accordingly, we support the intention of the Fund in its Article IV reports to provide an assessment of the degree to which countries observe open trade regimes.

Furthermore, Cyprus strongly backs the international fight against money laundering and the fight against the financing of terrorism. It supports the efforts of the IMF and the World Bank in contributing to this fight through their surveillance activities and technical assistance, in collaboration with the Financial Action Task Force (FATF) and FATF-style regional bodies.

FIJI: J. Y. KUBUABOLA

Governor of the Bank

It is a great honor for me to address the Board of Governors of the International Monetary Fund and the World Bank Group at the fifty-eighth joint Annual Meetings. I would also like to express, on behalf of my delegation, our sincere appreciation to the host, Dubai, as well as the government of the United Arab Emirates, for their warm hospitality and the excellent arrangements made for this meeting. I also congratulate you, Mr. Chairman, in chairing the meetings this year.

There have been many serious developments on the international front since we last met in Washington. The war in Iraq has ended, but the world continues to face the huge challenge of reconstructing the country's economic, social, and political systems. The search for lasting solutions to the threat of terrorism continues. This year, the outbreak of the deadly SARS virus affected the South East Asian region severely and, by extension, some of our economies that have trade relations with the Asian countries affected.

We live in uncertain and volatile times. This fragile environment depresses world growth and makes the future very unpredictable. While the IMF has forecast an improved outlook for the world economy, we are concerned with the uneven and low growth among developed countries. We are even more concerned that this climate makes it extremely difficult for developing members of the Bretton Woods institutions to find lasting solutions to their economic problems. As the global village becomes smaller, the ramifications of international developments that we have seen in the last 12 months are rapidly transmitted to all parts of the globe.

We in Fiji, a small island economy in the middle of the large Pacific Ocean, are not immune from these developments. The impact of SARS and the war in Iraq affected our tourism sector, the largest industry in our country. Furthermore, these adverse developments complicate the high level of vulnerability that we already face from our small size, remote location, scarce resources, and very thin and undeveloped markets.

Nevertheless, we are making our contribution to efforts to deal with these global challenges. Fiji has made a lot of progress to counter money laundering and terrorist financing. This year, we are concentrating on implementing the recommendations from the Asia Pacific Group on Money Laundering Mutual Evaluation Exercise that was carried out last year. Recently, we established an interim Financial Intelligence Unit to strengthen our surveillance and monitoring of suspicious financial transactions. The unit will be formally established after passage of appropriate laws, which were drafted through International Monetary Fund technical assistance.

At the same time Fiji is doing all it can to comply with international codes and standards even with the scarce resources that we have. Last year, we participated in an IMF review of Code of Good Practices on Fiscal Transparency. In August this year, we have completed a Report on Observance of Standards and Codes (ROSC) conducted by the IMF, to evaluate Fiji's compliance with the Codes of Transparency in Monetary and Financial Policies. Fiji has also scheduled to have a Financial Sector Assessment Program (FSAP) within the next two years. These assessments, which we agreed to do voluntarily, reflect Fiji's commitment to transparency and to promoting good governance in all areas of

the country's policy development and decision-making processes. However, these procedures should remain voluntary, and I urge the Fund not to make the ROSC and FSAP conditions of its assistance to member countries.

With a population of less than one million people, Fiji has limited manpower and technological capacity, and we must be given the time and the resources to deal with compliance with international codes, which are increasing in both number and complexity. Our limited capacity to handle this task is exacerbated by the continued loss of our skilled and trained human resources to other countries. The direct and indirect cost of this brain drain is enormous to our small island economy. It seriously affects our productivity and our ability to compete in the world marketplace. The need for more training is paramount, and we call for assistance from our bilateral partners and multilateral institutions to help us address this pressing national issue. At the same time, we request more coordination and sharing of information among multilateral and donor agencies. This will lighten our load in providing data and minimize repetitive consultations with individual donors and agencies.

Let me provide an update on the political and economic developments in Fiji. The country returned to full parliamentary democracy after the general elections in 2001. Political stability is fully restored in Fiji. As a reflection of the political calm, I am glad to report that the Fiji's economy continues to forge ahead, registering consecutive growth since 2001. Economic growth this year is forecast at around 5 percent. For the next two years, we expect growth to be close to 4 percent. Our economic fundamentals are supportive of future growth with inflation low, foreign reserves at adequate levels, and government debt moderate. Business confidence is growing.

Like many developing countries, Fiji needs to attract investment to continue to maintain growth levels adequate to support employment of our people. While investment is still relatively low at 13 percent of gross domestic product (GDP), we are encouraged by the pick-up in the last 12 months, and we are confident that we will achieve our target of 25 percent of GDP in the medium term. We are at the same time undertaking reforms in the public service and public enterprise sector that will improve our operational efficiencies and raise the productivity of investment in Fiji. With this combination, together with macroeconomic stability, we are hopeful that Fiji will lift its medium-term growth rate to around 5 percent per annum.

I wish to make several comments on some issues concerning the Bretton Woods institutions.

First, Fiji firmly supports the early start on the thirteenth review of the IMF quotas. While I fully appreciate the need to link the review to the adequacy of the Fund's resources, I am also convinced that the

review is still useful in examining the roles of IMF quotas in the governance of the Fund and in eliminating the existing misalignments in members' allocation.

Second, the Monterrey Consensus and the Doha Declaration have set out the principles and mutual responsibilities that will enable the international community to wage an effective war against global poverty. Increased trade opportunities provide the best means of combating poverty in developing countries. I, like others, regret the failure of the Cancun round of trade negotiations. I support the call by the International Monetary Fund and the World Bank on the World Trade Organization (WTO) for a quick resumption of trade negotiations. This sentiment was echoed by the International Monetary and Financial Committee and the Development Committee. In my view, it is important that we promote a spirit of partnership in trade negotiations, and the WTO must ensure that the interests of both the developed and developing countries are taken into account during negotiations. To complement these efforts, the Bank must move forward and adapt existing tools and design new programs that will provide resources to developing countries to reform their trade regimes, strengthen trade-related institutions, and boost investment in infrastructure.

Third, I urge the Bank and the Fund to increase and sharpen their efforts to assist developing countries, including small island states, take advantage of the opportunities and meet the challenges arising from globalization. In my view, the Bretton Woods institutions can only be effective development partners if their operations and assistance are based on sound knowledge of developing countries and their development challenges. In this regard, I wish to underscore the importance of ensuring that the Poverty Reduction Strategy Papers (PRSPs) and Poverty Reduction Growth Facility (PRGF) are genuinely country-owned and that financial support, including aid, is provided by development partners on a sufficient scale and in a predictable manner. In addition, I urge the World Bank to simplify its loan conditions and procedures. On the issue of enhancing the voice and participation of developing countries in the decision-making process of the Fund and the Bank, in my view, the immediate step is to enhance the capacity of executive directors' offices in both the Fund and the Bank. Furthermore, the Bank would need to strengthen its in-country capacity building through local and global development learning networks and further decentralize its operations with the ultimate goal of responding to the needs of members effectively.

Fiji has benefited greatly in the past from the assistance of the IMF and the World Bank. To conclude, I would, therefore, like to thank the International Monetary Fund and the World Bank for technical assistance provided over the years to Fiji and to acknowledge the work done

by the IMF Pacific Financial Technical Assistance Centre (PFTAC) in Suva and the World Bank Pacific Regional Office in Sydney. I look forward to the continued support of the two institutions over the next year.

FRANCE: JEAN-CLAUDE TRICHET

Alternate Governor of the Fund

We are meeting today as the recovery of the world economy is progressively under way. However, this recovery remains fragile, imbalances have not vanished, some emerging countries are still facing serious difficulties, and geopolitical uncertainties remain, in spite of the end of the war in Iraq.

In this context, the international community should pursue its efforts to strengthen crisis prevention and resolution. Moreover, developed countries should remain determined to promote a strategy of sustainable development for the benefit of all.

Recovery is under way, but imbalances persist.

Prospects for a recovery are today more favorable than during our previous meeting last spring. Receding geopolitical tensions and improving market conditions have largely contributed to this improvement.

However, returning to a strong and sustainable growth path means tackling persistent imbalances in a decisive manner.

Against this background, the increase in the deficit of the current account of the most industrialized countries is, on the whole, a source of concern because it implies that the richest countries are absorbing a growing portion of the savings of the rest of the world.

Reabsorbing these imbalances is essential. It calls for an in-depth action. Structural reforms should be one of the top priorities in industrialized, emerging, and transition countries. It will contribute to strengthening the growth potential of the world economy, which is also conditioned by sustainable fiscal policies in the medium term.

The international community should maintain its efforts aimed at improving prevention and resolution of financial crises.

First, let me highlight the essential contributions of the Independent Evaluation Office of the International Monetary Fund (IMF) policies. The recommendations of the first three reports have already resulted in a fruitful exchange of views and in concrete operational progress. This work should continue to contribute to our collective reflection and to improve the functioning and efficiency of the Fund.

Let me raise three issues.

First, strengthening surveillance and crisis prevention is a priority. Since the Asian crisis, the IMF has allocated significant resources to reinforce the crisis prevention framework. The work undertaken in recent months to improve surveillance tools is encouraging. It has induced a clarification of the objectives and the scope of IMF surveillance and an improvement in its modalities.

Additional progress is possible in various areas: analyzing public and external debt sustainability, identifying vulnerabilities of emerging countries, developing a balance-sheet approach, and monitoring the stability of the financial sector.

That being said, I welcome the IMF's new orientation of the Report on Observance of Standards and Codes/Financial Sector Assessment Program (ROSC/FASP) process toward greater realism and efficiency.

Concerning surveillance in program countries, we should aim at a greater operational autonomy of surveillance, so as to benefit from a fresh perspective. However, it should not lead to an institutional separation.

Better crisis prevention calls for greater transparency. I welcome the recent agreement on presumption of publication of Article IV reports and financing programs, and the enhanced provisions for exceptional access.

Second, we should continue our efforts to design and develop instruments for debt restructuring.

The increasing inclusion of collective action clauses in international bonds, since the publication of the Group of 10 report in March 2003, represents an important step forward. I welcome the heightened open-mindedness of issuers and market participants to this development.

Furthermore, I believe that it would be useful to continue reflecting on a code of conduct that would permit issuers, the private sector, and the international community to improve predictability, notably in difficult situations or crises. I encourage the issuers and the private sector to work informally under the aegis of the Group of 20.

These efforts, of course, are not substitutes for other work on crisis resolution, such as transparency, aggregation, and inter-creditor equity, which should remain on the IMF agenda.

Third, I would like to underscore that increased transparency and better governance are, in my view, a necessary condition for a smooth functioning of the international financial sector.

In this context, I welcome the revision of the Financial Action Task Force (FATF) 40 recommendations on the fight against money laundering, which were finalized at the Berlin meeting last June. The agreement by many countries to support the eight special recommendations on terrorism financing is also encouraging.

I welcome progress achieved in the pilot program of assessments in these fields, led jointly by the IMF, the World Bank, and the FATF. The widening of the scope of assessment to law enforcement issues is necessary, although we have to carefully assess implications in terms of human and financial resources.

We should forcefully promote sustainable development and a reduction in poverty throughout the world

In 2002, the Monterrey and Johannesburg summits provided the opportunity for industrialized countries to reaffirm their solidarity with developing countries. France is fully involved in this effort. I recall that the president of the French Republic announced in Johannesburg an increase in official development assistance (ODA), which will reach 0.5 percent of gross domestic product (GDP) in 2007, then 0.7 percent of GDP in 2012. The French government is open to new ideas to significantly raise ODA, in particular the initiative of an international financing facility.

The international community, as a whole, should find solutions to smoothly conciliate globalization and growth. Exports from developing countries should have greater access to markets of developed countries. A better integration of the poorest countries into international trade requires the creation of mechanisms to compensate for the short-term negative impact of trade openness. These challenges call for a permanent and exigent dialogue.

In this context, the failure of the Cancun discussions is disappointing. However, it should not impede progress toward the Doha objectives. We still hope that an agreement might be reached before the end of 2004.

The Bretton Woods Institutions should strive to fully implement the Heavily Indebted Poor Countries (HIPC) Initiative. I regret that a still insufficient number of countries have reached the decision point and the completion point.

France supports a more generous methodology for the calculation of the additional debt reduction at completion point (the so-called "topping-up").

Given the remaining divergences on this issue, we call on international financial institutions to work on a proposal that would link topping-up and governance, so as to combine generosity, selectivity, and efficiency of the aid provided.

Finally, I strongly believe that the Facility for Poverty Reduction and Growth should be fully funded in the medium term.

Returning to a sustainable growth path requires that we decisively implement the structural reforms needed for our economies. I reaffirm

my trust in the Bretton Woods institutions and in particular in their managing director and president, Horst Köhler and Jim Wolfensohn, respectively, to continue to remarkably manage their institutions.

GERMANY: ERNST WELTEKE

Governor of the Fund

I am pleased that the International Monetary Fund (IMF) and the World Bank are holding their annual meetings in the United Arab Emirates this year. For the first time, these meetings are being hosted by a country in this region.

I am sure that the IMF and the World Bank have made an excellent choice in selecting Dubai as the venue. I thank the United Arab Emirates for their warm hospitality and their splendid organizational performance.

The economic situation in many parts of the world has improved. The IMF's latest forecasts indicate that an upswing is under way. Although we broadly share this view, we see, however, a number of risks.

In this context, I wish to mention three problems. First, there are widespread concerns that the large current account deficits and surpluses are not sustainable. Reducing trade restrictions and internal imbalances would mitigate the risk of disorderly exchange rate adjustments. However, measures distorting exchange rates, trade, or capital movements are counterproductive. Global economic problems require multilateral resolutions.

Second, despite some progress in consolidating government budgets, the risks associated with large budget deficits have by no means been averted: this is not least reflected in the recent rise in long-term interest rates. Therefore, fiscal consolidation must be continued. This is a particular challenge in periods of insufficient growth. A medium-term fiscal framework could help to overcome these problems.

Third, monetary policymakers are currently facing an unfamiliar situation: both inflation rates and nominal interest rates have been at their lowest level in decades. At the same time, there is ample liquidity, which is still growing. New bubbles must be avoided. Therefore, central banks must remain vigilant. As a central bank governor, I am particularly keen on making that point.

Despite these risks, the economic upswing will broaden and gain strength. This will provide an opportunity that must be seized to fully implement the ongoing reforms. We all know that reforms may be painful in the short run. However, they provide the basis for higher growth in the long term for the benefit of all.

We have to make sure that the economic upswing stabilizes and broadens in a sound financial environment. The IMF and the World Bank have an important role to play with regard to crisis prevention and crisis resolution.

I welcome the progress made in this area:

- The IMF's surveillance will be further strengthened.
- Transparency will be enhanced.
- More and more countries are realizing the benefits of the Financial Sector Assessment Program.
- The rules governing access to the Fund's financial resources in capital account crises have been strengthened.

Going forward, the focus should be on implementing these measures.

The World Bank and the developing countries are facing major challenges too. First, the Doha round. I find it inappropriate that industrial countries spend hundreds of billions of dollars each year to protect their own products. These subsidies are several times larger than the amount of development assistance. This makes it difficult to exploit the virtues of globalization for the benefit of all. It would be extremely unfortunate if the failure of the Cancun negotiations led to trade conflicts. Again, there is no reasonable alternative to the multilateral approach.

Second, the Millennium Development Goals, reaffirmed at Monterrey, are a guideline for German policy. Achieving these goals requires joint efforts. Well-targeted financial aid to developing countries can only be successful if combined with good governance and sound institutions.

Last but not least, a remark on quotas and voting rights. I know that many countries are seeking higher voting shares. Yet proper functioning of the IMF and the World Bank as financial institutions requires that a strong link be maintained between member countries' quota shares and the countries' capacity to contribute to the financial resources as reflected by each country's economic weight. However, I believe there is certainly some justification for an increase in basic votes.

GREECE: NIKOLAOS CHRISTODOULAKIS

Governor of the Bank

This year's annual meetings are of some special historical significance, because they are the first to take place in the Middle East. I would like to congratulate the authorities of our host country for the excellent organization of the meetings, for the impressive facilities they have put at our disposal, and for their outstanding hospitality. I wish them success in their efforts to develop Dubai as a leading international trade and financial center and to promote the prosperity of its people.

I will touch briefly on four topics. First, I will review global economic prospects and the significant policy challenges that we need collectively to address. Second, I will offer a few comments on our ongoing efforts to strengthen the international financial architecture. Third, I will discuss the critical role that the International Monetary Fund (IMF) and the Bank can play in helping low-income countries combat poverty, promote economic development, and reach the Millennium Development Goals. Finally, I will brief you on the economic developments and prospects of my own country, Greece.

Global Economic Prospects and Policy Challenges

The global economy appears now to be emerging from a long and difficult period of subdued economic activity. This is encouraging news to all of us and especially so to our colleagues in Latin America, Asia, and other regions that have been confronted in recent years with devastating economic crises. But as both the managing director of the IMF and the president of the World Bank reminded us this morning, the recovery remains fragile.

Economic activity is expected to recover in the second half of 2003 and gather momentum in 2004. The easing of geopolitical risks, the improved financial market conditions, and accommodative macroeconomic policies in most major economies make the environment more conducive to growth. However, we are still facing some difficult challenges. We have to support an orderly correction of current account and fiscal imbalances—in such a way that growth prospects are not impaired, but also through smooth and regionally balanced exchange rate adjustments that reflect fundamentals. It is our view that exchange rate regimes (which are increasingly perceived as unsustainable), excessive current account imbalances, and related changes in levels of foreign exchange reserves should be avoided, and adjustments in exchange rates should be orderly, gradual, and fairly shared. Furthermore, we have to support and consolidate a sustainable recovery over the short and medium terms through sound macroeconomic and structural policies.

The Euro area has been adversely affected by global economic developments and structural weaknesses. The recovery, which should start in the course of the second half of this year, is expected to gradually gather momentum. The protracted period of slow growth has led to a deterioration in fiscal position and employment. However, several indicators already point to an improvement. The easing of geopolitical tensions should be helpful. Lower and stable oil prices would also contribute to the global and Euro area recovery. The current monetary

policy stance in the Euro area is supportive of economic activity and helps safeguard against downside risks to economic growth. Also, important steps have been taken in terms of structural reforms to foster flexibility and raise the growth potential of our economies.

Fiscal policy has also been accommodative. Automatic stabilizers have to a large extent operated, cushioning the slowdown in economic activity. This is expected to continue, within the framework of the Stability and Growth Pact. The longer-term sustainability of public finances is also a policy priority as part of our strategy to meet the challenges of ageing populations.

The International Financial Architecture

We welcome the progress made by the Fund to improve crisis prevention. The Fund should pursue its efforts to improve the surveillance framework. Progress in implementing international standards and codes is encouraging. However, the effort to enhance transparency should be further increased to enable market participants to better take into account the results of the actions undertaken. We also welcome the presumption of publication of Article IV reports, PINs, and program approval and review reports, starting July 1, 2004, as well as the suggestion for the managing director not to recommend an approval of a program or the completion of a review in exceptional access cases, unless the authorities concerned consent to the publication of the relevant staff report.

It is also important to strengthen work on improving crisis resolution. In particular, it will be crucial to ensure that the IMF's exceptional access policy is strictly implemented. We are encouraged by the progress achieved so far on the use of collective action clauses (CACs) in international sovereign bonds. We welcome the discussions that have taken place between the private and official sectors on developing a code of conduct for creditor-debtor relations. However, further substantial work on developing a sovereign debt restructuring mechanism is also needed.

The Role of the Fund and the Bank in Low-Income Countries

Since its launch, the enhanced Heavily Indebted Poor Countries (HIPC) Initiative has achieved substantial progress. However, the full financing of the initiative still needs to be secured, in spite of progress achieved in the financing of the HIPC Trust Fund. The European Union (EU) has provided more than half of the financing of the HIPC Initiative. In addition, all EU countries have announced their intention to go beyond HIPC targets by providing officially 100 percent bilateral pre-COD debt relief for all claims on HIPC countries. The IMF and the

World Bank should regularly report, including in the Article IV surveillance report, the compliance of their member countries with the HIPC commitments.

We endorse the revised 40 recommendations on money laundering approved by the Financial Action Task Force (FATF) at its Berlin meeting. The recommendations provide a renewed and strong international base to combat the abuse of the financial system. We have to comply quickly with this revised standard, in part through transposition and implementation of the second EU anti-money laundering directive.

It is encouraging that a large number of countries worldwide have chosen to endorse the eight FATF special recommendations on terrorist financing. We commend the IMF and the World Bank for their extensive work in this area.

Economic Developments and Prospects in Greece

Let me now refer to recent economic developments in Greece. Despite the economic slowdown in the Euro area, the performance of the Greek economy remains satisfactory. This performance is expected to continue in the future, leading to real convergence toward the EU average. Greek gross domestic product (GDP) has been rising faster than the EU average since 1996. In 2003, Greece is expected to achieve a growth rate of about 4 percent, which is the highest in the European Union. An encouraging development is that exports have started to grow despite the weakness of external demand, indicating that past investments are starting to pay dividends and that Greece's competitiveness and long-term prospects are improving. Helped by this healthy rate of growth, unemployment fell below 9 percent in the second quarter of this year and is expected to continue its downward trend. The inflation rate also eased, from relatively high levels, in recent months and is expected to move closer to the Euro zone's average in 2004.

The Greek government is fully committed to upholding the EU's Stability and Growth Pact. In 2003 the general government deficit is expected to be contained at slightly above 1 percent of GDP, despite the high costs of preparing for next year's Olympic games. Further consolidation is planned to ensure that the ratio of public debt to GDP remains on a sustainable downward trend.

The overall improvement of the fiscal situation, together with the fast rate of growth of the economy, has allowed the government to launch an ambitious program of real convergence. This program (the "convergence charter") builds on and further invigorates the ongoing process of structural reforms. Main priorities include the energy and tourism sectors. The convergence charter is in line with the country's commitments to the European Union under the Lisbon Agenda and

aims to bring economic efficiency and living standards closer to the EU average. The main policy instruments to achieve these goals are:

- the control of public expenditures;
- further privatizations and efforts to form strategic partnerships between big utilities and foreign companies;
- the lowering of tax-induced distortions; and
- the promotion of labor mobility and adaptability so as to facilitate employment creation.

It is our conviction that high growth rates cannot be sustained for long if all citizens do not share in their benefits. A more equitable distribution of incomes is not only a social desideratum, but also a prerequisite for the growth process itself. We are committed to allocate more resources to education, as defense spending is reduced as a percent of GDP, from a formidable 4.5 percent today to about 3 percent over the next five years.

In a world of global markets and rapid technological change, there are more and new linkages among economies, and interdependence increases. That is why we believe that increased globalization requires a reinforced international cooperation aimed at preventing or resolving crises as well as promoting policies favoring financial stability, technological innovation, and the more equitable distribution of the gains from growth, both among but also within countries.

GUYANA: SAISNARINE KOWLESSAR
Governor of the Bank
(on behalf of the Joint Caribbean Group)

I am honored to speak on behalf of the member states of the Caribbean community. I would also like to join my colleagues in expressing appreciation to our host, the United Arab Emirates, for the gracious hospitality that they have extended, and to the management and staff of the Bank and Fund for the excellent arrangements put in place for these meetings. Members of the Commonwealth Caribbean attach special significance to these meetings, which are being held in the Middle East for the first time. That we should meet in Dubai demonstrates the important role that small states can play in guiding the process of global integration and forging real partnerships in pursuit of our common goals.

Global Environment

The uncertainty facing the world economy and the likely implications for developing countries' economic performance continue to be of

concern to the Caribbean. The recovery underway remains fragile, and while we acknowledge the improved growth prospects for 2004, our optimism is constrained by a number of downside risks from geopolitical shocks and structural weaknesses in some developed economies, which could further dampen global growth. Small economies like those in the Caribbean, whose economic performance is closely linked to developments in the global economy, are further challenged by the uncertainties, which come at a time when we are intensively undertaking structural reforms with limited financial resources.

Trade

If we are to meet the Millennium Development Goals (MDGs) and promote sustained improvement in the economic welfare of our citizens, we must achieve real progress on the Doha Development Agenda. Therefore, we must redouble efforts within the multilateral framework to ensure that the agenda is put back on track following the adjournment of the fifth Ministerial Meeting of the WTO in Cancun without agreement.

We welcome the increased focus on trade by the Bank and the Fund and their advocacy role in highlighting the importance of making meaningful progress on market access, particularly in textiles and agriculture, the elimination of subsidies, and reducing barriers to developing country exports. At the same time, our institutions must recognize the varying impact of the liberalization process on members, and tailor responses to country circumstances appropriately. Among the issues for attention are: the impact on tariff revenues; the losses due to the erosion of preferences, in particular, the effect of the removal of quota restrictions in agriculture through multilateral liberalization; the impact of reforms on the poor; and the effect of migration.

We also urge that reforms to remove obstacles to growth and strengthen the resilience of our economies be well sequenced, with appropriate transitional safeguards in place to protect the most vulnerable from an overly rapid transition to a system of liberalized trade. Adequate technical assistance should be made available to develop the institutional capacity to implement WTO agreements and to deal with technical barriers to trade.

Finally, as was reflected in the work done by the World Bank and the Commonwealth Secretariat on small states, and is currently being demonstrated in ongoing FTAA and WTO negotiations, very small countries face special operational and other constraints, and equitable treatment of these countries in the world economy is not always obtained by treating all countries equally. In this regard, the institutions need to work closely to support arguments for special and differential treatment in

trade negotiations, given the constraints identified in the Small States report, as well as to support the right to fiscal sovereignty.

Debt Relief

Debt relief for Heavily Indebted Poor Countries (HIPC) should remain a priority if the cause of poverty reduction is to be truly served. In particular, prompt interim assistance should continue to be delivered to countries in the initiative. Most importantly, eligibility criteria must be applied and measured consistently and objectively so that countries can reach their completion point in a timely manner. Finally, appropriate assistance should be in place to ensure that countries exiting the program maintain sustainable debt levels into the medium and long term.

Resource Mobilization

We welcome reports from the OECD Development Assistance Committee (DAC) that Official Development Assistance (ODA) increased by 4.9 percent in real terms in 2002. We acknowledge, especially, the efforts of those countries that have managed to achieve ODA levels above the UN target of 0.7 percent of GNI. That said, however, significant, timely, and more predictable financing is still needed over and above the current levels if progress is to be made towards the MDGs.

Middle-income countries in the Caribbean still face significant financing needs, particularly in light of declining and uneven private flows. Regional economies are being challenged to maintain sustainable fiscal balances because contributions from services exports like tourism, are still not generating sufficient growth to improve government revenues. Expanding productive capacity and the structural transformation of some economies, particularly in some agriculturally based economies of the Eastern Caribbean, call for relatively large investments.

The medium-term solution will require more involvement by the multilateral organizations, in particular, the World Bank, to support countries' efforts to boost productive capacity for export of goods and services. We urge the Bank, in particular, to design more innovative instruments to meet the long-term financing needs for tourism, infrastructure, transportation, and agriculture.

Anti-Money Laundering and Combating the Financing of Terrorism

Our region is fully committed to its partnership with the international community in the effort to counter the use of our financial systems by criminals and to combat the financing of terrorism. The development and implementation of appropriate programs remain high on the regional

agenda but can place severe demands on our small economies and limited resources. In this context, we acknowledge and welcome the collaborative work of the Bank and Fund with member countries in the Caribbean. While our countries embrace the challenge of bringing the regional financial services sector into full compliance with international standards, we believe these standards should be developed in consultation with and applied fairly and equitably to all countries.

Caribbean Regional Technical Assistance Center (CARTAC)

We welcome the significant and positive role that CARTAC has played in helping the region meet its technical assistance needs in the area of economic and financial management. We are grateful to the IMF for providing the technical and human resource support that makes CARTAC possible and to the World Bank, which is the second largest cash contributor to the center. Nevertheless, we stress that capacity building is a long-term and ongoing process that will not be finished when the current phase of donor support comes to an end at the close of 2004. We call on the Fund and the Bank to maintain its support for CARTAC and on all the donors currently engaged in funding the center to continue to do so beyond the end of the current phase.

Voice and Participation

We welcome the progress made by the Boards of both institutions in strengthening the technical capacity in Executive Directors' offices at the Bank and the Fund, which will help to enhance the representation of developing countries in the decision-making processes of the institutions. Nevertheless, we remain disappointed at the lack of progress on the structural issues, some of which have been under discussion for many years. We urge the Bank and the Fund to accelerate work towards enhancing the effective participation of developing countries in their decision-making processes.

ICELAND: BIRGIR ISLEIFUR GUNNARSSON

Governor of the Fund
(on behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden)

I am honored to address the 2003 Joint Annual Meetings on behalf of the Nordic-Baltic Constituency consisting of Denmark, Estonia, Finland, Latvia, Lithuania, Norway, and Sweden as well as my own country, Iceland. Let me begin by thanking the authorities of the United Arab Emirates for hosting the Annual Meetings in this vibrant city of Dubai.

Prospects in the World Economy

The world economy has been showing signs of a modest recovery and further strengthening is projected for 2004. Economic growth, however, remains unbalanced. Restoring sustainable growth is one of the most important economic policy challenges that lie ahead. Current accommodative policies are appropriate until a global recovery has been consolidated. Some economies have, however, now reached the point where little scope remains for traditional fiscal and monetary initiatives. Consequently, it is necessary to press forward in other areas such as by accelerating structural reforms, promoting good governance, increasing transparency, and harmonizing standards. Another important task involves enabling low-income countries to enjoy the full benefits of a globalized economy. An orderly unwinding of external imbalances also poses a major challenge. To resolve this, fair burden sharing will be necessary among leading economies and different regions.

Structural Reforms

Economic recovery will continue to be restrained unless countries speed up structural reforms. An effective way to improve long-term economic prospects is to address structural rigidities that weigh down the efficiency of labor markets. It must be recognized that demographic challenges, such as the aging of the population, add pressure on the labor market and public finances. Increased labor market participation and restructuring of benefit schemes are therefore needed. Authorities and labor market participants have to work together in this effort. Other structural rigidities in financial and product markets are of no less importance, and removing such obstacles is conducive to growth.

Many economies are burdened with government deficits in the midst of the global economic slowdown. Automatic stabilizers have been allowed to operate in order to support growth. This may be prudent and appropriate; however, care should be taken that public finances do not become unsustainable. Policymakers are responsible for planning both for the short and the longer term, and we encourage governments to consolidate their fiscal positions in order to enhance their nations' competitiveness. The Fund should continue to monitor closely structural deficiencies and advise accordingly.

Good Governance

Economic integration has brought increased prosperity to those who have been part of the globalization process. Increased globalization also implies intensified competition in most areas. Good governance is, therefore, more important now than ever because it fosters confidence

and growth, without entailing much additional economic cost. All empirical studies confirm that much can be gained by embracing good governance, and it is an essential component of crisis prevention efforts.

Good governance is equally vital in both the public sector and the corporate world, and its merits are relevant in all countries. Recently, corporate governance issues have been prominent on the world economic agenda as financial markets have been recovering from scandals that came to the fore following a period of excesses in equity markets. In order to increase confidence in the markets, it is imperative that the corporate world adhere to the principles of good governance. Good governance in the public sector is also an essential tool for strengthening institutional capacity, which is fundamental for economic and social development. The Fund has an important role to play in this field, and we welcome the increased emphasis it has given to the issue of governance.

Transparency and International Standards

With the world economy having suffered a confidence crisis, it is important to continue to promote greater transparency and accountability. Various studies have demonstrated that transparency and adherence to international standards lead to easier market access and lower borrowing costs. There is much to gain by applying these simple principles.

It is also important to continue developing international standards and codes that enhance transparency and facilitate comparison between countries and regions. The Fund has invested considerable efforts in promoting transparency and developing standards and codes in cooperation with the World Bank, the Bank for International Settlements, and other organizations. Remarkable progress has been made in this area, but we realize that broad implementation of these standards will take time, although this is time well spent as improved practices and comparability will increase the stability of the international financial system.

We believe that the next steps should be to harmonize accounting standards at world level. The Nordic-Baltic Constituency encourages all member countries to support the efforts of the International Accounting Standards Board to reach a consensus on accounting standards and principles. Furthermore, we welcome the new steps taken to increase the Fund's transparency, especially the policy of moving to presumptive publication of all Article IV reports and the required publication of documents in exceptional access cases.

Promoting Economic Progress Among Low-Income Countries

One of the greatest challenges of our time is to win ground in the battle against poverty. All parties must be fully engaged in this campaign.

Many initiatives in recent years have borne fruit, but there is still a long way to go; the international community must do better in order to achieve the Millennium Development Goals (MDGs). Here, I would like to focus on trade and its importance for development.

Greater market access will be an essential instrument for improving the economic conditions of those living in poverty, and I welcome the recent initiative taken by the Fund and the World Bank aimed at supporting the Doha round. At this stage, the global momentum toward trade liberalization must continue effectively, yet there is reason for concern over the way that the current international trade negotiations are proceeding. Progress has been slower than was previously hoped, especially in light of the disappointing result of the WTO meeting in Cancun. Another worrying aspect is the trend of bilateral trade agreements instead of multilateral agreements.

To support low-income countries, the industrialized nations should reduce their overall levels of support for agriculture and textiles and direct the remaining subsidies away from trade-distorting price support towards income support. The advantages of trade liberalization are greater than the risks associated with it. Reforms in these areas will benefit both the industrial and the low-income countries. There might, however, be temporary or transitional difficulties as increased liberalization can entail a reallocation of labor between sectors. Governments should be ready to inform and educate their citizens and prepare safety nets to make the transformation more acceptable, both domestically and internationally. High-income countries ought to be prepared to assist developing countries in such undertakings. Low-income countries must also open up their markets in order to increase the volume of trade between each other as well as with industrialized countries.

Bilateral and regional trade agreements have become increasingly common in recent years. However, the multilateral route is a better channel for delivering the dynamic benefits of increased global economic integration. Bilateral agreements can fragment and complicate multilateral negotiations such as the present WTO round. Moreover, small and underdeveloped economies are more likely to be left out, and their ability to participate in the global economy is therefore disadvantaged. We encourage the Fund to continue to use surveillance in promoting open world trade.

Concluding Remarks

Ladies and gentlemen, improving the world economy is a task that demands the participation of every nation. We must press forward with structural reforms, promoting good governance, increasing transparency, and harmonizing standards. This task must also include efforts

to integrate the low-income countries into the global economy. The current circumstances provide good reasons for addressing these issues.

The International Monetary Fund has been at the center of world economic cooperation since its establishment. The Fund should continue to play a crucial role in strengthening the areas I have emphasized through its surveillance and its lending activities.

ICELAND: GEIR HILMAR HAARDE

Alternate Governor of the Bank
(on behalf of the Bank Nordic Countries)

I am honored to address the Joint Annual Meetings on behalf of the Nordic members of the World Bank. Allow me to begin by thanking the United Arab Emirates' authorities for the hospitality and the excellent organization of the meetings.

Progress and Challenges

The world has seen much progress in poverty reduction over the last 50 years, and there are many success stories to learn from. Yet, the challenges continue to be formidable, the global economic outlook remains uncertain, and the geopolitical situation is tenuous.

Facing the Challenges Through Partnerships

The picture facing us may seem bleak, particularly in the poorest countries where, in many instances, progress continues to be absent. We remain especially concerned about the situation in sub-Saharan Africa. Too many developing countries suffer from weak governance, civil strife, and human rights violations. The growing severity of the HIV/AIDS epidemic poses an increasing threat to development in many poverty-stricken regions. Also, the weak institutional framework for private-sector development in the poorest countries hampers private investment, which is so desperately needed to promote economic growth and reduce poverty.

However, if there is a goal to aim at, there is a dream to hold on to. We have a goal. The Millennium Development Goals represent an international commitment to the poorer people of the world. Reaffirmed in Monterrey, Johannesburg, and Doha, this global contract embodies an unprecedented level of consensus on what is needed to promote poverty reduction and sustainable development. Accordingly, the developing countries take the responsibility for their own development by creating an environment for growth and investing in their people; the developed countries provide more and better development

assistance, along with increasing market access; and international institutions serve as facilitators through more effective analytical and financial resources.

We know that the progress in achieving the Millennium Development Goals has been slow and uneven. At the current pace, most countries of sub-Saharan Africa will not be able to achieve the goals by 2015. We cannot accept this. All signatories of the global contract need to scale up their efforts and demonstrate results. We do not have much time. But how can the goal be reached and the dream realized? I believe that a significant part of the answer is through partnerships—a process characterized by mutual cooperation and responsibilities, and embodied in the Millennium Development Goals.

The World Bank and True Partnerships Through the PRSPs

Allow me to dwell a little longer on our vision of "partnerships" and turn my attention to the World Bank in particular. Partnership is about more than "division of labor" between the developed countries, developing countries, and international institutions. Partnership is about real ownership and equality, and ensuring that all parties have a voice and are listening.

This leads us to the importance of the Poverty Reduction Strategies (PRS) of which the Nordic countries have been strong supporters. Partnership is inherent in the PRS process, both within the recipient country, as well as between the recipient and the donor community. The country-led nature of the Poverty Reduction Strategies is the key to their success. The catalytic role that the World Bank plays in supporting the PRS process is commendable, but in our view the Bank must increasingly make the PRS the central focus of its activities. Despite recent positive steps, the Bank still seems to be inclined to use designs and conditionality that are not always sufficiently aligned with the Poverty Reduction Strategies. Poverty and Social Impact Analysis could increasingly be applied as a useful tool to identify appropriate conditionality and expand policy options for the countries concerned. I would also like to emphasise the responsibility that bilateral donors have in this respect.

Harmonization and Coordination

True partnership is also about harmonization and coordination. It is about simplifying and coordinating practices and procedures. It is about untying aid and contributing to an overall successful development outcome instead of trying to attribute it to an institution or a country. It is about developing countries taking the lead in their own development

and for us to help them develop capacity and systems that ensure accountability. Ultimately, it is about making aid more effective and the PRS process work. However, we, the donors, still continue to add more burdens on already overstretched developing countries. There are still far too many separate and individual reporting requirements, we still prefer to trace our contributions to specific activities, and we still use different procedures and indicators for monitoring.

Harmonization is key to a holistic approach to development and it is imperative that donors are coherent in their policies. We all need to align our rhetoric with concrete actions. The Rome Declaration on Harmonization marks a milestone on a challenging path. The Nordic countries are willing to follow this path and have taken the first steps. We urge other donors to do the same. We also expect the Bank to be fully engaged in the harmonisation agenda and use its instruments effectively and in a coordinated manner. This applies, not least, to the use of programmatic lending and Sector Wide Approaches (SWAps). It is also essential to develop incentives for the Bank's staff to work on harmonization issues and we strongly encourage Bank Management to further pursue ongoing efforts to this end.

Enhancing the Voice of Developing Countries

In a true partnership, all partners need to have a say, to have a voice. The Nordic countries strongly support enhancing the voice of developing countries in the World Bank Group and we welcome the recently agreed capacity building measures in the offices of the two sub-Saharan African constituencies. However, decision making that affects developing countries is not confined to Washington. Capacity building in the developing countries must be an integral part of any strategy to increase their influence in decision making. Furthermore, transparency and openness are also preconditions for a more inclusive and informed decision-making process.

Moreover, the Nordic countries are ready to consider more fundamental longer-term steps to secure a stronger vote for the developing countries. In this respect, we could support the increase of basic votes for each member country. We are also willing to explore other options, such as broadening developing countries' participation in the Development Committee and in IDA negotiations.

The HIPC Initiative and Beyond

Mr. Chairman, a prime example of a successful partnership is the HIPC Initiative where substantial progress has been made. We are pleased to see governments in HIPC countries channeling freed

resources to national priorities, defined under their Poverty Reduction Strategies. Nonetheless, more needs to be done, and the challenges are clear. Many countries risk being penalised by events outside their control, diminishing the success already achieved. Therefore, I would like to stress the need to review debt conditions at the Completion Point and to assess whether additional debt relief is needed, in response to external shocks. However, it goes without saying that inadequate implementation of sound policies cannot be rewarded with an excessively flexible approach. In addition, I would like to reiterate our stance that supplementary bilateral relief, beyond commitments under the HIPC Initiative, should be excluded when assessing the need for such additional debt relief.

Moreover, the prospect of longer-term debt sustainability is of particular concern to the Nordic countries. Receiving full debt relief is only the start of a long and delicate process. Debt sustainability depends not only upon the absolute level of debt, but primarily upon successful implementation of a complex set of policies that determine economic growth and poverty reduction. In this respect, it is important to undertake more detailed debt sustainability analyses aimed at facilitating the adoption of sound and farsighted financing strategies in debt-vulnerable countries.

Increased financial support from the international community to the HIPC Initiative is essential in order to avoid undermining and discrediting the Initiative. It remains critical that multilateral development institutions obtain sufficient financing to cover their cost of debt relief. Fair and transparent burden sharing is as important as ever and the additionality of debt relief remains imperative. Here, I would like to emphasize the need for continued transfer from the Bank's net income to HIPC. In addition, I remain seriously concerned about the financing of IDA's share of the HIPC Initiative beyond 2005.

Trade and Market Liberalization Working for the Poor

Another key pillar for achieving the Millennium Development Goals is the liberalization of international trade. There are substantial gains to be made from a more just and liberal international trade regime, both for developed and developing countries. Therefore, we regret that further progress could not be made at the meeting in Cancun. However, we still have time to deliver on the Doha commitments and make trade work for the poor. We cannot afford to let this opportunity slip away.

It is also important to note that trade liberalization must be well managed and supported by other actions to provide for sustained growth. In this respect, the World Bank plays a central role by facilitating

the necessary trade-related reforms, as well as by helping countries strengthen their competitiveness through improved delivery of basic services, such as primary education and health, and construction of vital infrastructure. A starting point should be better integration of trade-related priorities into the Poverty Reduction Strategies, which would enable developing countries to address trade issues comprehensively and, thus, ensure better results.

Conclusion

It is through partnerships that we can further country ownership of development policies, harmonize development efforts and, as a result, improve aid effectiveness. It is through partnerships that we address debt problems and make trade work for the poor. And it is through partnerships that we show results, achieve our goals, and realize our dream.

INDIA: YAGA V. REDDY

Governor of the Fund

Since we met last in April 2003, there have been some signs of improvement in the global environment. Recent economic data of some countries as well as some forward-looking market indicators, particularly those relating to financial markets, indicate that we may be seeing some signs of global economic recovery. Although we share the view that this could indicate the beginning of a stronger recovery, we recognize that considerable risks persist, though the upside risks appear to outweigh the downside risks.

The outlook for the United States, Euro area, and Japan is mixed. If current trends are any indication, global recovery in the near term would be led by the United States. However, the widened and historically high twin deficits, in fiscal and current accounts, of the United States pose the threat of possible disruptive adjustment of the U.S. dollar against other major currencies. We recognize this as a necessary short-term trade-off for realizing medium-term gains. We, therefore, urge all the major currency areas to coordinate their policies and to carefully monitor currency market behavior to minimize potentially adverse repercussions on financial markets and on sustainability of global economic recovery. The recent depreciation of the dollar has, to some extent, minimized the possibility of such disruptive adjustment. Furthermore, continuing robust productivity trends support the strong prospect for recovery in the United States. In this regard, there is considerable merit in the United States evolving a medium-term fiscal framework to bring its fiscal position onto a sustainable path.

The outlook for the Euro area seems rather flat. As in the United States, there is a comparable element of trade-off. Although the monetary stimulus provided by the European Central Bank is encouraging, scope exists for using fiscal stimulus in a more countercyclical manner. In our view, the Stability and Growth Pact should be applied in a flexible manner to allow the automatic stabilizers to run their courses in the short term, even if that results in marginal breaching of ceilings on fiscal deficits, especially in countries where this could trigger recovery.

We welcome the reforms undertaken to improve the accounting and auditing standards and corporate governance practices both in the United States and the European Union. These improvements are partly reflected in the strengthening of corporate bond and equity markets. The primary bond market issues have become more buoyant. Sovereign yields, in general, have declined, combined with a compression of yield spreads. We consider these developments to be supportive of increased capital flows into emerging markets and to generally strengthen intermediation in international capital markets. Though there was a temporary upward shift in the long-term yields of bonds in the United States, the potential for significant risks of further increase in bond yields appears remote. First, the policy interest rates have declined to historically low levels, and upward hikes in quick succession are therefore unlikely. The housing and mortgage markets, like bond markets, cannot withstand such sudden shocks. Second, the probability of inflation undershooting and the consequent adverse implications for deflationary expectations are feared by many.

The question also remains as to how long and to what extent the United States would lead the global recovery. It is important for the European Union and also Japan to intensify structural and financial sector reforms with redoubled vigor. In some countries, labor and product market reforms should receive priority as important components of such reforms. We encourage the Euro area countries to take steps to promote productivity and efficiency gains, given the minimal scope, in the short run, for achieving higher labor participation rates. The necessity of achieving these gains, and a general increase in demand arises from the impending medium-term fiscal risks associated with demographic trends and the attendant pension reforms. Similarly, we recognize that more vigorous steps may help Japan counteract deflationary expectations and address the fragility of the financial system. In the medium term, Japan also requires further restoration of fiscal stabilization.

Growth is expected to remain robust in most emerging-market economies and, to some extent, in Africa. These economies are propelled in no small measure by stronger macroeconomic policies, structural reforms, and improvements in institutional structure. Prospects have also improved as a result of general improvements in major industrial

countries; favorable terms of trade due to non-oil commodity price increases; and improved financial market conditions, especially in the bond markets. It is imperative that greater resources flow into these countries to help sustain growth. The current favorable financial market conditions, no doubt, provide an opportunity for these countries to steer ahead with remaining structural reforms and to achieve greater fiscal and external sector sustainability.

Among the developing countries, emerging countries in Asia continue to remain a bright spot. They have shown extraordinary resilience in the face of the recent global slowdown and continue to exhibit healthy recovery. Although timely and complementary policy actions taken by a number of countries to facilitate the revival of external demand and expand intra-regional trade are promising, medium-term prospects would depend on the recovery in major industrial countries.

The scope for exchange rate flexibility, particularly in view of the recent buildup of reserves in many countries, has generated a lot of debate over the last few months. This calls for a more dynamic and pragmatic approach in the analysis of recent trends in exchange rates and reserve management practices, keeping in view country-specific circumstances. The recent strengthening of the external position of many developing countries through the buildup of substantial foreign exchange reserves can be viewed from several perspectives. First, it is in part, a reflection of the lack of confidence in the international financial architecture. International liquidity support through official channels is beset with problems relating to adequacy of volumes, timely availability, reasonableness of costs, and (above all) limited extent of assurances. Second, it is also a reflection of efforts to contain risks from external shocks. Private capital flows that dominate capital movements tend to be pro-cyclical, even when fundamentals are strong. It is therefore necessary for developing countries to build cushions when times are favorable. High reserves provide some self-insurance, which is effective in building confidence (of rating agencies among others) and possibly in dealing with the threat of crises. Third, the reserve accumulation could also be seen in the context of the availability of abundant international liquidity following the easing of the monetary policy in industrial countries. The resultant excess liquidity flowed into the emerging markets. In the event of hardening of interest rates in industrialized countries, this liquidity may as quickly dry up; in that situation, emerging markets should have sufficient cushion to withstand such reverse flows of capital. Fourth, and most important, the reserve buildup could be the result of countries aiming to contain volatility in foreign exchange markets. It should be recognized that the self corrective mechanism in foreign exchange markets seen in developed countries is conspicuously absent at present among many emerging markets.

It is also necessary to recognize that developing countries face major challenges in their effort to achieve sustained economic growth, which could enable them to make a significant impact on poverty reduction. Recent studies by the World Bank indicate that there would be considerable shortfalls in achieving the Millennium Development Goals (MDGs). These failures would not be limited to some underperforming low-income countries; even countries that have made rapid strides in sustained economic growth over the past decade would not be able to meet critical goals. The level of development assistance currently available, and even the additional commitments made at and since Monterrey, would not be sufficient to meet minimum financing needs. Developing countries have huge unmet financing needs relative to MDG targets and even with their best efforts, they would be unable to make up the deficiency. There is a very strong case for substantially stepping up the quantity and improving the quality of development assistance.

There are two aspects to this that we would like to stress. One is the need to make allocation of development assistance to countries equitable. The guiding principles should be the incidence of poverty and the effectiveness of poverty reduction efforts. This is best done in multilateral settings so that allocations on the basis of national or strategic considerations are kept to the minimum. The breadth of their work, especially the analytic services, and the richness of their development experience improve the quality of policy dialogue. There is also the need to reduce the transaction cost of development assistance through better harmonization of procedures and processes. The Rome initiative needs to be followed up, and bilateral donors should look at ways of working with multilateral institutions so that common mechanisms for project preparation, appraisal, procurement, monitoring, reporting, auditing, and so on could evolve. Another way would be to co-finance projects and programs that recipient countries draw up and to avoid running parallel stand-alone projects that yield suboptimal results and strain country capacities.

Developing countries have been taking courageous steps in reforming their policy environment; improving their institutions of governance; and in general, widening, deepening, and making more equitable their delivery of services to the poor. Timely and productive development assistance as well as increased access to markets are required to complement and strengthen these efforts. Developed countries must be prepared to play the role of partners in this process, as they agreed to do at Monterrey. All players in the development process—developing countries, developed countries, and multilateral institutions—have to work to bring about greater accountability. The monitoring of policies, actions, and outcomes needed to achieve the MDGs can be a useful tool

to increase the effectiveness of the development process. This task would require considerable efforts to improve capacities of developing countries, particularly with respect to gathering reliable and accurate statistical data. Such efforts should be a part of the overall development process and should not be seen as ends in themselves. Side by side, we need to develop strong partnerships so that country ownership is assured.

Further work is also required to enhance the voice and participation of developing and transition countries in multilateral institutions. Although we appreciate that there are no quick fixes, we would stress that ongoing dialogue and efforts to develop solutions that better reflect changed realities are the way forward.

Together, we would work to improve the environment when we see the benefits of economic growth extending to those who have been hitherto denied and to those who have suffered painful adjustments. There is no single mantra that would work everywhere, and our policies should recognize this. But, if we are able to develop a real partnership, whereby each nation is allowed to exploit its comparative advantage, and not be held back by artificial barriers and constraints, there is no reason that we will not succeed.

INDONESIA: BURHANUDDIN ABDULLAH

Governor of the Fund

Let me share with you some of my thought regarding our current situation. I begin with recent economic development and a highlight of our new policy program, and conclude my remarks by presenting our economic outlook.

I welcome the increasing signs of improving development in our global economic scene. I believe the encouraging prospect for a steady and strengthening global recovery will provide a strong support for better growth and reforms in developing countries, including Indonesia. In line with this latest global economic development, Indonesian economy has also witnessed encouraging progress.

Since the last year when we reported in this forum, our economy has continued to progress favorably. This is reflected in the improvement of some economic indicators, including modest GDP growth at a range of 3.5 to 4 percent, easing inflationary pressures, and significant strengthening and stability of rupiah exchange rate. The economy has shown remarkable resilience in the face of external and domestic shocks in recent years including the Bali bombing in 2002 and, more recently, the Marriot bombing.

Following a strong performance in 2002, with GDP grew by 3.7 percent, the Indonesian economy recorded a growth rate of 3.6 percent in the

first half of 2003. We expect to reach our GDP growth target of 4 percent for the year 2003. In the past several months, we have been quite successful in curbing inflationary pressures. As measured year-over-year, the inflation rate at the end of August fell to 6.38 percent. This performance was largely due to the appreciation of the rupiah and slow growth in base money, in addition to favorable supply factors. For the year of 2003 as a whole, we are projecting an inflation rate of around 6 percent, lower than our target of 9 percent.

The strengthened rupiah has a positive impact in capping inflation. During the second quarter, the rupiah appreciated over 4 percent from the previous quarter. After falling in July 2003, currently the rupiah has traded in a narrow band around Rp8,500. The appreciation of the rupiah during the first half of 2003 was associated with a positive sentiment towards the country, illustrated by higher dollar inflows, related to privatization, the sale of IBRA assets, and the upgrade of Indonesia credit rating.

The drop in inflationary expectations and the appreciation of the rupiah has allowed Bank Indonesia to pursue a monetary policy that is designed to facilitate an accelerated recovery process by guiding interest rates lower. The 1 month SBI rate declined 402 basis points from 12.93 percent at the end of 2002 to 8.91 percent at end of August. Throughout the year, the growth of base money has remained within target. This gives us confidence that we will be maintaining the growth in money so that there is sufficient liquidity to satisfy the needs of the real economy, without risking a run-up in inflation.

Supported by improved macro-monetary conditions, the banking sector shows stronger condition. This was reflected in a stronger capital structure, improved NPLs, stronger profitability, and recovery in bank intermediation. All banks are now in compliance with the mandatory capital adequacy ratio of 8 percent. This has allowed the banking sector's net income to grow as new credits extended have increased in the first half of the year and non-performing loans continue to remain under control with net NPLs reaching only 1.02 percent in June.

As regards fiscal issues, the process of fiscal consolidation advanced with the passage of the revised budget for 2003, which targets a lowering of the deficit to 1.8 percent of gross domestic product and an increase in the primary surplus to 2.5 percent of GDP. We are well on our way to meeting this goal, among others, by gradual elimination of fuel subsidies. For the first six months of the year, the realized deficit reached only Rp6.2 trillion compared with the full year budget deficit of Rp34.4 trillion. In order to achieve the government's goal of a balanced budget by 2005, the government has undertaken an extensive and comprehensive effort to overhaul the tax and customs administration systems with technical assistance from the IMF. One of the significant

achievements was the establishment of a Large Taxpayer's Office. In customs, we are extending green lane privileges to qualified taxpayers and improving customs valuation procedures. Indonesia has a relatively low tax to GDP ratio, which means that the government should be able to increase tax revenues significantly, not through major changes in underlying rates, but through the improved monitoring and collection procedures. Strict fiscal controls combined with the improved performance of IBRA have allowed the government to begin the process of reducing the debt burden.

Despite all these encouraging development in the area of monetary and financial stability as well as fiscal issues, challenges or even problems remains. These challenges include maintaining consistency and discipline of our economic management to support sustainable recovery in light of the upcoming "graduation" from the IMF program.

To address these problems, Indonesian authorities have been working closely in developing our own economic program to continue the reform path stated in the IMF Letter of Intent. With political stability and improving economic and financial performance, the political mood of the majority of people in Indonesia supports the idea of "graduating" from the formal IMF program this year. With the support from international communities, we are confident that we can and we will be able to obediently and consistently implement the program. The new policy programs in 2004 onwards will be based on three main pillars.

The first pillar is maintaining macroeconomic stability. To materialize this pillar, for monetary policy, we are in the process of preparing the new framework of monetary policy, that is, inflation targeting framework. This framework provides clarity in our objective and consistency in our monetary policy to pursue price stability, thereby gradually improve credibility. For fiscal policy, the government carries on its tax and custom reforms as well as its budget reform to simplify the procedure and improving competitiveness without jeopardizing our fiscal position.

The second pillar comprises of continuing efforts to restructure and reform the financial sector. In the banking sector, in the effort to maintain financial system stability and improve governance, Bank Indonesia is currently in the process of preparing Indonesia's Banking Architecture (API) that can be used as a comprehensive and forward-looking platform for banking policy. We continue to improve banking supervision and increase the role of the capital market in the financial system.

The third pillar of the post IMF policy program deals with our efforts to enhance our investment climate so that we may achieve a level of growth sufficient to reduce unemployment and poverty. Key measures for this pillar include a new investment law, simplified registration procedures, more participation in infrastructure, and numerous other measures.

Before closing my remarks, let me figure out the outlook of our economy. Looking forward to 2004, we will continue to strengthen our macroeconomic fundamentals to be the basis for stronger growth in 2004 onward. While monetary policy will remain prudent, as both the inflation rate and the risk premium decline, fiscal policy will stay focused on achieving sustainability. This will require further steps to increase revenue collection and improve access to financing. But as the recovery continues we can begin to look forward to strategic investments to improve the welfare of the people and support the development of the economy.

Good macroeconomic management, however, is not enough to sustain high rates of economic growth. High growth requires structural reforms to make the economy more efficient. Such reform programs that the government is undertaking include the strengthening of legal infrastructure, improving governance, and increasing transparency in both public and private sectors. The purpose of the program that we have developed is not reform for reform sake, but to restore investor's confidence in Indonesia.

We fully expect our macroeconomic policy, coupled with the consistent implementation of our structural reform, will allow economic growth to reach 4 percent this year and will establish the base of real growth of 6 percent over the medium term.

Finally, I would like to thank the IMF, World Bank, and international community at large for their invaluable support to us in our effort to recover from the crisis, as well as in our effort to reform. We believe that our favorable economic developments will enhance market confidence in Indonesia, confidence that we expect to be sustained in the future years.

IRAN: THAHMASEB MAZAHERI-KHORZANI

Governor of the Bank

At the outset, I would like to express my profound pleasure of being present at this year's Joint World Bank/IMF Annual Meetings held in the United Arab Emirates. I also appreciate the relentless efforts of the organizers of this very important gathering, especially His Highness Sheikh Zayed bin Sultan Al Nahyan, President of the United Arab Emirates.

This marks the first time that the World Bank/IMF Annual Meetings are being held in the Middle East. It is heartening to see in this sensitive region, all countries of the world, developed as well as developing, with all their diversities, are again joining hands to achieve a sustainable global economy. Needless to say, the more the nations would reap the

fruits of economic cooperation and interaction, the lesser the grounds for extremism of any sort would be.

We have gathered today under special circumstances while the world economy is facing great challenges, and the world economic outlook seems to be more promising. Yet full confidence has not returned to the international markets, and the prospects of world economic growth look shaky. The continued instability in Iraq has added to the uncertainty, affecting not only Iraq, but also its immediate neighbors, the region, and the whole world. The evident and immediate consequences of the recent developments have led to the reduction of international flows of capital as well as tourism revenues. The world economic slowdown has no doubt led to a reduction of world demand, slower growth in international trade, increased unemployment, as well as investors' distrust in international capital markets.

The sustainable solution to this problem would be to muster our efforts and commit ourselves to achieve the Millennium Development Goals and even further. The fewer the people in material and education poverty and under prejudice, the less the conflicts and extreme acts around the world.

In fact, a global partnership should prevail where no one feels marginalized. The market economy today has, by nature, helped the voice of the rich to be heard louder, while the poor also deserve to be given an enhanced voice. In this respect, we welcome the continuation of discussions of this very important issue in the Board of Executive Directors of the World Bank and IMF in order to increase the relative voting power of the developing countries as a whole. In this relation, we believe that the suggestion to increase basic votes of all member countries in the World Bank to restore it to around 10 percent of the total votes, as it was at the time of founding of the World Bank, will be an appropriate step. Furthermore, we are in support of the position of the Ministerial Group of 24 in this regard.

I would also like to seize this opportunity to briefly explain about some of the recent economic developments in my own country. Despite the low world economic growth rate, my country managed to achieve a 6.5 percent growth rate in the last Iranian calendar year ending March 21, 2003. The unemployment rate has dropped from 16 percent two years ago to 11.2 percent. At the same time, the foreign exchange reserves in the country have increased substantially.

Iran, has also taken giant strides in paving the way for the attraction of foreign investment. To this end, the new Law for the Attraction and Promotion of Foreign Investment has been adopted, which is now under implementation recognizing the new forms of foreign investment and granting the necessary guarantees required. The corporate tax law

has been revised replacing the older exponential system by a 25 percent flat-rate tax. Apart from the transparencies it brings about, this encourages the emergence of bigger enterprises.

The process of privatization also has sped up substantially in Iran providing unprecedented opportunities for interested entrepreneurs. A number of private banks and insurance companies also have been licensed recently to work. I would also like to refer to some of the highlights of our upcoming Fourth Five Year Development Plan as follows:

- Expansion of investment and production through removal of all monopolies, price liberalization, establishment of specialized courts for investment claims, etc.;
- Institutionalization of knowledge economy as the major pillar for development;
- Designing of a transparent financial and regulatory system in harmony with international standards;
- Enhancing the voice and participation of civil society in decision making.

At the closing, I would like to thank Mr. Wolfenson and the staff of the World Bank, as well as the IMF management and staff, for their sincere cooperation with Iran. I would like to once again express my gratitude to our host country and all the organizers of this event for their ceaseless efforts and wish success for all the dear participants and hope that the guests of the region would leave this event with pleasant memories.

IRELAND: CHARLIE MCCREEVY

Governor of the Bank and the Fund

The era in which the world was neatly compartmentalized is over. The Arabic television story of this morning runs this evening in Europe and America. This growing interconnectedness means that the economic shocks, the positive stimuli, and, with advances in communications, the news from abroad, are all now transmitted much more rapidly than before.

Globalization brings both challenges and opportunities. Economic crises can spread more rapidly, and perhaps more widely than in the past. However, it also means wider markets for our producers to access, and the pool of investment funds and capabilities that can contribute to development becomes ever larger. One important consequence is that the poverty and misery that we might have underrated in the past are now much more visible and demand our attention. Now, more than ever, we need strong common policies, actively pursued, to address

global problems. At the same time, sound domestic policies remain of fundamental importance.

Progress in the world economy has been very uneven; some countries given poor hands by fate have achieved much. Others, once rich and prosperous, have achieved little in recent times but decay and failure. And while access to resources, geographical position, good and bad luck in terms of historical developments, all contribute to this disparity of growth and development, good economic management remains a key.

All too often, the roots of crises are familiar. The lessons that should be learned in economic management and development issues are not always applied. Countries return to the Bretton Woods institutions with the same old stories. Surveillance activities must be strengthened to deal with this increase in economic integration and to help ensure that lessons once learned are remembered.

Overnight miracles are rare, but a country that by sensible economic management manages to raise its growth rate by 1.5 percent per annum over that of its neighbor will, in only the time it takes an infant to become an adult, enjoy an income one-third higher. And those achievements of economic management, which in any given year may seem small, will in retrospect appear remarkable.

And where good economic management and availability of resources coincides, the results can be very positive. The Arab world has a population exceeding 300 million people and much to show to developing regions, for example in managing natural resources and in coping with social changes on a vast scale. Proceeds from the sale of oil have been well used, to modernize infrastructure in the UAE, to create employment, and build up the tourist sector. Life expectancy in the Gulf Cooperation Council area has increased by almost 10 years. You have talented, professional staff, engineers, traffic planners, and hydrologists. You may still have much to do in developing your own region, but you have much to offer in other regions too.

If we are serious about trying to promote sustainable economic development, then the economically draining effects of corruption cannot be ignored. It also compromises growth. Corruption, or lack of transparency, which hints at corruption, drains confidence.

Government policy must underpin an economic environment conducive to investment, competition, and private sector development. It is ultimately the wealth-generating capacity of the private sector that provides the basis for long term economic growth and poverty reduction.

The problem of poverty, particularly in Africa, remains a constant. And the obstacle created by high indebtedness to the alleviation of poverty in developing countries must be considered. I have always insisted that the HIPC should deliver a sustainable exit from the debt

treadmill. I am deeply concerned to see that a number of countries emerging from the process continue to have unsustainable debt levels. In our national strategy on developing country debt, we supported a revision of the debt sustainability criteria.

I would like to touch for a moment on the Millennium Development Goals. These, it seems to me, provide a vital framework to work for progress in development. The Monterrey Consensus, and the commitments contained therein, particularly in terms of poverty reduction, should greatly encourage the international community to action and also to work jointly with the international financial institutions and trade institutions in order to eradicate poverty.

I think the HIPC should pay more attention to human development indicators and should also factor in the economic impact of HIV/AIDS on poor countries when assessing sustainable debt levels. Our meeting here in Dubai comes in the same week as the United Nations General Assembly has devoted a special session to the HIV/AIDS pandemic. The devastating impact of HIV/AIDS on affected developing countries, particularly the Least Developed Countries, is a fundamental impediment to their ability to make any real progress. It cripples their economic growth and adds even more to their poverty.

The Bank has a good track record in fighting HIV/AIDS and has developed a good working relationship with the Global Fund. Finally, I urge President Wolfensohn to keep the fight against HIV/AIDS firmly at the centre of the Bank's priorities.

ISRAEL: DAVID KLEIN

Governor of the Bank

The world recognized the need to give priority to the global poverty problem, and it expressed a wide consensus on this matter in the Millennium Development Goals. Let me devote my statement today to this subject and say a few words on the challenges facing Israel in its efforts to reduce poverty.

We believe that poverty cannot be tackled effectively if policy is not focusing on growth. Growth is not a sufficient condition for reduction of poverty, but it is, at one and the same time, the highway to raise the living standards of those who are able to work, and the provider of resources to support those who are unable to help themselves.

We also believe that in order to realize its potential growth, the Israeli economy—perhaps like some other small and medium-sized economies—has to be open to the free movement of goods, services, and capital, and has to adhere to international standards of macroeconomic management, including the standards for fiscal deficit and price

stability. Such a framework maximizes Israel's potential contribution to science and technology as a major vehicle of growth through international trade. However, this approach also requires us to make our tax regime competitive with that of other countries, which necessarily means commensurately reducing government expenditures to keep a lid on debt.

Therefore, the macroeconomic framework constrains the room to handle the challenge of reducing poverty by just increasing welfare payments. When we come to formulate an alternative strategy, we rely on the experience and advice of the World Bank and the International Monetary Fund and on the policies of other countries, like those adopted by the countries of the European Union.

One fundamental element in our strategy consists of various reforms in the labor market leading to an increase in the ratio of employed persons in the working-age population. This is one dimension in which we lag behind the developed world. I need not elaborate here on the significant relation between the rate of employment and the incidence of poverty.

A second key element in our strategy is targeting of the policy to reduce poverty. Like some other countries, we have a history of increasing welfare payments without making a distinction between those who are able or unable to work and without applying an income test for welfare entitlement. The new policy of reducing poverty will have to target the poorest and least-empowered population and let them have a dominant role in shaping their future.

To evaluate the progress we are making in poverty reduction, we add to the traditional relative definition of the poverty line a needs-based (absolute) definition of poverty. Once we have a meaningful and measurable target, we will be able to make our policy more effective: to introduce quantitative indicators for follow-up, define legislative measures and budgetary instruments, determine accountability for policy implementation, and make sure that policymaking and implementation is fully transparent.

The Development Committee communiqué published yesterday stated "Today we renewed our commitment to achieve the Millennium Development Goals and to continue our work on implementing the strategies, partnerships and actions agreed in Doha, Monterrey and Johannesburg." Israel has been, and will continue to be, a firm supporter of this worldwide effort to reduce poverty.

Finally, I would like to extend special thanks to the government and people of the United Arab Emirates for their warm hospitality to all the participants of the Annual Meetings and for their generous contribution to the efficient organization of the meetings.

ITALY: GIULIO TREMONTI

Governor of the Fund

The Global Economic Outlook

The global economy has gone through a process of adjusting to the bursting of the asset price bubble and to other adverse shocks over the past few years. The easing of macroeconomic policies has provided support to demand and activity in the short run, although it also has tended to exacerbate global macroeconomic imbalances.

While fiscal consolidation in many countries is indispensable, it needs to be supported by adequate flexibility in the exchange rate policies of all countries, including the emerging market economies in Asia and Latin America, in order to ensure a fair burden sharing of the necessary adjustment process. Exchange rates should reflect economic fundamentals and be consistent at regional and global levels. To minimize the risk that the recovery will be aborted, the adjustments in exchange rates should be smooth, progressive, orderly, and fairly shared.

In the euro area, there are good reasons for expecting a modest pickup during the second half of 2003, with the recovery strengthening further in 2004. Confidence is showing signs of improvement, and the macroeconomic stance remains highly supportive of growth. The outlook for inflation has continued to improve.

Prospects for an acceleration of economic growth are more solid in the United States than in the other major advanced countries or economic areas. This reflects in part the fact that the cumulative monetary and fiscal stimulus over the past few years has been extraordinarily large. In the short run, this strategy has had positive spillover effects on the rest of the world. However, it also has led to a deterioration of the U.S. fiscal position and a widening of the external current account deficit, while adding to recent upward pressure on bond yields.

In Japan, despite growth in the second quarter, which significantly exceeded expectations, the outlook remains rather weak and risks are mainly on the downside. Bold action is required to promote corporate restructuring and address fragilities in the financial system. In addition, continued aggressive steps to combat deflation are indispensable.

We are encouraged by the continued comparatively strong performance of emerging market economies in Asia, the signs of an upturn in Latin America, the solid growth of the largest CIS countries, and the increased resilience of many countries in Africa.

The MENA region's poor economic performance reflects mainly declining low growth rates in oil exporting countries while, by contrast, the performance of the non-oil exporters is comparable to that of other

developing countries. Governments in the region must retrench from their direct involvement in the economy; the quality of institutions must improve; the domestic economies must be opened up; and modern financial infrastructure must be established.

In many developing countries, and particularly in Africa, growth has been far too low with respect to what is needed to achieve the MDGs and to halve poverty by 2015.

Implementing the Monterrey Consensus

As it has been underlined in the Monterrey Consensus, the developing countries have a crucial role to play in ensuring, through appropriate structural reforms and policy measures, that a stable and enabling environment is in place for generating, attracting and channeling adequate resources to foster development and poverty reduction. This requires strong ownership on the strategy to foster growth and reduce poverty. The PRSP, formulated through a participatory process with the involvement of the civil society, is pivotal in aligning donors' contributions with developing countries' priorities.

Strong ownership on the strategy to achieve the MDGs and to reduce poverty is essential. It is key also for the success of IMF supported programs, and it is a crucial ingredient of any decision aimed at strengthening the voice of developing countries in the Bretton Woods institutions through increased participation in the decision making process and enhanced capacity of their representatives in the Fund. The Fund and the Bank should continue to explore ways to strengthen developing country voices. They also should assess the usefulness of an increase in basic votes of member countries while safeguarding the principle that members' voting power should derive from their capacity to contribute and, ultimately, from their relative weight in the world economy.

Better policies and institutions play a central role, but they are not enough. World Bank estimates on the resource requirements to achieve the MDGs by 2015, although very preliminary, show that good policies alone will not allow developing countries to achieve the MDG targets. Health and environment targets are most at risk. And sub-Saharan African countries are likely to be left behind. What is required therefore is a well-balanced combination of good policies and increased resources to finance growth, development, and poverty reduction in developing countries.

ODA, domestic resource mobilization, private flows, and increased trade opportunities are fundamental sources of sustainable growth. The Bank and the Fund can help create the enabling conditions for enhanced resource mobilization, while donors have to live up with the commitments they made in Monterrey. Italy is committed to make any

effort to gradually increase its ODA so as to achieve the 0.33 target by 2006 as announced.

Cancun has further underscored that all parties must be willing to engage with each other openly and fairly in order to harness the significant benefits of multilateral trade. The Fund can support the process of trade liberalization offering financial assistance in those limited cases where measures to implement the Doha agenda may give rise to temporary difficulties in the balance of payments. The Bank has comparative advantages to play a critical role in supporting trade-related initiatives. In addition to sensitizing parties to the long-term benefits that would result from a successful round of multilateral trade negotiations, the Bank must help enhance trade-related capacities and infrastructure in developing countries.

Low-Income Countries

The Fund and the Bank, through their financial and technical assistance, can play an important role in helping developing countries establish the necessary preconditions—in terms of institutions, policy, and investments—for economic growth and poverty reduction, which in turn are essential for achieving the MDGs. However, it is important that the efforts of multilateral agencies be grounded in the commitment by developing countries to implement their home-grown reform strategies. At the same time it is essential that developed countries provide more ODA resources and open their markets to developing country products.

Thus, it is in this spirit that Italy supports initiatives such as the establishment by the IMF of two centers for Africa capacity building (AFRITACs). This initiative represents a concrete move by the international community and donor countries to fulfill their pledges. Through the provision of effective technical assistance by fostering ownership, enhancing accountability, and increasing responsiveness, the AFRITACs are meant to operate side by side with the African governments in their efforts toward strengthening growth and reducing poverty. We are looking forward to the evaluation of these centers by next year.

Collaboration between the Fund and the World Bank is a key factor in the strategy towards low-income member countries and should be further strengthened. In particular, the Bretton Woods institutions should not only aim at a clear division of labor but also effective information sharing. The latter should concern the structure and timing of program conditionality, the progress attained in key economic reforms, and the impact of programs on the poor. The PRSP approach is the right framework for strengthening this cooperation.

The PRSP has proved to be an effective vehicle to fight poverty and foster a constructive dialogue between authorities and civil society.

However, much more needs to be done to alleviate poverty, especially in terms of increasing institutional capacity. Better coordination between the PRSP process, the PRGF programs, and the Poverty Reduction Structural credits by the World Bank is needed. In particular, PRGF programs should be more closely aligned with the priorities put forward in the PRSP, while the Fund and the Bank should set conditionality requirements more strictly related with the PRSP objectives.

We are aware that the PRGF funding is being put at severe test and that, starting from 2006, it will shift to a self-sustained regime that will limit the ability to support poor countries unless additional bilateral resources are provided.

PRGF countries have scored better than other low-income economies in terms of macroeconomic growth and stability. However, more analysis is needed to understand to what extent these have been able to attract more ODA flows with respect to other low-income countries and whether higher economic growth has translated into poverty reduction. At the same time, surveillance should be more effectively tailored to the specifics of low-income economies. More emphasis should be placed on the analysis of sources of growth and on the assessment of the poverty reduction strategy, as well as on the social impact of relevant macroeconomic policies.

We welcome the remarkable progress already achieved by the Enhanced HIPC Initiative. Results in terms of debt and debt service reduction as well as in terms of social expenditure increase are quite satisfactory, though significant challenges remain. The initiative has now to face difficult countries, some showing poor macroeconomic performance and others in conflict or with substantial amounts of arrears. These countries must be recalled of their commitments and helped to find peaceful and agreed solutions to their problems, but the initiative's eligibility criteria cannot be relaxed.

The governance requirements remain an essential feature in the HIPC framework. Attaining macroeconomic stability, strengthening public expenditure management, satisfactorily implementing PRSPs, as well as meeting other social and structural completion point triggers remain critical for achieving the objectives envisaged through the initiative.

On creditors' participation, some progress has been achieved. However, our objective is full creditor participation, and we believe that actions should be taken to put political pressure on noncompliant creditors. Reaching a fair burden sharing through full creditors' participation would also pave the way for reaching a consensus on the change in the methodology for topping up debt relief to those countries facing an unsustainable debt situation at the completion point due to exogenous shocks beyond the country's control. For the countries that under the current framework would qualify for topping up assistance, we are

ready to discuss with the IFIs and other donors possible changes in the methodology for calculating such additional debt relief as well as ways to fill the resulting financing gap for the IFIs themselves.

JAPAN: TOSHIHIKO FUKUI

Alternate Governor of the Bank and the Fund

I am very pleased to have this opportunity today to address the 2003 World Bank-IMF Annual Meetings as Alternate Governor for Japan. I would like to express my gratitude to the government of the United Arab Emirates and the authorities of Dubai for hosting this year's Annual Meetings.

The World Economy

I welcome the positive signs of recovery that are emerging in the world economy, and the resulting improvement in global equity markets. While due attention should continue to be paid to downside risks, such as a fall in the prices of goods and assets in some regions, I expect the world economy to continue to gradually recover in the second half of 2003, supported by policy efforts in many countries.

The Asian economy is expected to continue its strong growth thanks to the diminishing adverse impact of SARS, as well as receding uncertainties surrounding the world economy. In order for Asian countries to maintain sustainable growth over the medium and long term, it is important for them to develop regional bond markets, with a view to better utilizing the region's high level of savings for long-term investments, which are necessary for economic development. In this context, the finance ministers of ASEAN countries, China, Korea, and Japan (ASEAN + 3) agreed in August 2003 to intensify their efforts to develop regional bond markets.

With respect to emerging market economies, I am pleased to note the increasing market confidence as a result of appropriate policy management, particularly in Brazil. However, it is essential for these countries to press ahead with structural reform, including fiscal consolidation, in order to achieve sustainable economic development.

I welcome the IMF's approval on September 20th of a new arrangement with Argentina in the context of its medium-term economic program. However, Argentina still faces many structural problems, which call for far-reaching reforms under the new IMF-supported program. It is also necessary for the Argentine authorities to proceed promptly with good-faith negotiations with a large number of external creditors under the principle of equitable treatment of all creditors.

The Japanese Economy

The Japanese economy is showing signs of recovery: stock prices are keeping a rising trend and there has been an improvement in corporate profits. According to recently released data, Japan's real GDP in the second quarter of 2003 grew by 3.9 percent in annualized terms, supported primarily by well-sustained private consumption and business investment. This was the sixth consecutive quarter of positive growth. In order to achieve sustainable growth, the government will continue to pursue structural reform in an integrated manner in such areas as regulation, the financial sector, taxation, and government expenditure.

With regard to fiscal policy, the government intends to maintain in its FY 2004 budget a restrained fiscal stance and to pursue greater prioritization and efficiency in budget allocation, taking into account Japan's difficult fiscal position. As for medium-term fiscal management, the government's goal is to achieve a primary surplus by the early 2010s through the realization of private demand-led sustainable growth and continued efforts to improve the fiscal balance. The government will also address comprehensive tax reform from a medium-term perspective, with the aim of reinvigorating society, as well as the economy, and of regaining the confidence of the people.

As for the financial sector, under the "Program for Financial Revival" announced in October 2002, the government set a target of halving by end-March 2005 the major banks' nonperforming loan (NPL) ratio as of end-March 2002. Financial statements of major banks as of end-March 2003 show that progress in lowering the ratio is well on track. The government has also taken rigorous measures to improve the quality of financial institutions' capital, including the bold and prompt injection of public funds into an institution whose capital adequacy ratio had fallen below the minimum regulatory requirement in order to preempt any financial crises. The Industrial Revitalization Corporation of Japan (IRCJ), which was established in April 2003 for the purpose of revitalizing Japan's corporate sector, is set to purchase financial institutions' loans of potentially viable firms. Recently, the IRCJ selected a few companies as the first batch of candidates to receive assistance.

The Bank of Japan (BoJ) has been providing ample liquidity to the markets under the policy framework of quantitative easing in order to help stabilize financial markets and to put an expeditious end to deflation. Furthermore, the BoJ in July 2003 introduced a scheme whereby asset-backed securities would be purchased as part of an effort to strengthen the transmission mechanism of monetary easing. The BoJ is firmly committed to maintaining its current policy stance until the consumer price index stably registers 0 percent or above. The government,

together with the BoJ, will make continued efforts to maintain the stability of the financial and capital markets as well as to overcome deflation.

Strengthening the International Financial System

Despite the IMF's efforts in the area of crisis prevention, financial crises have occurred in a number of countries in recent years, highlighting the need to further strengthen the measures for crisis prevention and resolution.

Crisis Prevention

In the area of crisis prevention, an important issue to be addressed is the strengthening of the IMF's surveillance together with the implementation of sound policies by each country to reduce external vulnerability. I welcome the progress being made by the IMF on various fronts, including the refinements of the framework for debt sustainability analysis, and hope further steps will be taken toward strengthening surveillance. The Financial Sector Assessment Program (FSAP) is well under way, with many member countries having already completed the assessments.

The Contingent Credit Line (CCL), which was set up as a facility for crisis prevention, is due to expire at the end of November 2003. However, the need for an effective framework to prevent contagion remains unchanged. I hope that the IMF's Board will discuss and come up with effective measures for crisis prevention before the CCL expires.

Crisis Resolution

For crisis resolution, it is essential to promptly restore the debt sustainability of a country in crisis through an appropriate combination of policy adjustment, official lending from the IMF and other international financial institutions, and private sector involvement (PSI), including debt restructuring as necessary. With regard to PSI, I welcome the introduction of collective action clauses (CACs) by a number of emerging market economies, including Brazil, South Africa, and Korea, following Mexico's lead. I also welcome the Uruguayan government's successful debt exchange using CACs in the Japanese market. I hope that other countries will follow suit in introducing effective CACs in their sovereign bond issues under foreign jurisdictions. With regard to a code of conduct for crisis resolution, I hope that interested parties will make further progress in the discussion of its various elements.

On the IMF's quota, it is essential that the IMF maintain a sufficient level of financial resources for effective crisis resolution. Changes in the

world economy and financial markets can be abrupt and hard to predict. The IMF should therefore continue to examine quota issues and be prepared to act promptly whenever the need for a general quota increase arises. In the review of quotas, we should bear in mind that the distribution of quotas should reflect the current realities of the world economy, as well as the relative position of member countries' economies.

Development Issues

Now, I would like to address development issues. Economic growth is certainly an essential factor to achieve sustainable poverty reduction. In this context, I welcome the fact that the developing countries have demonstrated growth that outpaces the world economy on the whole.

Recent Developments Leading to the Achievement of the Millennium Development Goals (MDGs)

It is important for the international community to cooperate closely in aiming to achieve the Millennium Development Goals (MDGs). To move steadily toward the goals, each developing country is expected to localize the MDGs according to the circumstances it faces and then to formulate its own Poverty Reduction Strategy Paper (PRSP) designed to achieve the localized goals. As developing countries vary on many fronts, such as poverty profile, fiscal situation, and administrative capacity, it is essential for each developing country to localize the MDGs by identifying the development strategy it needs and prioritizing policies to implement it under that strategy. In this context, Japan welcomes a steady increase in the number of countries that have completed the PRSP process.

Looking at recent PRSPs, one can observe that more and more PRSPs are putting emphasis on growth-oriented policies with the recognition that growth is essential for poverty reduction. Particularly, we welcome the fact that the World Bank has recently affirmed its commitment to infrastructure dimension. In this context, I would like to request the Bank to analyze the transmission mechanism among infrastructure, economic growth, and poverty reduction. The Bank would then feed back the results of such an analysis to its future operations. I would also like to request the Bank further collaborate with the private sector in order to make more sustainable operations in areas related to infrastructure, taking account of lessons learned from the past experiences.

As the PRSP process has moved up along its phases from formulation to implementation, several issues have emerged. For example, many PRSPs simply list diverse policies without prioritizing them. Some other PRSPs seem to set too ambitious goals. To address these issues, it

is necessary to firmly cost out each policy in the PRSPs and incorporate them into the annual budget and the Medium-Term Expenditures Framework (MTEF), while at the same time keep the whole spectrum within the framework of macroeconomic balance and public debt sustainability. Developing countries are required to build their capacity in such areas as fiscal and public expenditure management, and the World Bank is expected to strengthen support to help such efforts. Once a realistic PRSP has been formulated, the donor community, including the IMF and the World Bank, is expected to jointly support the PRSP by aligning its assistance with the PRSP.

To enhance the effectiveness of PRSP approach in the future, it is essential to monitor how developing countries and the donor community are playing the roles they have committed to, and to feed back its results to future PRSPs. When conducting evaluations, it is necessary to distinguish the evaluation of policies from that of the results. Japan welcomes the fact that policy evaluation now holds a central place in the internationally agreed monitoring framework.

Assistance to Policy and Human Resource Development

To enhance aid effectiveness, both the developing countries and the international community as a whole should make their own endeavors. While the former is requested to establish a prudent institutional capacity and policy environment, the latter should extend assistance to developing countries in this respect. Japan is committed to continuously making active contributions in such areas as consolidation of institutional capacity and policy environment, and capacity building of the public sector. I have the pleasure to announce here that Japan is currently preparing for the establishment of a Global Distance Learning (GDL) Center in Tokyo. To be connected with the other GDL centers in the Asia Pacific Region via satellite, the new facility should be able to provide such interactive services as remote training and policy dialogues. Japan will continue working with the World Bank to inaugurate the center in the spring of next year.

Reconstruction Assistance to Iraq, Afghanistan, and Sri Lanka

Regarding countries suffering from conflicts, it is essential to promote human security as well as to extend assistance in development dimension such as consolidating peace and building basic foundations.

Stability and reconstruction of Iraq is important. As a member of the international community, Japan pledged a total of US$100 million in humanitarian assistance, and to date has already extended or decided to extend some US$86 million of assistance. One of the key challenges

that lie ahead is to make the October international donors conference in Madrid a success. Japan is also committed to make efforts in this direction. The situation in Afghanistan also deserves the attention of the international community. In this sense, it was high time that the Afghanistan Development Forum was held here in Dubai. As host to the International Conference on Reconstruction Assistance to Afghanistan in January 2002, Japan will continue to be actively engaged in supporting Afghanistan through the "DDR process" (the process of disarmament, demobilization, and reintegration of the former combatants), "Ogata Initiative" (a comprehensive development plan for priority regions in Afghanistan), and assistance to reconstruct roads. Consolidating peace in Sri Lanka is also essential. For its part, Japan hosted the Tokyo Conference on Reconstruction and Development of Sri Lanka this past June. At the Conference, Japan expressed its intention to extend assistance of up to US$1 billion for the coming three years, subject to the evolution of the peace process in that country.

The Third Tokyo International Conference on African Development (TICAD III)

Japan has been promoting the TICAD process since 1993. As such, its assistance to African countries has been articulated based upon the spirit of the process, which is to enhance both Africa's ownership and partnership of the international community. This spirit is echoed in the "New Partnership for Africa's Development" (NEPAD). I have the pleasure to note that the third meeting of TICAD will be held in Tokyo next week, at the juncture of the tenth year since the process was inaugurated. I hope that an active discussion will take place to further consolidate and enlarge the partnership of the international community towards NEPAD.

ODA Charter

Next, I would like to inform you that the Japanese Government has recently revised its "ODA Charter." In the new charter, strengthening partnerships and collaborating with international organizations are placed as one of the key principles, and poverty reduction is held up as one of the priority goals. Japan intends to continue supporting the PRSPs based upon the principles set out in the charter. Furthermore, the new charter stipulates that Japan will enhance policy dialogues with developing countries, paying due attention to their institutional environment and policy capacity, while also reflecting the results of ex-post assessments of development assistance to future ODA policy. We hope that these attempts will lead to further enhancement of aid effectiveness.

There is no change in the importance given to the comparability of development and environmental dimensions in the new ODA Charter. In this respect, the Japan Bank for International Cooperation (JBIC) will put into place its new Environmental Guidelines effective this October. The new guidelines will introduce, among others, a procedure allowing the complainant to place formal objections. Japan International Cooperation Agency (JICA), for its part, is currently working to revise its guidelines for environmental and social safeguards before the end of this fiscal year. I strongly hope that many countries will follow their lead in order to achieve more sustainable development of the international community, especially in developing countries.

Measures Against the Financing of Terrorism

The threat of terrorism remains serious. It is therefore important for the international community to strengthen measures to combat the financing of terrorism. From this standpoint, I welcome the revision of the 40 recommendations of the Financial Action Task Force (FATF). The revised recommendations have set a new international standard in the fight against money laundering and terrorist financing. I also welcome the substantial progress in the assessments of member countries' compliance with the AML/CFT (anti-money laundering and combating the financing of terrorism) standard in the context of a 12-month pilot program by the IMF and the World Bank. Based on the results of these assessments, technical assistance should be provided to help countries implement the AML/CFT measures. Japan will continue to contribute to such assistance based on the needs of recipient countries.

Conclusion

More than six years have passed since the outbreak of the Asian financial crisis. I welcome the progress that the World Bank and the IMF have made toward improving various aspects of their work. In spite of such efforts, however, countries in different regions have experienced economic crises. I would therefore like to conclude my remarks by expressing my sincere hope that the World Bank and the IMF will further strengthen their efforts toward crisis prevention and resolution.

KOREA: JIN-PYO KIM

Governor of the Fund

It is my great honor to represent the Republic of Korea at the 2003 Annual Meetings of the International Monetary Fund (IMF) and World Bank Group.

Before I begin, let me sincerely thank the government of the United Arab Emirates and the people of Dubai. You have made wonderful arrangements for us, and your hospitality has been gracious.

Global Economic Growth

After a prolonged period in the doldrums, the global economy is finally mounting a modest recovery. A number of things are helping to propel the economy forward—a reduction in geopolitical uncertainty, stable oil prices, and vigorous policy stimulus by leading economies. Indeed, recent data show that a modest recovery is already on track in the United States and Japan.

Nevertheless, the risks are, in my view, still mostly on the downside. A full recovery in the European Union has yet to materialize. And the specter of deflation and falling asset prices continues to lurk in some parts of the world. Given these dangers, achieving a sustained global recovery is going to be up to the world's leading economies.

Together, we must put forth a concerted effort to maintain stimulative macroeconomic policies and pursue structural reform.

Challenges and Responses in the Korean Economy

Now, let me turn briefly to recent economic developments in Korea. The growth of the Korean economy is expected to be slow this year mainly due to the contraction in private consumption and investment. Accordingly, the government has focused its efforts on stimulating domestic demand. These include historically low interest rates, a sizable supplementary budget, and a major package of tax cuts.

Together with the anticipated global recovery, we expect these macroeconomic policies to kick-start the Korean economy in the coming months. By the end of next year, we expect growth to accelerate to its potential rate.

Taking a longer-term view, the Korean government is aiming to raise the economy's growth potential by nurturing new engines of growth. One such engine will come from making Korea one of the main business hubs in Asia. Another will come from the ongoing structural reforms that are making our economy more competitive and productive. For example, we are improving corporate accounting and governance to increase market efficiency. We are completing the reprivatization of banks. And we are reforming the non-bank financial sector.

Finally, regarding our labor relations, we are working to improve our systems and practices, and ultimately meet global standards.

IMF Issues

Let me now touch on the role of the IMF in meeting the challenges ahead.

Without a doubt, most countries have reaped significant benefits from the globalization of the world economy and the rise in international capital flows. At the same time, these benefits have an unfortunate flip side—the dangers of volatile capital flows and contagion of capital account crises.

To meet these challenges, the IMF must have adequate financial resources to be able to play its role as lender of last resort. However, it is not clear that such resources have been secured. A quota increase is therefore a very important and urgent issue.

Going a step further, I believe that it is important, not only to increase the total resources available to the IMF, but also to improve the distribution of quotas among the IMF members. This would not only better reflect the relative economic realities of member countries, it would also ensure timely and adequate resource mobilization.

I believe that, at the thirteenth General Review, these vital issues need to be addressed.

Development Issues

I would note that the Korean government fully supports the joint efforts of the Fund and the Bank to attain sustainable growth and poverty reduction. In this regard, the government last August made a contribution of 10 million dollars to the Heavily Indebted Poor Country (HIPC) Trust Fund. The government will also actively participate in Millennium Development Goals programs.

With regard to post-conflict countries, we hope worldwide efforts will continue to help the reconstruction of these nations. Although many decades have now passed, the Republic of Korea accumulated a great deal of experience as a post-conflict country. We will gladly contribute to the international effort by sharing our experience and knowledge in post-conflict development.

North Korea

Finally, I know that many of you are closely following developments in North Korea.

Let me assure you that we have already taken important steps toward a peaceful settlement. We are confident that we will continue to see gradual improvements in the multilateral talks. To be truly successful, North Korea will need to eventually become a partner in the global

economy. Getting there will require help, both from the IMF and the World Bank.

We therefore urge you to extend to your technical assistance to North Korea as it prepares for its membership.

Closing Remarks

Before closing, I am happy to announce that the 2004 Annual Meeting of the Asian Development Bank will be held in Korea, on our beautiful island of Jeju. I hope to see all of you there next May.

In the meantime, I hope that these meetings will provide a valuable opportunity for us to discuss ways to revive the Middle East economy and overcome remaining obstacles to global peace.

LAO: SOMDY DOUANGDY

Temporary Governor of the Bank

On behalf of the delegation of the Lao People's Democratic Republic, it is my great honor and pleasure to address the 2003 Annual Meetings of the World Bank and IMF being convened today in Dubai, the beautiful city of the United Arab Emirates. I would like to express my sincere appreciation to the management and staff of both institutions, and the host country for the excellent arrangements made for the meetings.

The Annual Meetings this year are in the midst of an environment where the Bank and the Fund are furthering their cooperation with the international community on poverty reduction, and fulfilling their "normal role" of helping the post-conflict countries with reconstruction. These undertakings have been complicated by the prevailing global economic uncertainties. In this context, the Lao PDR has continued to implement the fifth Five Year Economic and Social Development Plan, covering the period of 2001–05, whereby the Lao PDR continues to maintain close cooperation with the international community. The cooperation of the International Financial Institutions (IFIs), the Bank and the Fund in particular, has been eminent to help us implement the reform programs in support of our development goals.

Despite substantial success in several areas, our development efforts of the current year falls somewhat short of expectations. Real GDP for the year 2002/2003 is estimated at 5.9 percent, attributable mainly to industry and agriculture despite the floods. This falls somewhat from the planned target of 6–7 percent due partly to weakness in tourism and slower private investment. The former cause is linked to the SARS outbreak in the region. The latter, however, is partly caused by reduced flow of foreign direct investment resulting from global economic uncertainty, and partly due to more cautious bank lending policies.

Inflation, which was at 7 percent (year-on-year) in early 2002, rose rapidly to 17 percent in June 2003, reflecting the effects of higher oil prices in early 2003, and the depreciation of the nominal exchange rate during the second and third quarters of 2002. The adoption of firmer financial policies from expenditure and bank credit controls and increases in interest rates since October 2002 have stabilized the exchange rate. As a result, inflation has begun to decrease during the recent months and is expected to be at single-digit level by end-year.

On the structural front, substantial progress has been made. In order to improve banking operations of restructured SCBs, the reform of State Commercial Banks (SCBs) has begun. Four international advisers have been employed and started working on their assignments in the SCBs. As a consequence, significant change has been made in the lending operations of SCBs as reflected by improved loan recoveries and reduced credit growth in recent months. Progress has also been made in State Owned Enterprise (SOEs) reform, as seen by the launching of technical work on the restructuring strategies and programs for the five large SOEs, and the continuing adjustment of service fees of certain SOEs in order to reach the cost recovery level agreed under the Bank's Financial Management Adjustment Credit (FMAC) and the Fund's Poverty Reduction and Growth Facility (PRGF). In addition, efforts have been made in strengthening fiscal management in line with our reform program.

With regards to our efforts towards achieving our 2020 goal of exiting from the least developed country status, the government has completed the consultation process on the National Poverty Eradication Program (NPEP). This document has been presented to our development partners at the recent Round Table Meeting for comments and support. The donor community has made significant contributions to the process through comments and pledges of necessary financial and technical assistance for implementation. The NPEP's objectives and priorities are in perfect harmony with the Lao PDR's international commitments, particularly the Millennium Development Goals and the LDC Summit's objectives.

In implementing the NPEP's objectives, we are mindful of challenges ahead of us that are both of domestic and external origin. To ensure high sustainable growth of 6 to 7 percent over the medium term, the government needs to exert strong efforts towards maintaining macroeconomic stability, pursuing necessary structural reforms, and creating a favorable environment to promote investment. Special focus is placed on reducing and maintaining inflation at a single-digit level. To this end, a sound fiscal policy would be essential. The government needs to strengthen tax and customs administration as well as public expenditure management. Banking and SOE restructuring processes need to be completed, so as to enhance public confidence to invest in production

and business activities. In the banking-sector restructuring, we also need to strengthen the supervisory and regulatory framework and implementation capacity within the central bank to ensure sound banking practices and promote competition in banking services.

In the meantime, our partners in development need to adhere to their commitments made in the Monterrey Consensus, particularly to make available necessary financial and technical assistance in support of developing countries' development efforts. We consider export-led growth as the key to attaining our poverty reduction goals. We are concerned with the disappointing outcome of the Cancun meeting, and we strongly urge the developed countries to remove existing trade distortions and barriers to enable developing countries to have access to their markets, in order to achieve the targets of the Doha Development Agenda. We are encouraged by the prospect that the Bank and the Fund will extend the scope of their activities to include trade as an additional channel for helping the developing member countries achieve their development goals.

As the potential for our country's economic development lies largely in the productive and sustainable use of our natural resources, for export oriented production, we highly appreciate the Bank's support in the preparation of the proposed Nam Theun 2 Hydropower Project, and we will continue to work closely with the bank and the parties concerned to realize this project. We believe that the realization of this project will bring benefits to the Lao PDR and its neighbors.

The Lao PDR supports the quest for enhancing the voice, participation, and voting power of developing countries in the decision-making processes of the Bretton Woods institutions. We reiterate the importance of restoring and maintaining world peace and political stability as prerequisites for attaining the Millennium Development Goals. With regard to the threat of terrorist activities, the government of the Lao PDR has been cooperating with the international community to counter the financing of terrorism in line with the United Nations' Security Council Resolution 1373. In this connection, we are presently working toward having in place the legal framework to combat money laundering and the financing of terrorism.

As the global environment continues to remain uncertain, we feel that there is a need to heighten the spirit of cooperation among the countries of the world to restore and maintain security, and to promote economic growth and trade in order to bring the benefits of globalization to all countries.

In conclusion, in the name of the Lao PDR Government, I would like to express my sincere appreciation to the management and staff of the Bank and the Fund and fellow member countries for the support given to the Lao PDR. I wish the meetings a great success.

LATVIA: VALDIS DOMBROVSKIS

Governor of the Bank
(on behalf of the Bank Baltic Group)

It is my great pleasure and honor to address the 2003 Annual Meetings on behalf of the Baltic States—Latvia, Lithuania, and Estonia.

I will concentrate on the issues that are common to all three Baltic countries and related to cooperation with the World Bank. All other issues, on which we fully agree, are already addressed in the speech by the Honorable Birgir Isleifur Gunnarsson.

European Union (EU) accession challenges

Let me touch on some issues that are now on the agenda in our countries, the main issue being the EU accession. After finalizing the accession negotiations at the end of last year, the Baltic countries, along with other EU accession states, signed the accession treaties and entered into the final stage of accession to the European Union. One of the recent major steps was the positive referendums in our countries. Latvia was the last accession country where, in a referendum just a few days ago, people voted for entry into the European Union. EU accession will also mark new challenges for the cooperation of the Baltic states with the World Bank.

For a number of consecutive years, the Baltic countries have been the fastest-growing economies among the EU accession states. We hope that this trend will continue. As you well know, our countries have gone through the difficult and complicated transition process. We have come a long way with restructuring our economies and state institutions, as well as enforcing new legislation. Assistance from the European Union has been important. We certainly would not be so far along today without the considerable help that we have been given by the World Bank as well. Therefore, I would like to take this opportunity to extend my greatest gratitude and compliments to the institution for the work it has done for the Baltic states over the past decade. In addition, let me point out that we are prepared to participate in the development agenda by sharing with other countries and regions the experience we gained in the transition process.

Cooperation challenges

I would like to emphasize one particular issue on which our countries have good cooperation with the Bank. This is the knowledge economy. Several recent studies suggest that the economies of the Baltic

states need to increase their competitiveness to become serious players in the international arena. There is some progress in our countries with respect to the four main pillars of a knowledge economy: improvement of the policy regime, fast ICT development, changes in the education and training system; and the beginning of national innovation development. This important work could be continued in cooperation with the Bank so that the Baltic states become countries with a developed knowledge economy. Therefore, I would like to commend the Bank for its effort to support the transition to knowledge economies.

Conclusion

To conclude, let me thank the management of the Bank for its effective management of this multilateral institution. We hope to be able to give back to the institution at least as much as we have been getting ourselves. As members of a constituency, the Nordic countries have good role models to learn from, and we plan to do our best by contributing to the fight against poverty and to all other good causes for which the Bank stands.

LIBYA: ALOJELI ABDEL SALAM BREENI
Governor of the Bank

On behalf of the members of the Libyan delegation, I would like to begin by extending to you, Mr. Chairman, our congratulations on being selected to chair this year's meetings, which I hope will meet with great success under your leadership. I would also like to express my thanks and appreciation to our hosts in the United Arab Emirates for the warm welcome and kind hospitality you have shown us since our arrival in your country, and for the many efforts you have made to host these international meetings, being held for the first time in an Arab country, which is a source of pride for us all.

You are well aware of the difficult circumstances facing the Arab world, particularly the deteriorating situation in Iraq and Palestine, which has led to the depletion of resources and adversely affected development not only in the countries of the region, but throughout the world. The concurrent financial, economic, and security problems have had a particularly adverse effect on the standard of living in the Arab world, manifested by increasingly severe levels of unemployment and poverty. We must all cooperate with the international community to find rapid solutions to these problems.

Libya has suffered for more than a decade from the severe sanctions imposed on it, which have hindered development in my country over

the years. With the support lent by the majority of the international community to Libya's position, these sanctions have recently been lifted. On this occasion, I wish to express our deep gratitude to all the countries that contributed to the lifting of these sanctions against my country.

To complete the lifting of sanctions, we use this forum to call for the release of Libyan assets frozen in U.S. banks, as there is no longer any justification for freezing these funds, in light of the recent United Nations Security Council resolution issued on September 12, 2003. Moreover, such freezing of assets contradicts the letter and spirit of the IMF's Articles of Agreement and the principles of international cooperation and solidarity.

Libya has confronted terrorism in all its forms since the early 1980s, and we understand the danger it poses to international peace and security, as well as to development in the countries that have been or are currently exposed to it. Libya condemns terrorism in all its shapes and forms and stands ready at all times to cooperate with the international community to strike at its roots and eliminate it. In this regard, Libya has concerned itself greatly with the subject of money laundering and has taken a number of measures to combat it, including the establishment of a special financial data unit in all banks operating in the country.

Libya is committed to promoting development, especially in the poorest countries, and has granted many developing countries various types of loans and assistance amounting to billions of dollars on concessional terms. This aid has been aimed at enhancing development and building infrastructure in the health, education, and other sectors, particularly in the African continent and specifically in our neighboring countries. Our efforts have undoubtedly contributed to the fight against poverty and all its negative manifestations in poor communities.

In this regard, we are prepared to cooperate with the financial and development institutions to offer additional assistance and loans, and we call on the international community to increase its efforts, through these institutions, to reduce poverty by devoting more resources to development in poor countries, thus ensuring the achievement of the Millennium Development Goals, raising the living standard of the people in these countries, reducing poverty, increasing education opportunities, and combating deadly diseases.

My country has recently adopted a number of fiscal, monetary, and trade reform policies to correct the imbalances in the Libyan economy and spur development. We welcome the opportunity to cooperate fully with the World Bank and the International Monetary Fund in the areas of technical assistance, training, and promoting a suitable environment for investment in Libya.

I would like to conclude by expressing to the World Bank and the IMF my country's sincere appreciation for their efforts to promote development by providing assistance to the poorest countries of the developing world. We call on these institutions to continue and increase their efforts to eliminate poverty, fight ignorance, and reduce the gap between the various classes of society—goals that they have long striven to achieve.

FYR MACEDONIA: PETAR GOSEV

Governor of the Bank

Since it gained its political independence in 1991, the former Yugoslav Republic of Macedonia has been undergoing a process of complex economical and political reforms aimed at development of a contemporary democratic society with a market-oriented economic system. In the process of transition, the Macedonian economy faced a large number of external shocks (trade blockades, economic sanctions imposed on neighboring countries, and a security crisis in the region and in the country), which had an impact on the dynamics of the economic growth.

The process of macroeconomic stabilization commenced in 1994. In addition to the restrictive monetary policy, it encompassed a drastic reduction of the budget deficit. The fiscal consolidation, however, was to the largest extent a result of short-term measures rather than of the implementation of complex reforms. Despite the results accomplished on an aggregate level, the budget structure remained unfavorable from the perspective of providing more significant support to economic growth. The Kosovo crisis, which began in 1999, and especially the country's security crisis, which began in 2001, caused a deterioration of the fiscal position. The General Budget deficit in 2001 reached 7.2 percent of gross domestic product (GDP), and in 2002 it remained at the high level of 5.6 percent.

Given this situation, the main objective of the macroeconomic policy in 2003 was fiscal consolidation. The General Budget deficit in 2003 is estimated to be reduced to the level of 2.5 percent of GDP, which represents an impressive reduction of 3.3 percent of GDP in only one year. Not only has the objective been achieved in the first eight months of this year, but it has been surpassed. The basic medium-term objective of the public finance policy is a gradual reduction of the deficit at a level of around 1 percent of GDP. As opposed to the impressive budget consolidation in 2003, which was aimed at establishment of initial discipline in public finance, the further reduction of the budget deficit is to be achieved gradually. In parallel with this task, the process

of improving the public expenditure structure is ongoing. Thus, room for a gradual increase of capital expenditures and achievement of a level compatible with the most advanced transition economies is being created.

The reduction of the General Budget deficit is significant for the increase of national savings, reduction of interest rates, increase of credits to the private sector, increase of investment activity, and reduction of the need for foreign financing. This is confirmed by the achievement, after several years of rigidity, of a reduction of the interest rates on the debit balance of banks. This reduction was in part the result of measures to reduce the costs of banks and increase foreign exchange crediting in the country. The fiscal consolidation and disciplined application of the monetary strategy to the targeting of the foreign exchange rate enabled maintenance of inflation at a low one-digit level that will not exceed 1 to 2 percent in 2003. As far as price stability is concerned, the former Yugoslav Republic of Macedonia belongs to the group of the most successful countries in transition, with an average annual inflation rate of below 3 percent from 1997 to 2003.

The case of Macedonia is a clear example of the fact that development is a much more complex issue than achievement of price stability, which is a necessary but insufficient condition for dynamic growth. Analysis of the three basic components of the integrated development concept (sustainable economic, social, and regional development), shows, in the case of Macedonia, that the economic component is the one that lags behind the most, although the other two components heavily lag behind as well. The former Yugoslav Republic of Macedonia was in fact much more successful at achieving and maintaining price stability, reducing the budget deficit, and changing the ownership structure in enterprises than at efficient restructuring and realizing dynamic economic development.

The GDP growth rate was low during the whole transition period, so that in the period of political and security instability in 2001, the economy entered the zone of recession, which continued in 2002. By the end of 2002, there was a moderate revival of the economic activity, which also continued in 2003. Still, Macedonia has not reached the level of GDP that it had before obtaining its economic independence.

The poor dynamics of the economic growth is the reason for the biggest problem in the former Yugoslav Republic of Macedonia—unemployment, which is estimated at the level of around 30 percent. Therefore, what is needed is development of a new economic strategy, the objective of which is realization of more dynamic and sustainable economic growth in a long run. The basis of this strategy should be strengthening of private sector competitiveness and creation of new jobs.

In order to realize the commitments of the government for increasing employment, reducing poverty, and increasing the standard of living, the Macedonian economy must realize more dynamic economic growth, which on average should not be lower than 5 percent. In order to achieve this, the country needs a new development strategy that is based on policies, which in accordance with empirical results, show a positive correlation with the growth: maintenance of low and stable inflation, control of public expenditures, openness of the country, compliance with ownership rights and the law, development of the human factor, and achievement of balanced regional development. Thereby it is very important these policies not deteriorate the distribution of income so that poorer people reap the benefits of economic growth.

I will elaborate more concretely on some of the most significant challenges:

Redefinition of the Government Role

The government should provide room for the private sector and a favorable investment environment for development of entrepreneurship. That means strengthening the institutional capacity of government institutions so that they can provide high-quality and efficient public services. I consider the credibility of the government and the capacity of government institutions to be of key importance for the successful realization of the complex reform process. Therefore, the public sector reforms supported by the World Bank are one of the priorities of the government of the former Yugoslav Republic of Macedonia.

The creation and maintenance of new jobs must be supported by the government by labor market reforms, as well as via an efficient system of educational, health, and social protection. The last element is especially important for mitigating the consequences of the structural reforms on the most disadvantaged of the population, as well as for providing public support for the implementation of those reforms. All these elements are an integral part of our three-year Country Assistance Strategy supported by the World Bank.

Openness to Global Financial and Trade Tendencies

Economic growth in the former Yugoslav Republic of Macedonia, a small country with a market of two million inhabitants, is to a large extent determined by foreign demand for Macedonian products. The country's share of the foreign trade in GDP—90 percent—is satisfactory. However, the balance between exports and imports is very unfavorable—hence the need to achieve more dynamic growth rates of exports.

Post-Privatization Enterprise Restructuring

This issue is closely connected to the problem of low growth and economic entities' insufficient competitiveness. The privatization process in the former Yugoslav Republic of Macedonia has almost been completed. The change of ownership, however, does not by itself ensure increased efficiency of enterprises. Therefore, by the end of the year, all residual shares of the Privatization Agency will be sold at auction. Strengthened corporate governance will be stimulated through elimination of subsidies, strengthening of the collection of claims, and simplification of liquidation procedures. This process encompasses completion of the restructuring of 30 loss-making enterprises, which is to be accomplished within the framework of the Financial and Enterprise Sector Adjustment Program (FESAL) of the World Bank.

All these activities mean finalization of the passive process of restructuring. The second stage of active restructuring of enterprises is much more important from the perspective of strengthening competitiveness. The government plays the role of a supporter of this process by stimulating various projects and investments and by supporting newly established high-tech enterprises, entrepreneurship, and so on. To that end, the establishment of the Agency for Entrepreneurship promotion is under way, and other measures are being taken to simplify the procedures for registering new enterprises in accordance with Foreign Investment Advisory Service (FIAS) recommendations. It should also be added that the government is firmly committed to the fight against bureaucracy and corruption, for which an anti-corruption strategy has been uncompromisingly implemented.

Intensification of Investment Activity

Investment activity in the previous period was at a very low level. To accelerate economic growth as well as achievement of an investment rate of 25 to 26 percent of the GDP, a savings rate of 20 to 21 percent of GDP (10 or so percentage points higher than the existing level) has been established as a medium-term objective of the macroeconomic policy. Disciplined public spending and development of long-term instruments for saving (pension system reform, issuance of government bonds) will contribute to the increase of domestic savings and improvement of development potential. This also anticipates more efficient allocation of savings, which requires further strengthening of banking-system competitiveness.

What is especially required for creation of new jobs are investments in new export-oriented enterprises (what are known as "greenfield" investments). In this context, as a minister of finance of a small country,

I would like to publicly support all initiatives within the World Trade Organization (the trade negotiations in Doha, Monterrey, Cancun, and so on) for increased opening of developed countries' markets to the products of developing countries, a longer-lasting and more dignified source of development and poverty reduction than official donations. Then, we might say that globalization is a process that really creates equal opportunities for development of the undeveloped and developed, poor and rich countries.

MALAYSIA: JAMALUDIN MOHD JARJIS

Governor of the Bank and the Fund

Global Economic Outlook

Since we last met last fall, prospects for the global economic recovery have improved. There is now greater certainty with respect to the recovery in the global economic outlook. In this regard, we are indeed heartened by recent assessments by international financial institutions pointing toward the strengthening of global growth during the second half of 2003 and in 2004, especially in the United States and Japan. In the Asian region, economies are also showing improvements, following the aftermath of the SARS outbreak. The threats of geopolitical risks arising from the war in Iraq as well as SARS have since abated. These economies have also weathered the global economic slowdown and Asia is set to be the fastest-growing region.

The performance of the Malaysian economy has also been encouraging. Our first quarter growth of 4.6 percent was higher than anticipated, and second-quarter growth remained strong at 4.4 percent, despite the impact of the war in Iraq and SARS. As such, we have registered an average growth of 4.5 percent during the first half this year, achieving the target set for the whole year.

The better performance has been the result of the government's bold and prompt measures to stimulate the domestic economy through the implementation of The Package of New Strategies. Moving forward, Budget 2004, recently tabled in parliament, continues to focus on the domestic private sector to spearhead economic growth. The improved global economic outlook will also contribute to sustaining our export sector.

Globalization and World Trade

In line with the expected improvement in the global economy, world trade is also expected to strengthen. Trade is vital because it ensures increasing flows of financial and investment resources. In this regard,

trade will definitely contribute to the economic recovery, particularly in emerging economies. Notwithstanding this, we must work toward the full engagement of developing countries in global trade negotiations to ensure that these countries will benefit from the expansion in world trade. These countries must be given better market access for their exports, because this is the only way to enable them to sustain their economic growth and reduce poverty. However, the rules of international trade have discriminated against the poor countries. In this regard, developed economies must take the lead in reducing protection and trade barriers by adopting policies that are conducive to development of the developing countries.

We note the outcome of the recent WTO negotiations in Cancun. From Seattle to Doha and Cancun, the writing was already on the wall that trade talks would be jeopardized because of the resentment from developing countries. We must resolve core issues, especially in agriculture and manufacturing. We must not attempt to bring new issues to the World Trade Organization agenda.

Malaysia supports globalization. But globalization must ensure a level playing field for all. We must remain alert to problems of developing countries, their circumstances, their stage of development, and their capacity to deal with new issues. The developing world, where the majority of the world's population live, must be assisted in capacity building to enable it to be better engaged in the global trading system. We must work toward a world trading system that can empower the developing world and foster its economic growth and prosperity. If not, the world would continue to be a poorer place.

Millennium Development Goals

Although many countries in the developing world have benefited from economic growth, many remain entrapped in poverty and impoverishment. We are encouraged by efforts to move forward the agenda of Millennium Development Goals. We also welcome the continued progress made on the Highly Indebted Poor Countries (HIPC) Initiative. However, we urge developed economies not only to meet their pledges but also to meet any financial shortfall. Wealthy nations have pledged to put 0.7 percent of gross national product into development, but many have yet to meet that target. We must also work toward speedier implementation of the HIPC Initiative. Several of the heavily indebted poor countries face difficulties in meeting the stringent conditions of the initiative. Therefore, we must ensure that conditions are designed according to differences in countries' circumstances and that flexibility is accorded. We are pleased with the innovations introduced under the thirteenth replenishment of the International Development

Association (IDA-13), in particular the grant element, and we look forward to agreement among donors on financing of shortfalls created by this grant element.

Enhancing the Voice of Developing Economies

The Bank and the Fund must continue to seek pragmatic and innovative ways to reaffirm their commitment to provide financial and technical assistance to help the poor attain economic growth and prosperity. They must also find ways to strengthen the voice and participation of developing countries in Bank and Fund decision-making processes, in particular with respect to improvement in the quota and voting structure. Only then can we ensure fair participation by all.

We appreciate the work that has been done by both the Bank and the Fund in dealing with these challenging institutional and structural issues to enhance the voice of developing and transition countries at the Bretton Wood Institutions. We agree with the view that clear practical steps are required on three fronts: shorter-term capacity-building assistance for the most overstretched executive directors and constituencies, medium-term institutional change, and longer-term change on the more challenging structural issues. We are pleased to note the progress that has been made with regard to the first front.

However, we acknowledge that the prospects of any major structural changes appear to be remote in view of the need to manage strong reservations on the part of major shareholders, as well as the need for executive directors on the boards representing developing countries to be united in approaching the different elements of the reform agenda.

For their part, developing and transition countries must continue with efforts to build capacity at both the country level and in the boards of the two institutions. The challenge, therefore, is for developing countries to be represented by a group of qualified and experienced executive directors and staff who are capable of exerting strong influence in the boards' daily decision-making processes. This is important given the practice of the boards to make most decisions by consensus, instead of voting.

Conclusion

Let me reiterate that although recent indicators point to an improvement in global economic outlook, recovery may remain fragile. Macroeconomic policies must continue to be supportive, and we must focus on efforts to reduce vulnerabilities over the medium and long term. International financial institutions must be more effective in strengthening growth as well as stability to ensure that the world will be a better place for all.

MALTA: ANTHONY ABELA

Governor of the Bank

It is an honor to address the Annual Meetings of the International Monetary Fund and the World Bank. I thank the President and Government of the United Arab Emirates and the authorities of Dubai for the excellent arrangements for these meetings and for their warm hospitality.

Since the last Annual Meetings, two of the IMF Deputy Managing Directors, Mr. Eduardo Aninat some months ago, and more recently, Mr. Shigemitsu Sugisaki have left the Fund. I would therefore like to express my appreciation for their contribution to the reform of the international financial system. I would also like to welcome Mr. Agustin Carstens as new Deputy Managing Director. I am sure that with his extensive experience in the financial and fiscal field he will contribute significantly to the work of the Fund.

Turning to developments in the international economy, it is encouraging that the much awaited global economic recovery now appears to be underway. At the same time, it is also satisfying to observe that financial markets have remained resilient in the wake of the economic slowdown and the geopolitical uncertainties of recent months. Furthermore, the correction in asset prices—which had risen sharply in anticipation of a global economic recovery that turned out to be much weaker than originally projected—has been less destabilizing than expected. This notwithstanding, prospects in the major economies continue to be characterized by considerable uncertainty. While the U.S. economy appears to have gathered some momentum, the performance of the euro area continues to disappoint with a weak recovery projected to take place in the second half of this year. The other major economy, Japan, has experienced a welcome turnaround but this may turn out to be short-lived. Consequently, many countries which are highly dependent on external demand originating from the three largest economies are expected to operate below potential for some time to come, and while the risks of a prolonged deflation in most countries seem to have subsided, they cannot be ruled out.

Against this unfavorable background, the Maltese economy experienced a contraction in 2001 and then returned to positive, though slow, growth a year later. In 2003, economic activity is expected to continue to expand, though at a modest rate reflecting the impact of the expected sluggish growth in external demand. Malta's recent economic performance has been affected by the uncertainty surrounding the outcomes of the EU referendum and the general election held earlier this year and by the war in Iraq. The performance of the export-oriented sectors is nevertheless expected to improve during the second half of the year.

The recovery in private investment, coupled with a stronger fiscal stimulus, are also expected to contribute to growth.

In the wake of slow economic growth and the absence of inflationary pressures, the central bank eased its monetary stance by lowering its central intervention rate on two occasions. The bank continues to adopt a fixed exchange rate as its intermediate target to achieve its primary goal of price stability. It is the intention of the monetary authorities to maintain this exchange rate strategy as the country prepares for EU accession next year and future participation in the Economic and Monetary Union (EMU). In line with preparations for EU membership, capital controls were further eased at the start of the year and are to be completely lifted upon accession in May 2004.

The lackluster performance of many developing countries has compelled policymakers to take a closer look at the impediments to faster growth. The factors at play are various, and include the slow pace of structural reforms, the existence of large external and fiscal imbalances and, in some countries, weak financial systems as the persistence of inadequate provisions for nonperforming loans result in a loss of confidence in the ability of financial market players and corporations to meet their obligations.

Of all these factors, however, fiscal reform is perhaps the area requiring most attention, particularly when accommodative monetary policies seem to have had only limited success in bringing about the necessary economic stimulus. Malta too has registered a substantial widening of its fiscal deficit as the slow pace of economic growth took its toll on government revenues. The government is committed to reducing this imbalance to a more sustainable level over the next three years, even though it recognizes that the prospect of an ageing population, the loss of revenue implied by the planned trade liberalization measures and the implementation of reforms associated with EU membership make fiscal consolidation a daunting task indeed.

Difficulties in meeting fiscal targets also appear to be experienced by many high- and middle-income countries, particularly on the European continent. This will have implications in terms of the capacity of the international community to increase official development assistance in line with the targets set at Monterrey. In this regard, while we agree that further work on an International Financial Facility should be undertaken, we also believe that creditor and donor countries should strive to provide their share of bilateral debt relief and multilateral financing to the HIPC initiative. In addition, developed countries should grant improved market access for the products of the least developed countries while assisting them to set up the necessary institutions that would enable them to participate more effectively in the world trading system. In this regard, we note with concern the unsuccessful outcome of the ministerial meeting in

Cancun earlier this month. Despite this failure we still expect the Fund and the Bank to continue with their initiatives to integrate trade-related aspects in their technical assistance programs for developing countries and to streamline capacity-building projects through better coordination with other regional and multilateral agencies.

While the Cancun outcome augurs little in terms of improved global economic prospects and the integration of the developing countries in the world's trading system, the role of the IMF and the World Bank will be crucial in supporting members' efforts. The latter should focus on the creation of a stable macroeconomic environment, a sound financial system and a diversified economic structure so that unexpected changes in market conditions can be more effectively managed and external imbalances redressed.

At a time when terrorism has become another major threat to the stability of the international financial system, both the Fund and the Bank should continue to encourage members to adopt anti-money laundering standards and strengthen their efforts in the fight against the financing of terrorism. Malta strongly supports such efforts and endorses the forty recommendations on money laundering approved by the Financial Action Task Force (FATF). It is also satisfying to note that the Fund and Bank have strengthened their assessment of member countries' anti-money laundering practices and other measures to combat the financing of international terrorism through their reports on Financial Sector Assessment Programs (FSAP) and Standards and Codes (ROSCs). I am happy to say that a FSAP recently carried out on Malta's financial system concluded that Malta has a comprehensive legal framework and strongly adheres to most of the international standards and codes in this regard. This legal framework also comprises the essential elements for AML and CFT.

I would like to conclude by thanking the management and staff of the Fund and Bank for their continued support and cooperation. As Malta proceeds with its structural reforms, it continues to benefit significantly from their technical assistance. I wish both institutions continued success in the challenging tasks they will be undertaking in the coming year in an international environment which continues to be complex and uncertain.

MYANMAR: HLA TUN

Governor of the Bank

It is a privilege for me to address the 2003 Annual Meetings of the International Monetary Fund and the World Bank. Mr. Chairman, at the outset, I would like to join the other speakers in extending my warmest congratulations on your election to the chair.

On behalf of my delegation and on my own behalf, I would also like to take this opportunity to thank the government and the people of the United Arab Emirates for hosting this year's Annual Meetings, which is the very first time to be held in the Arab world. We would like to thank you for the warm hospitality that is being extended to our delegation and the excellent arrangements that have been made to make our stay in Dubai a very memorable one.

We are encouraged to note that the global economy is now on its way to recovery. However, the global economic environment, though improved, has not stabilized as yet. There are still uncertainties, risks, and challenges ahead that need to be overcome. To further consolidate the recovery and stabilize the world economy is a challenging task for governments around the world. While developing countries will need to continue their economic restructuring, the developed countries will also need to increase their share of contribution for the social and economic development of the developing countries.

The improvement in the external environment augurs well for growth prospects of our Asian region. The success in controlling Severe Acute Respiratory Syndrome (SARS) has also removed one of the key uncertainties that confronted many of the countries in the region. At this point, I would like to mention that, fortunate for us, SARS never occurred in our country.

However, risks such as the recurrence of SARS, an unexpected reversal in the outlook for leading major industrial countries, and the persistent current account imbalances among industrial countries still remain. Therefore, we should remain vigilant, and leading major industrial countries should take preemptive measures for positive global economic and social prospects.

While talking about the global and regional economic situation, as is customary at these meetings, I would like to now draw your attention to Myanmar's domestic economic progress. Myanmar has been making efforts at achieving economic stability not only to fulfill the basic needs of its people but also to be in tandem with the developments of the other countries and, at the same time, for the benefit of the region by providing adequate food supply in this age of food scarcity.

I am happy to state that the economic performance of Myanmar has been very good in recent years. The significant growths that have been achieved are attributable to the government's guideline and efforts together with the Myanmar people's undeterred determination to strive hard for sustaining the growth momentum and improving the standard of living. It would be opportune to point out that Myanmar has for the past 15 years depended mostly on its own resources to achieve the present notable progress.

On the monetary front, a comprehensive system of reporting is in place for verifying the banks' compliance with regard to the required ratios, and NPLs of the banks are at a very manageable level of 2.09 percent. On the fiscal front, due to intensive efforts in the implementation of an effective tax administration and collecting system, while at the same time cutting unproductive expenditures, the budget deficit to GDP ratio, in 2002/2003, stands at around 3 percent. The external sector is also improving with the balance of payments showing an overall surplus and the gross reserves at almost 3.6 months of import coverage.

We have also continued our task of building economic, institutional, and social infrastructures. However, it is regrettable that Myanmar has been denied access to much-needed resources for its socioeconomic development for over 15 years from the international financial organizations due to the politically motivated actions of some members.

As you are all aware, the success of national efforts at development would be achieved faster and quicker when bolstered with international support. We understand that there are many challenges that exceed the capacity of individual countries to resolve alone. Nevertheless, Myanmar intends to proceed with its own efforts to sustain its growth momentum.

In addition to the suspension of multilateral financial assistance, economic sanctions have been imposed recently on Myanmar. As you know very well, in reality sanctions do not benefit anybody including the country on which the sanctions have been imposed and the countries that impose them. At this time of giving priority to poverty reduction by the international community, imposing sanctions is directly contradictory to the objectives of the community and adversely affects the social well being of the grass root levels.

I would also like to point out that the economic sanctions imposed on Myanmar are not in line with the IMF's Articles of Agreement as well as with the provisions of the World Trade Organization's Charter. As a legitimate member of these organizations, I would like to object against these unfair and unjustified sanctions and freezing of Myanmar assets, which are not only contrary to the multilateral organizations' principles but also to basic humanitarian and social values.

Accordingly, at this forum, I would like to call for an end to the suspension of financial assistance and the economic sanctions imposed, undeniably without fairness and justification, on Myanmar. However, I would like to reiterate that we are willing and intend to continue to work and cooperate closely with the international financial organizations.

I would also like to take this opportunity to stress our understanding that the chief objectives of the Bretton Woods institutions are purely economic in their nature and character. However, measures taken by

these institutions are now totally based on political considerations, which is unacceptable and not in line with the objectives of their charters.

It should also be mentioned that the economies and institutional capacities of member countries vary according to their different levels of development. As such, the institutions will need to adopt a broader view when advising member countries and to refrain from forging one-size fits for all policies. From this, the institutions should understand that specific features play an important role in the development of each individual country. Therefore, in determining appropriate macroeconomic policies for member countries, the institutions should take this fact into consideration and design appropriate policies that would serve the needs of the country concerned.

At a time when the Fund and the Bank are undertaking the task of trying to secure a better future for all of us, I wish to remind that due considerations be given to the developing countries' role and voice in the policy decision making process of the two institutions.

In conclusion, I would like to inform you that we will be keeping to our plans for economic growth and stability. I wish both the Fund and Bank success in their new year of operation.

NEPAL: PRAKASH CHANDRA LOHANI

Governor of the Bank

It is my pleasure and honor to address the 2003 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund. At the outset, I would like to thank the government and the people of the United Arab Emirates for the excellent arrangements and warm hospitality extended to us since our arrival in this beautiful city of Dubai.

We are particularly concerned that the world economic growth has not witnessed satisfactory improvement in 2003. In this context, we urge the Bank and the Fund to increase the level of assistance to the least developed countries in order to foster growth and reduce poverty as these countries are facing both internal and external shocks.

We welcome the World Bank's initiative to provide grants to the poorest countries through its IDA window. In this regard, we appreciate the IDA donors for their generous contribution to the IDA trust fund in 2002 and hope that this will significantly contribute in the poverty alleviation of resource poor countries.

Similarly, we welcome the PRGF, the IMF's concessional facility for low-income countries, which is based on country owned poverty reduction strategies. We are of the view that this facility will prove instrumental in fostering economic growth and reducing poverty in low-income countries.

We would like to stress here that the Millennium Development Goals (MDGs) agreed at the United Nations Millennium Summit, would remain unfulfilled if developed countries do not increase significantly their Official Development Assistance (ODA). We also urge developed countries to honor the commitments made in International Conference on Financing for Development in Monterrey and the World Summit on Sustainable Development in Johannesburg in which they have stressed the importance of removing trade barriers, increasing assistance and reducing debt burden.

The Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996 by the World Bank and the International Monetary Fund (IMF), needs to be further intensified making it more flexible and accommodative. This initiative although modified in 1999 for deeper, broader and faster debt relief, has been able to provide debt relief to only 27 countries so far. Other poor debt ridden countries like Nepal are still outside of this Initiative. If the world community really wants to get rid of debt over hang from the world, the HIPC Initiative should revisit the criteria and accommodate all debt ridden poor countries. We urge developed countries to contribute more funds for this initiative in order for poor countries to pursue sustainable development and reduce poverty.

We believe that trade is vital for accelerating economic growth and poverty reduction. In this context, Nepal has made all necessary preparation to join the World Trade Organization. We believe that for least developed countries like Nepal this will be an opportunity as well as challenge. In this regard, we appreciate the World Bank President, Mr. James D. Wolfensohn, and the IMF Managing Director, Horst Köhler, for their concerns about the Cancun Ministerial Meeting of World Trade Organization. We welcome the two institutions' commitment to assist developing countries to address the short-term adjustment problems as a result of joining an open trading environment.

We welcome the initiative for enhancing the voice and participation of developing and transition countries in decision making at the World Bank and the IMF.

We support better aid donor coordination through better donor cooperation. We commend the World Bank for working with other multilateral and bilateral donors and developing countries to improve the aid coordination through harmonization of procedures in line with the Rome meeting of February this year. Nepal has adopted its own Foreign Aid Policy in order to harmonize aid procedures and policies. We want to cooperate with donor agencies including the World Bank in the days to come to cut the red tape and reduce the development cost through better aid coordination.

Now I would like to mention about the economic situation of my own country Nepal. The economic performance of Nepal was very discouraging in FY 2001/02. During this year the economy contracted by 0.5 percent for the first time in two decades due to escalation of the Maoist insurgency, unfavorable monsoon and weak external demand. The agriculture growth rate in FY2001/02 declined to 2.2 percent from 5.5 percent in the previous year, and industrial growth fell by 3.3 percent owing to nearly 10 percent drop in manufacturing production. Similarly, tourism was badly hit during this year as arrival of tourist dropped by 40 percent resulting in one-fourth decrease in tourism receipts. However, there have been some modest improvements in FY2002/03 as GDP is expected to increase by 2.4 percent with 2.5 percent growth in non-agriculture sector and 2.1 percent growth in agriculture sector. Similarly, the economy has witnessed price stability.

The external sector also has shown some improvements during this time as export increased by 4.9 percent as against the decline of 15.6 percent in previous year, while the import increased by 16.9 percent as compared to the decline of 7.2 percent in the previous year. The BOP remained stable due to significant increase in overseas remittances and the country's foreign exchange reserve is sufficient to cover 11 months of merchandise imports. The fiscal deficit during FY 2002/03 has been contained at 4.7 percent of GDP as compared to 5.4 percent of GDP in the previous year. The monetary policy is geared towards the price, exchange rate and financial sector stability, and also to spur growth in the economy.

On policy developments, the government has completed the preparation of the Tenth Plan, which also serves as Poverty Reduction Strategy Paper (PRSP) of the country, in December last year. The plan aims to reduce poverty from 38 percent to 30 percent of the population by the end of plan period in 2007. The plan has adopted strategies of broad based sustainable economic growth, social sector development, and targeted programs for the poor and disadvantaged people, and good governance. The resource management in the plan will be based on a Medium Term Expenditure Framework (MTEF). To expedite the implementation of the Reform Agenda as discussed in the Nepal Development Forum Meeting held in Nepal in 2002, the government has prepared and implemented the Immediate Action Plan (IAP) 2002. The implementation of IAP has remained satisfactory. In the meantime, FY2003/04 budget of the government, among others, focuses on poverty alleviation and economic reform policy. On financial sector reforms, under the collaboration of World Bank, the government has already made several key decisions including the contracting out of the management of the two largest public-sector commercial banks and the reengineering of the central bank of the country to international companies.

Despite the government's serious efforts to turn around the economy, the difficult security situation of the country poses a challenge to us. The government is committed to bringing sustainable peace in the country so that economic progress could be achieved for the alleviation wide spread poverty. To this end, I appreciate our development partners for their understanding and support. I would also like to mention here that the government is also committed towards economic reforms as ever.

Finally, I would like to thank all the development partners especially the World Bank and the IMF for their continued support in the socio-economic development of Nepal.

NETHERLANDS: GERRIT ZALM

Governor of the Bank

The uncertainties in the world economy seem to have diminished, but the turnaround remains fragile. The slow and moderate recovery reflects the existence of fundamental imbalances that grow deeper than the short-term outlook suggests. Among the most prominent examples today are the fiscal imbalances we face in the United States, Europe, and Japan. In a similar way that the dot-com hype blinded us to economic truisms, we now seem to stumble with regard to fiscal policies. The fiscal expansion in the three regions is larger than can be attributed to the economic downturn: structural deficits rise. This might be a painkiller for the short term, but I am convinced that it is no recipe for sustained growth. To unwind global imbalances and to address the budgetary consequences of ageing, credible consolidation efforts are needed in all three regions.

In the case of the United States, this will translate in a lower external deficit, which reduces the risk of a sudden correction in terms of exchange rates and capital flows. At the same time, Asian countries that finance the U.S. current account deficit will need to play their part by allowing exchange rates to work as a gradual adjustment mechanism. This will also help reduce excess liquidity growth and inflationary pressures in their asset markets, which now tend to fuel financial instability. In this sense, an exchange rate adjustment works both ways: it serves national as well as international goals.

Short-term considerations also seem to dominate fiscal policies in Europe. But again, let us not fool ourselves. Taking a longer-term perspective, higher structural deficits today will require painful measures tomorrow. The public costs of ageing are, on average, expected to double over the next generation. Therefore, an ambitious strategy is needed to put us on the right track: reform of pension systems, enhancement of

productivity, increases in labor-market participation, and reduction of public debt. With regard to the latter, the budgetary and the debt targets of the Stability and Growth Pact should be considered a minimum for meeting the budgetary challenges of ageing. With authorities in each region doing their homework, we should be able to tackle global imbalances and foster global prosperity. To strive after that common understanding is the basic rationale of the Bretton Woods Institutions, which are now heading toward their sixtieth anniversary. To underline that these organizations are truly global, I very much welcome that the Annual Meetings are now, for the first time, taking place in the Middle East.

The notion of global interdependence was also clearly reflected in the Monterrey Consensus, which was based on the concept of mutual responsibility of developing countries and developed countries. Many developing countries have shown, in a transparent manner, their progress toward achieving the Millennium Development Goals. Now we, the developed countries, need to do the same and be accountable in realizing our commitments. First of all, our commitment should be to save the Doha development round after the setback in Cancun. I consider Cancun a missed opportunity to enhance the recovery of the world economy and to lift millions of people out of poverty. We have to make a careful analysis of why Cancun failed. I think we did not fully appreciate the position and the concerns of developing countries. A better inclusion of their concerns in the multilateral trading system will give the system a truly global character.

Apart from trade, developed countries still have an obligation to fulfil the international target for official development assistance of 0.7 percent of gross national product. Along with increasing aid volumes, we need to improve aid effectiveness. I invite donors to further harmonize their aid procedures and policies and to improve the coherence of national policies with development objectives.

Finally, I would like to stress the importance of peace and stability for sustainable development. All of us are aware of the huge obstacles to reconstruction and development, especially in countries like Iraq and Afghanistan. Wherever a conflict erupts, achievements in the development process are wiped out, and basic services and institutions need to be restored. In the area of conflict, the Bretton Woods institutions, the United Nations, and bilateral donors need to intensify their contributions and cooperation on the basis of their respective mandates and competences. It is our hope that our common efforts can help ensure that countries affected by conflict and instability recover from their predicament. If we work together toward that end, we will all be better off.

NEW ZEALAND: MICHAEL CULLEN

Governor of the Fund

I am again pleased to participate in this meeting. I would like to begin by thanking the United Arab Emirates authorities for the excellent arrangements in organizing this meeting. Multilateral organizations such as the Fund and the Bank can make sizable and lasting contributions to many of the problems we face.

Globalization and Trade

Globalization takes many forms. One is from increased flows of trade, which assist the development of poor countries, emerging markets, and developed countries. Liberalizing trade requires a multilateral effort, and I express my support for the leadership from the Bank and the Fund in the public and persuasive statements on trade liberalization in the Doha round.

The outcome from Cancun was at best, disappointing and, at worst a disgraceful failure of the common will to make essential progress. It will take time to make gains after losing momentum at Cancun. There is a profound contradiction in the efforts we make: here, in Dubai, we will talk about progress towards the Millennium Development Goals; at Cancun we retain trade barriers that inhibit growth in poor countries.

Developing countries need support to take advantage of trade opportunities where they arise, and New Zealand is committing resources to trade-related capacity building and removing supply side constraints. However, this work will be wasted unless there is movement on trade distortions. Subsidies and quotas lock in constraints to trade and the development of poor countries. There have been calls for an increase of aid of some US$16 billion. This is only 4–5 percent of the total spent on agricultural subsidies by the world's richest countries.

As the finance minister of a small developed nation substantially dependent on unsubsidized agricultural exports, I find it hard to argue that my country should greatly increase aid while we, along with the world's developing nations, face unconscionable subsidies, along with tariff and non tariff barriers to agricultural trade. Demolition of these rotten structures will increase the incomes of poorer nations and free up resources in the richer ones to increase aid. At the same time, progress must be made on other issues, such as trade facilitation, which also stand in the way of international progress and development. A successful outcome to the Doha Round cannot and will not be a one-sided one. The next year will tell whether the fine words we utter at these conferences about trade liberalization are meant, and will be translated into substantial progress, or whether they are merely the cover for the

continuation of distortionary and unfair trade policies, which ironically, reduce total welfare in both the developed and the developing nations.

Effectiveness and Harmonization

In the Pacific, New Zealand is committed to rationalizing institutional arrangements and harmonizing aid programs. However, there are still issues to resolve in relation to the effectiveness of programs, targeting of assistance and careful management of partner sensitivities. We encourage the Bank to move further in this area to assist with harmonization, working closely with the borrowing governments and donors. Last year, my Government established a new aid development agency in New Zealand with a central focus on poverty elimination—NZAID. The new focus is narrower, but deeper.

Small States

Many challenges face our small state development partners in the Pacific including isolation from markets, post conflict stress, and diverse cultural and social settings. We support the Bank's efforts to develop innovative approaches to coordinating bilateral and multilateral aid agencies in the Pacific.

Earlier this year, the Solomon Islands Government and Parliament invited a regional presence to help restore law and order, and rebuild governance structures. We welcome the Bank's involvement and re-engagement, and believe that it is an important example of the role for the Bank in the Pacific region. The Bank's revision of its Pacific Strategy in 2004 will be important in setting the future development agenda for the Pacific, and we look forward to increasing dialogue with the Bank and our development partners on the revision to the strategy.

Voice and Representation

The representation of members at the IMF and the World Bank is central to the credibility of the two organizations. A strong voice for developing countries is fundamental if the Bank is to function effectively. Equally, we need to recognize changing relative economic positions.

Internal Reform

New Zealand is an advocate of the internal reforms at the Bank and the Fund. We would like to voice our support for the President's work and the Managing Director's work in relation to strengthening internal

governance. However, with this support and commendation comes an acknowledgement that further work is required. We have seen a drift in the relationship between revenue and administration expenses and growth in the transaction costs of doing business with the Bank. Flexibility is necessary in the short term, but balance is required over the medium term if the institution is to function well.

Conclusion

New Zealand is a firm proponent of economic, social and environmentally sustainable development. As the Fund and Bank work to improve the development of low income and middle income countries, I congratulate the President and Managing Director on their personal leadership on trade issues. But our sense of frustration is mounting as we see few signs that the gap between promise and performance is closing.

PAKISTAN: SHAUKAT AZIZ

Governor of the Bank

It is a great privilege to address the Annual Meetings of the World Bank Group and the International Monetary Fund. I also join my colleagues in expressing my gratitude and appreciation of the excellent arrangements and the hospitality extended to us by our gracious hosts.

It is now more than 18 months since we agreed on the vision enshrined in the Monterrey Consensus. This is the global compact on which there was unprecedented unanimity. It provides for an exit strategy for the countless millions who have lived in poverty, deprivation, and despair for generations. Both parties to the compact need to implement their part vigorously. Developing countries must continue to improve their policy framework and governance, while our development partners need to act, and act quickly, to meet their commitments to enhancing the transfer of resources to developing countries through trade, and by scaling up the quality and level of official development assistance (ODA).

We welcome the aid increases announced by some bilateral donors, and the Bank's proposal to scale up its assistance to borrowing countries with good policy frameworks as extremely positive measures, but much more will need to be done if we are serious about achieving the Millennium Development Goals (MDGs).

We do not seek permanent financial crutches. We fully understand that the primary responsibility for providing a better life for our people rests with the governments of developing countries. We also recognize that ODA is a supplement to domestic resources, not a substitute, and

that we must endeavor to increase these resources. But the magnitude of the resources needed to achieve the MDGs is such that the support of our development partners is essential. Not only is global prosperity indivisible, but it should be absolutely unacceptable to human conscience that a substantial proportion of humanity continues to live in abject poverty and without hope. We are running out of time. More than just our credibility is at stake. We therefore urge that the U.K. proposal to set up an international financing facility be examined by the Bank, along with other options to bridge the financing gap in meeting the MDGs, and that a report be submitted at the 2004 spring meetings.

We are deeply disappointed by the lack of positive outcomes at Cancun. Pakistan seeks a level playing field with open access to markets. Agricultural subsidies in the Organization for Economic Cooperation and Development create distortions that negatively affect efforts of developing countries to achieve agricultural growth and obtain a higher market share of agricultural exports. We now need to look ahead and pursue upcoming negotiations with renewed vigor and resolve. It will be trade, not aid, that will ensure sustainable reduction in poverty.

There is no doubt that economic growth has to be the center of our attention as the most effective and sustainable means of reducing poverty. However, sustainable growth itself is largely a function of investing, on the basis of a country's own capacity and priorities, in programs that are truly home-grown. Ownership is the key and can be ensured in several ways. First, it is critical that donors' support be built around genuinely home-grown poverty reduction strategy papers (PRSPs) and development strategies. Secondly, it is essential that the quality of aid be scaled up and that micro management and transaction costs be reduced.

The substantial progress achieved in implementing the Enhanced Heavily Indebted Poor Country (HIPC) Initiative is indeed welcome, but debt sustainability is an issue that is much larger. We also need to focus on the unsustainable debt burdens of the non-HIPC countries that have credible macroeconomic and structural reform programs but that are unable, because of their debt overhang, to raise resources to finance human development and badly needed infrastructure. Debt relief will give them the required fiscal space.

We welcome the Bank's renewed focus on infrastructure after more than a decade. Timely implementation of the Bank's Infrastructure Action Plan will take us closer to the MDGs more rapidly and remove constraints to long-term economic growth, productivity, and poverty alleviation.

Monitoring is a crucial aspect of results-based development. We welcome the focus on this critical issue. However, monitoring should not become an end in itself. The real issue is effective follow-up,

implementation of remedial measures, and reinforcement of accountability for results. The design of the monitoring framework should be country-specific, consistent with capacity, and fully harmonized among donors.

The issue of enhancing voice is a complex one. We are, however, quite clear in our minds as to what this issue entails. To us, it is the ability of developing countries to influence the design and content of the international development agenda, the international financial architecture, and the operations of donors in their respective countries. We agree that the issue can be addressed effectively only by a comprehensive package of measures. We note that some capacity-building measures have been taken, and others are in the pipeline. Although structural issues are more difficult to address, given trust and understanding, there is no reason that we should not be able to make progress. It will also require a sharp focus on genuinely home-grown development and structural reform agendas.

Enhanced voice will lead to greater ownership and improved development effectiveness. We need to be innovative in exploring other possible avenues of enhancing voice, such as joint meetings of the Group of 11 and Group of 7 prior to the Bank-Fund spring Annual Meetings. We need to continue our dialogue and to work toward the objective of a fair and balanced global economic order.

Pakistan, as a frontline state in the fight against global terrorism, has had to face daunting challenges in the post-9/11 period. However, our resolve to continue with structural, macroeconomic, institutional, and governance reforms has not wavered despite several exogenous shocks. The results at the macroeconomic level are evident in a stable currency, low inflation, improved levels of foreign exchange reserves, a decline in fiscal deficit and public debt as a proportion of gross domestic product, a booming stock market, and better-than-targeted growth.

However, the biggest challenge before us, as indeed before the policymakers of other developing countries and their development partners, is to translate structural reforms and stable macroeconomic frameworks into strong, broad-based economic growth. People now anxiously await benefits from the sacrifices they have made over the past several years to support macroeconomic stabilization and structural reform. If we fail to deliver results, there is a risk that reform fatigue will set in and threaten the achievements of the past years. This risk we cannot afford.

We are at the threshold of a new era. Our people look at us with great expectations. They look forward to a new dawn that enables them to prosper in peace and to move out of the poverty that has blighted their lives, shackled their energies, and condemned them to a subsistence living. They look to us to deliver our promises, and to deliver them from the multidimensional poverty in which they are mired.

Coming generations will judge us for our wisdom, or its tragic absence. Global progress is at stake. We cannot and must not fail. Let us reach out and seize the opportunity while it lasts.

PALAU: CASMIR REMENGESAU

Governor of the Bank
(on behalf of the members of the Federated States of Micronesia, Kiribati, Marshall Islands, Palau, Solomon Islands, Samoa, and Vanuatu)

I am very honored to address the 2003 Annual Meetings of the International Monetary Fund and the World Bank Group on behalf of the members of the Western Pacific: Kiribati, the Republic of the Marshall Islands, the Federated States of Micronesia, the Republic of Palau, Samoa, the Solomon Islands, and Vanuatu.

Let me begin by saying that the new millennium has not, as yet, been kind to the development aspirations of our Pacific island countries. Beginning with the Asian crisis leading into the new century, we have faced, sequentially, the impacts of the U.S. stock market crash, the events of 9/11, the war in Afghanistan, the Iraqi war and the SARS outbreak, along with other regional events.

While these worldwide events certainly affected all of the people of the world, they were particularly challenging to our small island nations due to our small size, our dependence on tourism, our vulnerability to external shocks, natural and economic, and our one-dimensional economies. These negative impacts are a mere reflection of much broader and very unique development issues, including a very limited range of natural resources, significant isolation from major markets, substantial impediments to developing trade and industry, limited manpower and technical capacity, and a limited number of legitimate development options. Because of these limitations, our economies have grown at a rate of less than 1 percent over the past 30 years. Unfortunately, this economic growth has not kept pace with a corresponding population growth of over 3 percent during the same period.

This is reflective of the difficult task faced by both the international community and the governments in the Pacific, to find effective solutions to encourage private-sector growth. It is also reflective of the limited role of the Bank that has not allowed it to fully engage in the Pacific with a broad spectrum of programs and funding opportunities. We therefore look forward to a new "Pacific Strategy" for our region and are hopeful that the upcoming Bank Country Assistance Evaluation (CAE) will recognize that, as full members of the Bank, full Bank services must be provided.

This new Pacific strategy must include a commitment of people and funding if it is to find success. This expanded involvement must first support the productive sectors, including fisheries, agriculture, tourism and light industry. It must also focus on public sector expenditure management. In order to strengthen the mid levels of the public sector that have become weakened and are a key to better service delivery and project management, it must support civil service adjustment. Above all the strategy must recognize that past lending support has been too limited and that such funding access is primary to the development of a modern infrastructure. Finally, the strategy must be all embracing, taking into account the differences in the sizes and the types of nations in the Pacific as well as the broad development needs and processes in the Pacific.

Over the years, many studies of our unique economies have been undertaken by the World Bank and the IMF, as well as other regional and international organizations. While we appreciate this assistance to better define our needs, we believe that it is time to move forward and establish stronger and more diverse practical programs and funding mechanisms that will allow our private sector to expand at every level. This requires better donor coordination and harmonization to better define the role of the Bank and the Fund in the Pacific in relation to other regional donor organizations. It also requires greater local recruitment in projects to ensure future continuity.

Within this context, the special circumstances of small states must continue to be taken into account by our development partners. For the World Bank, this should entail a continuation of a flexible approach to the graduation of small states from concessionary financing. On behalf of the Pacific constituency, I ask that the small state exception in terms of IDA eligibility that was negotiated under IDA 13 be continued in IDA 14.

We also look forward to a more widespread participation by the IFC through both its central office and the South Pacific Project Facility (SPPF), now known as the Pacific Enterprise Development Facility (PEDF). The SPPF was a prime example of the Bank's excellent ongoing efforts to bridge the gap between capacity building and the development and financing of private sector projects. Through fine and energetic staff work, the SPPF has brought greater business insight to the Pacific region, and for this we are grateful.

However, we are concerned that the new operational strategy for PEDF as articulated during the recent donor's meeting will diminish the effectiveness of IFC's engagement in the Pacific. Rather than expanding programs and funding opportunities, there has been a move toward an aggressive approach to the application of fees in those instances where

these are still charged. In addition, greater focus on cost containment has resulted in significant changes in representational and consulting activity.

While we appreciate this concern over costs, we fear that the original vision of SPPF is being lost in the roll out of the new PEDF. That vision included not only the upgrading of business skills and planning capabilities, but also indirect and direct funding of private sector projects through the IFC's Pacific Island Investment Facility. In this regard, rather than receding and retrenching, we would request that the IFC, through both the PEDF and its central office, move forward with even greater vigor and vision. This means that we must be creative in identifying and making available valid alternatives to domestic commercial institutions; avoiding duplication of services by donor organizations; and building on success models in the Pacific region.

Clearly, sustainable development is the only viable window into a bright future for the countries in the Pacific region and, for that matter, in the world. Such development requires a two-pronged approach that focuses on both technical capacity and access to capital markets. We therefore offer our thanks to the Bank and the Fund for their expanded involvement in the Pacific region over the past five years. This enhanced participation in our efforts to develop has continued to focus on technical capacity. We therefore further extend our gratitude to the Pacific Financial Technical Assistance Centre (PFTAC) located in Fiji for its efforts to improve our tax policies, governmental statistics and our overall financial systems.

Within the context of this generous assistance, we are ready and willing to make the hard decisions and institute the necessary reforms that will permit the success of these initiatives. In fact, we have, over the last decade, made great strides in expanding our capacity, strengthening our economic management and improving our institutional environment through a broad variety of legislative and administrative reforms. We recognize that good governance is just as important as capacity and good projects and we will continue to work diligently to improve in this area.

In the area of trade, we are proud to announce the entering into force of two regional trade agreements, PICTA and PARTA, each which will require expanded technical capacity and which should eventually lead to expanded trade opportunities and a reduction in the cost of engaging in international trade. We appreciate the advocacy role played by the World Bank and the Fund in the area of trade and would continue our request for assistance in the implementation of our proposed Regional Trade Facilitation Program. In like manner, we are moving forward in our efforts to enact law enforcement and banking legislation to combat money laundering under our own Honiara Declaration, as

well as establishing a regional framework, including model legislation, to address terrorism and transnational organized crime.

Recognizing that Small Island Developing States (SIDS) are uniquely vulnerable to global weather events, the Pacific Islands have moved rapidly to identify and implement a wide range of adaptation options and are committed, with your able assistance, to be proactive in the development of appropriate, affordable and cost-effective adaptation response measures. We therefore extend our sincere appreciation to the Bank for its generous co-sponsorship and co-organization of the Second High Level Adaptation Consultation and Third Climate Change Roundtable held in Fiji, which led to an agreement on a Regional Adaptation Funding facility for our islands. We also see great opportunity to deal with climate variability and the risks of sea level rise through the vulnerability and adaptation Pacific Type 2 Initiatives that were launched at the WSSD and would seek assistance in the identification of partners and implementation of initiatives.

This being said, we recognize that the impact and effectiveness of our domestic efforts to respond to a global crisis created by our developed partners are limited. We therefore renew our call for urgent action to be undertaken to reduce greenhouse gas emissions and for there to be further commitments in the future by all major emitters. We also continue to call for the ratification of the Kyoto Protocol under the UN Framework Convention on Climate Change (UNFCCC).

On the broader issue of sustainable development, we would call for our international partners to live up to the principles of Agenda 21, as agreed upon by all of us during the Earth Summit in 1992, by fulfilling our agreed upon obligations as augmented by the Millennium, Doha, and Monterrey Declarations. We would also seek support in preparing for the Ten Year Review of the Barbados Program of Action. In our efforts to bring about sustainable development, we strongly support the Global Environment Facility (GEF) and the active implementation of small grant schemes to promote grass roots initiatives in our countries. If we are to achieve the Millennium Development Goal of halving poverty by 2015, such grant schemes, along with other grant and concessionary loan schemes must be expanded.

The nations of the Pacific have demonstrated their support for the Solomon Islands during its difficult period of reconstruction through the Biketawa Declaration. Our leaders have welcomed the signing of a multilateral agreement to support the Regional Assistance Mission to Solomon Islands (RAMSI) in order to address law and order and the economic situation in the country. We note with great pleasure the action of Australia in clearing the Solomon Islands arrears with the World Bank and the Asian Development Bank. In this vein we would seek the assistance of the Bank and the Fund to assist in the

reconstruction of the country and to actively seek ways and means to alleviate its debt burden.

This multilateral approach, with the assistance from the Bank and the Fund, as well as other international institutions, must also be applied to combat HIV/Aids in our region. We commend the Bank for its commitment to fight this deadly disease worldwide and we welcome your ongoing support for the Global Fund for Fighting Aids, Tuberculosis, and Malaria.

Finally, I would like to express our deep and sincere appreciation to the staff and management of the Bank and the Fund for the tireless efforts on behalf of the Pacific Islands. We recognize that the world's resources are limited and that the provision of aid to every region in the world must take this into account. We only seek our fair share of such resources. We are ready to do our part to improve and expand our opportunities and to work with you on our road towards sustainable development.

PAPUA NEW GUINEA: BART PHILEMON

Governor of the Bank

I am pleased to be at my second joint annual meeting of the International Monetary Fund and the World Bank. This meeting provides an important forum for engagement not only with the International Monetary Fund and the World Bank Group, but also with other development and financial agencies.

Let me also commend the government and people of the United Arab Emirates on their hospitality and organization. The organization of this meeting has been superb and every detail well attended to. Further, I laud the efforts of the leadership of the United Arab Emirates to make their country a hub for international commerce, economy, finance, and tourism. I will certainly take time to study how the United Arab Emirates has used its oil and gas income to spur sustainable growth in the other sectors of the economy.

Papua New Guinea continues to be mired in a growth trap. Our efforts to reinvigorate broad and sustainable growth have been assisted by favorable external conditions, particularly in relation to our export commodity prices. However, the risks to the economic outlook remain considerable. Papua New Guinea is now a net external loan re-payer, our expenditure budget has become locked into a yearly cycle of unproductive expenditure, and our resource envelope is being gradually eroded over time as a result of an economy in recess and a trend decline in mineral and oil production.

The Papua New Guinea Government recognizes the very significant challenges that lie ahead over the medium term. These are challenges

that we cannot confront alone, and we look to our development partners, both the international financial institutions and our bilateral partners for assistance.

The systems of governance in Papua New Guinea are sound and robust. The weaknesses are not systemic in that they are a natural product of the system but rather reflect the weaknesses in our accountability framework. Transgressions on the part of politicians and bureaucrats are not being punished, and this reflects in part two key things. The first is the politicization of the system, especially in bureaucracy and the instability of the political leadership.

We are taking measures to restore confidence in our systems of governance. The introduction of the landmark Integrity of Political Parties and Candidates Act in 2002 will ensure that there will be far greater political stability in Papua New Guinea over the next five years. The proposal to increase the period to move a vote of no confidence in a government from 18 months to 36 months will not only further buttress political stability, but also provide a stable and consistent environment for implementation of economic and social policies. This will also facilitate sounder and more stable macroeconomic management.

We are rebuilding a public sector that is professional, has integrity, and is committed. The first phase of the reform involved building a performance-oriented public service, reorienting personnel management systems and processes, strengthening probity and oversight agencies, and improving delivery of major services.

Further reforms include instilling an appointment process that is depoliticized and merit-based. Legislative amendments have been introduced that compel all vacant positions of the heads of national departments and provincial administrations to be advertised. This will go through an independent screening process before a shortlist is submitted to a ministerial committee to further consider before the cabinet makes an appointment. These reforms are also being extended to cover the appointment of heads of statutory agencies as well.

Wider consultations have taken place in the preparation of the National Poverty Reduction Strategy and the 2004–2007 Medium Term Development Strategy for Papua New Guinea. The Poverty Reduction Strategy has been informed by a participatory poverty assessment exercise, and it is very clear what the people deem crucial for enhancement of their lives—transport infrastructure and water are the top two priorities, followed by key services such as primary health care and basic education.

Formal consultative mechanisms exist for engaging with civil society organizations. There is the Consultative Implementation Monitoring Committee, the Public Sector Reform Advisory Group, the Impediments to Business and Private Sector Working Committee, and the

National Development Forum. These are all forums that allow private sector, nongovernmental organizations and community-based organizations to have a say in and input into government's policy.

Projections of key financial indicators underpinning the 2003 budget have deteriorated in large part due to budget financing difficulties relating to delays in receiving the proceeds of asset sales and the carry-over of 2002 expenditures into 2003.

The changes in economic indicators, including inflation and interest rates, has exerted immense pressure on the 2003 budget. To offset the interest bill, the non-interest expenditures have had to be adjusted downward, and we remain firmly committed to achieving a fiscal deficit outcome equivalent to 2 percent of gross domestic product (GDP) for this year.

A tightened fiscal stance has supported independent monetary policy with the result that the exchange rate has stabilized and international reserves have been rebuilt over 2003. Inflationary pressures are starting to subside but the government recognizes that the economic situation remains fragile and that the high interest rate regime will remain in place for some time yet.

The Medium Term Fiscal Strategy and its accompanying Fiscal Framework represent an important departure from the past practice of single-year budgeting. The strategy compels the government to be proactive and to respond in a measured way to changes in projected revenue flows and expenditure requirements. The expenditure priorities under the Medium Term Development Strategy are basic education, primary and preventive health care, transport infrastructure maintenance, law and order, rural development, and poverty alleviation through generation of income-earning opportunities for Papua New Guineans.

The government has established a formal process to facilitate detailed strategic review and rationalization of the expenditure budget. This commenced with a detailed agency-by-agency review of the 2002 budget submissions. The work will continue in 2003 in relation to the 2004 budgets. I am leading this ongoing strategic review, along with a small group of central Economic Ministers. Our work is being supported by a detailed and technical Public Expenditure Review and Rationalization (PERR) exercise supported by the World Bank, the Asian Development Bank, and the Australian government. It is intended that the PERR exercise will allow further structural adjustment of the budget to facilitate greater focus on PNG's important medium development priorities.

In addition to the fiscal adjustments, the government will press forward with reforms to address the structural constraints within the economy, as well as institutional reforms to instill good governance and improve efficiency within the public sector. The government will

continue to support ongoing governance measures, and these include strengthening probity and oversight agencies, strengthening government procurement practices and procedures, improving debt management, liberalizing investment and promoting private sector participation, and reviewing the current privatization process to ensure that proper procedures are adopted and that clear net benefits to people of Papua New Guinea can be demonstrated.

The government remains committed to the broader policy of privatization. Privatization of non-core assets will proceed since these assets continue to be a drain on the national budget and act as a constraint on the private sector. Papua New Guinea suffers from both poor service standards in core infrastructure areas and a severely limited reach of these services. The full privatization of core assets is unlikely to address these issues in the short term but will yield benefits in the medium and long term. First, privatization will strengthen integrity of institutions of state. Second, it will strengthen the national budget by ending the need to meet the ever-increasing losses and debts of government-owned businesses, and it will allow the government to focus expenditure on provision of basic services such as health, education, and transport. Finally, it will enhance the ability of the government to use proceeds to retire short-term domestic debt.

To tackle corruption, progress has been made through the strengthening of probity and oversight agencies. The government will continue these reforms, including development of action plans for strengthening the Department of Attorney General and the Inspections Division of the Department of Treasury. In addition, criminal activity will be targeted under the MTDS with law and justice identified as an expenditure priority.

I share the dismay at the breakdown of the Doha Round in Cancun and the danger it poses to further trade and services liberalization. I call on both the advanced and developing countries to restore and advance the round for the betterment of citizens of the world and particularly for developing nations.

Papua New Guinea has embarked on a comprehensive trade liberalization program, and my government remains committed to it. The government has announced a tariff review in response to demands from sections of the Papua New Guinea business community. An independent task force will report back to Government before November 2003. It is worthwhile to note that our tariff rates are well below the World Trade Organization agreed bound rate, and upward adjustments are not being considered at this point in time.

In closing let me affirm my government's commitment to advancing structural reforms that will yield growth dividends for our economy. Restoring good governance remains one of the central planks of the

government's objectives, and we will re-intensify our efforts to confront these difficult challenges.

Looking forward, we welcome the Fund and the Bank support as we face the difficult challenges over the medium term.

PARAGUAY: JOSÉ ERNESTO BUTTNER LIMPRICH

Governor of the Bank

I would like to commend the government of the United Arab Emirates and, in particular, the authorities of Dubai for their impeccable organization of this event and for the hospitality of their people.

A new government assumed office in the Republic of Paraguay last August 15. This new administration is facing difficulties in both the economic and social spheres, due largely to structural problems that have plagued the country for several years. However, from the outset, the new government has demonstrated commitment to fostering national development. To that end, it has begun to appoint top-ranking professionals at the most strategic levels in the different areas of government.

From an economic standpoint, underlying the strategic vision of the government are the following key elements:

- restoration of trust in state institutions;
- sustainable economic growth, coupled with social, fiscal, and environmental responsibility;
- reduction of poverty and social inequality; and
- civil society participation.

To that end, the executive is working with the National Congress to achieve passage of important laws such as:

- the law on Administrative Restructuring and Fiscal Overhaul, which seeks to reduce public expenditure and distortions in the tax law, thereby increasing efficiency in the allocation of resources, reducing distortions, and providing the tax administration with improved policy instruments;
- the law on Streamlining of the Employee Fund Association (the institution that administers the retirement funds of public employees and makes adjustments to financial parameters), which will lead to enhanced medium- and long-term financial sustainability;
- the law approving the Customs Code, which will pave the way for significant improvement in current procedures by simplifying processes and strengthening the customs administration;
- the law reforming Public Banking, which is aimed at restructuring seven public financial institutions and transforming them into one

second-tier financial institution that facilitates long-term financing and a first-tier institution that channels loans largely to the rural sector and micro enterprises.
- the law on Fiscal Responsibility; and
- the Deposit-guarantee Law of the financial system.

In the context of the macroeconomic performance of Paraguay, mention should be made of a number of weaknesses, such as negative economic growth in 2002 and an increase in the debt to gross domestic product ratio. The latter is due largely to the steep devaluation of the local currency in recent years. In 2003, we hope to reverse this trend and to achieve positive economic growth of close to 1.8 percent and a level in excess of 2 percent in 2004. Inflation, which stood at 14.6 percent in 2002, will fall to below 10 percent this year and next.

Following last year's crisis, the banking system has returned to a state of normalcy, with the almost complete recovery of the deposits that were lost during the period of instability. Moreover, international reserves have increased by one-third in relation to last year, and current levels are making it possible for the central bank to control foreign exchange policy more efficiently.

In the fiscal area, a budget deficit of only 0.4 percent of GDP is expected in 2004; this figure is below the estimate of 2.2 percent for this year. The figure is based on a reduction in public expenditure, improved administrative efficiency, and an increase in tax revenue. In the meantime, the initial effects of short-term measures are already evident, given the fact that tax revenue increased 32 percent during the month of August 2003, compared with August 2002, and 70 percent during the first half of September compared with the first half of September 2002.

Without a doubt, international cooperation is of critical importance for the success of the measures mentioned above and for the achievement of sustainable economic growth. To that end, the government is negotiating several agreements with various international organizations. If accompanied by an appropriate level of financial resources and technical assistance, these agreements will facilitate implementation of all the measures envisioned by the current administration of Paraguay.

Paraguay, a small landlocked country whose economy revolves mainly around the agricultural sector, relies heavily on international markets for its development. For this reason, we view rapid progress at the international level in the reduction of trade barriers, particularly those in the agricultural sector, as well as a reduction in the distortions created by the application of protectionist policies, as essential.

We view with optimism and we support the initiatives of the Development Committee to forge ahead with discussions aimed at enhancing the voice and participation of developing countries. Progress in this

area will make it possible for the Bretton Woods institutions to offer more effective solutions to the real needs of our countries.

Once again, we would like to thank the authorities and people of Dubai for their excellent organization of these Annual Meetings. We are confident that the discussions will lead to progress in the implementation of better and more effective policies aimed at development and the achievement of equity in countries.

PHILIPPINES: JOSE ISIDRO N. CAMACHO

Governor of the Bank

We are meeting here today as member countries of the World Bank and the International Monetary Fund to assess how much we have achieved during the past year and map out our agenda for the next year.

Since our meeting last year, the world economy has been rocked by initial reversals and subsequent advances. Our poverty reduction efforts have suffered reversals from uncertainties of the global environment—induced by the Iraq war, the SARS epidemic and the continuing threat of terrorism. However, through coordinated action and with the help of the UN system, including the Bank and the Fund, we have been able to weather the negative impacts of these events. Efforts have also been initiated to bring to light the objectives of the Monterrey Consensus. We are now forging ahead with other agenda items in implementing our poverty reduction agenda for the future.

Several important issues confront us today. First, is the issue of voice. In Monterrey last year, we had decided that the World Bank and IMF would continue to enhance the participation of developing and transition economies in decision making as they address the development needs of these countries. In spring earlier this year, the Development Committee reaffirmed this decision, and initial action has been done to strengthen capacity in executive directors' offices in the Bank and the Fund.

This coming year, we should look at more straightforward options to give developing countries the voting strength in accord with their real share in the world economy. With a fairer share in voting strength, developing countries are better placed and more equipped to use opportunities to present their views and advocate issues in line with their interests.

Both the Bank and the Fund have moved far from their joint beginnings in Bretton Woods. The world since then has also changed. I would like to commend the Bank and the Fund for their genuine resolve to listen harder to what their clients need and want. The Bank is in the forefront in poverty reduction, and we sincerely applaud the many initiatives and strategies that it designs. We especially commend the

Bank's continuing policy in devolving more functions to its decentralized offices. Complementing the decentralization policy is the establishment of "knowledge development centers," as piloted in the Philippines. These centers are a boon to those who thirst for information and knowledge. These and the many innovative programs of the World Bank are very much appreciated by the constituent countries.

These two venerable institutions now appreciate that economic and financial stability and development cannot be achieved through textbook prescriptions, nor can they be attained from the perspective of functionaries who are far removed from the on-the-ground and day-to-day realities. There is now recognition that no one formula works every time for everybody, and there is need to differentiate countries on the basis of their political, cultural, social, and economic situation. We salute them for this growing open-mindedness.

Second, we want to go full steam with the creation of "an open, equitable, rules-based, predictable and nondiscriminatory multilateral trading and financial system." We have embraced trade liberalization and opened our markets sacrificing even much-needed fiscal resources. However, the impact of our efforts is blunted by the trade agenda remaining stuck on the issue of subsidies and QRs in developed countries on major products of export interest to developing countries, and thus the standoff in Cancun.

Third, we are concerned by the decision to veer resources away from middle-income countries to low-income countries, depriving the poorest of the poor in middle-income countries of their rightful share in resources. While it is true that middle-income countries now have higher per capita incomes relative to low-income countries, middle-income countries continue to have many pockets of poverty, in many cases, extreme poverty, which are masked by measurement of averages. How different is a starving and homeless person living in a middle income country from a starving and homeless citizen of a very poor and low-income country?

Furthermore, many middle-income countries face fiscal and financial constraints. For this reason, it is imperative that creative and less fiscally burdensome financial assistance be packaged for middle-income countries so that governments can more effectively use these facilities and advance their development agenda. We look to the Bank and the Fund to lead in the efforts at creatively reducing the debt burdens of the middle-income countries.

How can the MFIs be more relevant today? How can the MFIs provide value added inputs and be better appreciated by client countries? Let the MFIs be less preachers and be more problem solvers as the World Bank has so effectively done for us. In many instances, we are bombarded with diagnostics of our problems and deficiencies. For the

most part, we, the authorities, already know these problems and deficiencies. We are there on the ground to face the hungry, the homeless, the uneducated, and the unemployed members of our society. We do not need to be constantly reminded of our problems because we face them every day. We need to be aided and guided to find practical solutions to the problems! We are also concerned with the fact that some multilateral institutions at times behave more like credit rating agencies, that is, establishing public scorecards for client countries. We do not belie the need for countries to perform and to institute measures to achieve efficiency, effectiveness, and good governance, but we find counterproductive the "credit rating mentality" of some of the MFIs, which constantly highlight the negatives of our economies. This undermines the confidence-building exercises that many countries assiduously pursue to gain support, unity, and credibility domestically and internationally and makes our jobs more difficult than they already are.

Last year, I had strongly supported the initiatives for harmonization of the procurement and financial management of the major lending institutions. Sad to say, in spite of the high level discussions in Rome early this year on harmonization, little progress can be seen in this area. We again call for a speedy resolution to the harmonization issues.

With these thoughts, I sincerely hope that we can all work together in meeting the challenges before us.

POLAND: RYSZARD MICHALSKI

Alternate Governor of the Fund

Let me begin by congratulating Mr. Villiger on his very effective chairmanship of our annual discussions. I would also like to thank our host, the United Arab Emirates, for its hospitality and the excellent organization of the meetings. I find it extremely important and encouraging that at this particular time, we can meet in this part of the world, and in a very peaceful atmosphere, in order to conduct the ordinary business of the Bank and the Fund, assess our achievements and failures and look for ways to make the Bretton Woods institutions work better for the benefit of all member countries.

Our meetings take place at a very important time for the countries in transition. This concerns in particular the group of eight Central European and Baltic countries that, together with Cyprus and Malta, will become members of the European Union on May 1, 2004. It is not easy to precisely define the end of the transition process but I believe that at least for this group of eight countries, it would be fair to declare that the historic undertaking of dismantling the command economy system is nearing a very successful completion. It has been achieved in a reasonably short time, in a very peaceful manner and without any major social

disruptions. Many of the remaining transition countries in Eastern and Southern Europe are also very well advanced in establishing strong, market based economic systems. A special feature of the European transition countries is their strong commitment to transparency. In this respect, they are already on par, and in some respects even exceed, the standards of the industrial countries. Most of the CIS countries are also making strong efforts to reform their economies and even if the overall progress has been more mixed, they have been recently recording, on average, very solid growth rates and made significant advances in macroeconomic stabilization. However, several of the smaller CIS countries still suffer from various structural rigidities, very high debt burdens, and are afflicted by widespread poverty. These countries deserve continuous attention and support from the Bretton Woods institutions as well as from bilateral and international donors.

The Bank and the Fund have contributed significantly to the successful advancement of the transition process. The EU accession countries are one of the few examples of a relatively fast graduation from the Fund's financial support. They now enjoy an almost unrestricted access to the international capital market on fine terms. Despite the very substantial progress already made by Poland and other countries acceding to the EU, we are still very interested in maintaining active cooperation with the Bretton Woods institutions. The Fund and the Bank should continue providing their support in order to ensure that our countries fully benefit from increased integration with our future EU partners. The Fund would be welcome to offer its advice on the conduct of monetary and exchange rate policies in the period before the adoption of the euro and on the design of comprehensive fiscal reforms. Both institutions could help in strengthening our financial systems and increasing the efficiency of public expenditures, and the Bank could still play a useful role in financing some of the infrastructure and structural reform projects.

Poland fully supports the objectives set out at the Monterrey and Johannesburg conferences and sees the need to redouble the efforts of all parties concerned to ensure the timely achievement of the Millennium Development Goals. The low-income countries themselves should lead in this process, but the Bretton Woods institutions, other international organizations and all bilateral donors should also enhance their support. The PRSP-based approach is already showing some promising results and should be further expanded and perfected. More attention should be paid to achieving higher standards of governance in low-income countries as it would help strengthen credibility of the whole PRSP process, improve the quality of the dialogue with all stakeholders and enhance ownership. The PRSPs should set realistic targets

and ensure the availability of adequate tools for measuring the progress in achieving these objectives.

Despite all the criticism and skepticism, the HIPC Initiative is also progressing quite well. Further strong efforts should be made to ensure its completion. This requires, among others, ensuring the full financing of the Initiative and securing adequate participation of all creditors. First and foremost, however, the beneficiary countries should show their full commitment to meeting both the objectives and the conditions of the HIPC Initiative. Poland has already provided a sizable contribution to the HIPC-PRGF Trust Fund and proposed a significant reduction of its claims on the HIPC countries. We believe, however, that in order to ensure the fullest possible participation of all creditors, not only the debtor countries themselves should more actively seek the cooperation of all of their non-Paris Club creditors, but also these creditors should be given more say at deciding on the scope of and the mechanisms for providing the HIPC debt relief.

PORTUGAL: MANUELA FERREIRA LEITE

Governor of the Bank

I will begin by thanking the Dubai authorities and the government of the United Arab Emirates for their warm hospitality and excellent support in organizing this year's Annual Meetings. These are the first Annual Meetings ever to take place in the region, and I would like to stress that fact's importance and meaning in terms of a further, deeper, and successful integration of the Middle East, in general, and the Gulf, in particular, into the world economy.

Macroeconomic prospects

In assessment of the world economic situation, there is consensus that growth is getting under way and that during 2004 it will gather momentum on the basis of better economic conditions. This should also be the case for the European Union, in which overall conditions seem to be met.

Our task as international community should be to avoid some downside risks to materialize and thus to contribute to a stronger and broader-based global recovery.

Particular attention should be paid to support of an orderly correction of imbalances, including by means of allowing some smooth and fairly shared exchange rate adjustments that better reflect economic fundamentals. This implies that our countries should be ready to continue their efforts to deliver sound macroeconomic policies and pursue structural reforms.

Finally, a balanced agreement, as soon as possible, within the Doha Development Round would be of major importance. It would strengthen international trade and could foster confidence in and support an overall recovery.

Economic and budgetary developments in Portugal

Confidence is the major force behind recovery. Under such circumstances, it is crucial that macroeconomic policy proves to be credible, thus supporting expectations. And credibility is gained through the ability to stick to commitments. This has been our position in Portugal.

We have recently experienced an important and unavoidable adjustment from a past unbalanced growth path, which was aggravated by inappropriate budgetary policies. Therefore, the Portuguese economy will register a slightly negative growth rate in 2003.

This year's slowdown reflects mainly the weakness of domestic demand, which was an inevitable development to correct macroeconomic imbalances, but also a subdued external demand.

Signs of improvement of domestic demand, although recent, are appearing, and technically the economy is no longer in recession. A mild recovery is expected in 2004, and the growth rate is expected to be between 0.5 and 1.5 percent.

Regarding budgetary developments, the Portuguese government is fully engaged to comply with the rules of the Growth and Stability Pact, in spite of the economic slowdown. This commitment is the result not only of willingness to comply with international obligations; it owes mainly to the government's belief that budgetary consolidation best serves domestic economic needs.

As for structural reforms, it is worth mentioning the approval of a new labor code, which increases the flexibility of labor relations, and steep reforms undertaken in sectors such as civil service, education, health, and social security.

International financial institutions agenda

As for global efforts to fight poverty, challenging times in economic and social terms shall not be an excuse for developed countries to delay or soften their responsibilities. If anything, priorities should become more focused and directed at maximum effectiveness.

In this context, we welcome the significant results that the Heavily Indebted Poor Countries (HIPC) Initiative has achieved. However, countries need to do much more, such as improving domestic policies and governance, so they can benefit from the full implementation of the initiative.

We are also of the opinion that the Millennium Development Goals must continue to provide the major frame for our action, whereas the proposal for launching an International Finance Facility deserves further preparatory work.

As for strengthening the fight against the abuses of the international financial system, we fully endorse the 40 Financial Action Task Force recommendations on money laundering, which is an area in which the success of our action is highly dependent on strong coordination, both among domestic institutions and at the international level.

Finally, I would like to welcome the progress made to improve crisis prevention and resolution. Of course, this is an almost never-ending task. Efforts should continue to be made to improve the surveillance framework and to ensure that the exceptional access policy is strictly implemented.

RUSSIAN FEDERATION: ALEKSEI KUDRIN

Governor of the Fund

Global Economy and Financial Markets

The forecast for overall global economic growth has remained almost unchanged from that set forth in the spring issue of the *World Economic Outlook,* and is in the range of 3 percent for 2003 and 4 percent for 2004. At the same time, we note that in the opinion of the Fund's experts, the balance between negative and positive risks for realization of this forecast has changed in favor of the latter. Nonetheless, it is clear that there is still considerable uncertainty regarding a number of key assumptions.

Above all, the heavy dependence of global economic growth on growth in the U.S. economy is a cause for concern. Persistent significant current account imbalances among the main centers of global growth mean that the threat of sharp fluctuations in the exchange rates of the major currencies remains. Generally speaking, a state of affairs in which year after year the entire rest of the world helps to finance the huge American current account deficit on the one hand, and on the other hand, expects to achieve growth by increasing exports to the United States, can hardly be considered healthy.

Another important factor contributing to uncertainty is the dynamics of oil prices. In the first half of this year, these prices remained high, in spite of relatively weak business activity. It is clear that the expected global economic recovery will bring an increase in the demand for oil, which will put an upward pressure on oil prices. Furthermore, the dynamics of oil prices will depend on changes in geopolitical factors.

We read with interest the *Global Financial Stability Report*, which also notes the presence of a number of risks for both the global economy as a whole and for the economies of individual regions and countries. It is noteworthy that almost any sharp change in the dynamics of financial markets could lead to a heightening of risks. For example, rapid growth in stock market indexes, on the one hand, will contribute to greater investor confidence, and on the other hand, it may be accompanied by a rise in market interest rates. In turn, a steep rise in interest rates could lead to dangerous consequences for the housing market and consumer confidence. Furthermore, growth in stock market indexes and growth in interest rates in developed countries may have negative consequences for bond spreads of emerging market countries. And there will always be the danger that stock market indexes will get out of line with corporate earnings indicators, which means that another correction in equity prices will be possible. In an environment of globalization, the macroeconomic policies of developed countries have a major impact not only on the economies of their own countries, but also on the economies of many other countries, and on the development of the global economy as a whole. It is clear that at the present time in developed countries, given low inflationary pressure and still tentative signs of a business recovery, monetary policy should continue to be stimulating. Both the United States and the European Union have the possibility of a further reduction in interest rates should such a need arise.

The discussion of fiscal policy is much more complicated. It is clear that the opportunities for stimulating business activity with the help of fiscal policy have already been exhausted in the major developed countries. Furthermore, in the United States, the major European Union countries, and Japan, the task of devising a medium-term program of fiscal consolidation is on the agenda. This task is necessitated by both a deterioration of the current fiscal situation and the need to strengthen the financial position of social security systems in light of the aging of the population. At the same time, a premature reduction in fiscal stimulation over the short term could undermine the still fragile business recovery.

Over the past several years, with the slowdown in global economic growth, there has been a strengthening of protectionist tendencies. In this connection, it is difficult to overstate the importance of the successful conclusion of multilateral trade negotiations under the Doha Round. We fully support the joint statement by the heads of the Fund, the Bank, and the OECD, in which the leaders of these organizations expressed their readiness to provide effective support to developing countries during their adaptation to an environment of liberalized foreign trade.

We learned with interest that as a group, emerging market countries have become net exporters of capital. We realize that this is due to a whole set of circumstances, including payments against external debt and the accumulation of foreign exchange reserves. At the same time, the very fact that emerging market countries are financing current account deficits of developed countries seems to go against the laws of nature. The reduction in flows of direct foreign investment into emerging market countries is particularly troubling.

Given the low interest rates in developed countries, investors have shown a great interest in high yield instruments, which led to a substantial decline in bond spreads of emerging market countries. Many of these countries were able to effect major borrowing under favorable terms in international financial markets with the aim of refinancing their external debt and improving its structure. It is clear that such favorable conditions for external borrowing are not going to last forever. In this connection, all emerging market countries with a high level of external debt need to develop their domestic markets for borrowing, and also seek to strengthen their public finances.

We read with interest the section in the *World Economic Outlook* devoted to an analysis of public debt sustainability in emerging market countries. The main conclusion of this analysis is that, although the level of public debt that can be considered sustainable depends on the combined set of circumstances in each individual country, as a rule, this level is quite low. It is also noteworthy that the average level of public debt in emerging market countries, which currently stands at about 70 percent of GDP, exceeds the average level of public debt in developed countries.

The last issue of the *World Economic Outlook* includes an interesting analysis of accumulation of foreign exchange reserves by Asian emerging market countries. We find interesting the main conclusion of this analysis that the accumulation of foreign exchange reserves was justified from the standpoint of overcoming the consequences of the financial crisis roughly up until 2001, while their further accumulation only led to an increase in current account imbalances.

Finally, a few words about economic developments in Russia. In the Fund's report, the forecast for economic growth in Russia in 2003 was revised from 4 percent to 6 percent. This estimate roughly corresponds to our own forecast, although we do not rule out the possibility that it could turn out to be conservative. In the first half of this year, GDP growth in Russia exceeded 7 percent, while growth in investment was around 12 percent. We believe that this sort of investment growth is evidence of a gradual improvement in the investment climate in Russia.

Strengthening IMF Surveillance and Promoting International Financial Stability

We continue to see Fund surveillance as the most important instrument of crisis prevention and welcome the continuing work of the IMF aimed at strengthening it. We support the Fund's activity on the Financial Sector Assessment Program (FSAP) and on assessing observance of international standards and codes (ROSCs). Work in this area is progressing well, as demonstrated by the great increase in the number of ROSCs and FSAP reports. Recently, considerable attention has been drawn to a greater operational separation between program and surveillance activities. We agree that in certain cases (for example, countries hit by a major crisis), this sort of separation may be justified. However, in our view combining surveillance and program activities should not be an exception but rather a norm for the operational setup of the surveillance process.

As recent capital account crises have shown, the significant vulnerability of emerging market economies arises from the excessive level of their public or external debt. Experience shows frequently that the level of debt that used to be considered "safe" is, in fact, not. In this connection, strengthening of debt sustainability analysis (DSA) is very important in the context of both surveillance and program work. Another important instrument for revealing vulnerabilities is the balance sheet approach, which can help better understand crises in the emerging market economies and reveal the hidden vulnerabilities in the financial and public sectors in a timely way, such as currency and maturity mismatches.

A great deal of work has been done by the Fund to develop mechanisms to resolve crises, particularly within the framework of the SDRM proposal. In spite of the fact that this proposal ultimately was not adopted, the work on it was not in vain. It contributed to a better understanding of the problems that exist, and it also generated greater interest on the part of private investors in the inclusion of collective action clauses (CACs) when issuing sovereign bonds.

We welcome the significant progress that has been made recently in promoting the use of CACs in the issuance of sovereign bonds. It is encouraging that the use of CACs in the New York market, following the Mexican placement in March 2003, was not accompanied by an increase in borrowing costs. This could be evidence of the fact that CACs are gradually becoming more acceptable to private investors. We believe that the Fund should continue its work to encourage broader use of CACs by sovereign borrowers. At the same time, the specific conditions recorded in CACs in each individual case should reflect the results of negotiations between the borrower and the creditors, and it is

still too early for the Fund to insist on the standardization of CACs or a specific model for them.

We approve the initiative to develop a code of conduct for sovereign borrowers and private creditors in the restructuring of sovereign debt. At the same time, we believe that the Fund should refrain from supporting one set of rules or another in this area and should participate in the relevant discussions only in the capacity of an observer. At the same time, if it were to be an agreed code, the Fund could take its provisions into account while implementing its policy of lending into arrears.

Supporting Sound Policies with Adequate and Appropriate Financing: Implementing the Monterrey Consensus at the Country Level

We agree that better external aid is needed to achieve the MDGs in countries with good policies. However, we believe that advocating doubling or tripling existing aid volumes creates unrealistic expectations and detracts attention from the more urgent problem—how to make existing aid more effective and supportive of domestic reform efforts through improving the structure and modality of aid flows.

Current structure of aid is alarming: of the US$52 billion of ODA in 2001 only half was available for expenditures in recipient countries. Increasing this "active" part of aid, improving its delivery and flexibility, better aligning it to budgetary processes in recipient countries, and targeting assistance to sectoral programs could substantially alleviate the need for increased aid volumes.

Modalities of aid often limit its effectiveness. One issue is predictability of flows to countries with good policies. Clarity about the levels of aid and its conditions is often critical for sustaining reforms in aid-dependent countries. The best way to achieve this is to align aid flows with country-owned development strategies through clear and simple conditionality derived from these strategies.

Removing artificial restrictions on aid, such as allowing recurrent cost financing, could make aid more effective—if accompanied by tangible reform of public expenditure frameworks and measures to enhance growth to replace in-time donor financing with domestic funds. Harmonizing donor requirements of disbursement, monitoring, and reporting is another way of increasing aid effectiveness.

Growth is the key to overcoming poverty and aid dependence. Both structure and modalities of aid should be consistent with unleashing local growth potential and increasing national competitiveness. Infrastructure is the vital link between aid, growth, and poverty reduction, and we see it as the area where the Bank can make a valuable contribution to achieving the MDGs.

Enhancing the Voice and Participation of Developing and Transition Countries: Progress Report by the World Bank

We see the stronger voice of client countries not just as a goal in itself, but also as an important mechanism of poverty reduction. Client countries have much to contribute to this cause. Their knowledge and experience of development are essential to make development assistance work. However, it is not in the interests of any client country to undermine the effectiveness of the World Bank. The Bank's well functioning governance structure is based on "governance by consensus." We would not support any proposal that undermines this tradition. Nor would we support actions that could handicap the Bank's financial position and its capacity to mobilize resources. Thus, instead of opening up the issue of shares and voting rights, we could do much more to enhance the real voice of developing and transition countries:

- by involving borrowing countries into IDA replenishment process;
- by promoting staff diversity and decentralized decision making at the World Bank; and
- by strengthening the capacity of Executive Directors' offices representing a large number of poor countries.

Progress Report on Trade

We appreciate the Bank's double role as a source of analysis and financing. In terms of analysis, the Bank's advice is valued and recognized because it has proved itself able to rise above specific political interests. We are happy to see that the Bank takes a balanced approach in this area and urge it to pay closer attention to emerging protectionist practices, especially those in the developed countries. Such examples do much damage to trade liberalization in developing and transition countries, and the Bank's message of free trade must be conveyed to the wide audience in the developing and developed countries alike.

As a financial institution, the Bank has an important part to play in promoting and facilitating trade in its member countries. We urge the Bank, together with client governments, to identify and address key bottlenecks in the area of export finance, administrative trade facilitation, and adoption of best practices and standards. For instance, we urge the Bank to continue its active participation in the Integrated Framework and to make every effort to implement its action plans.

Implementation Report on Monitoring Policies, Action, and Outcomes Needed to Achieve the MDGs

We appreciate the Bank's efforts to improve coordination with international agencies and to clarify its own role in global monitoring of the MDGs. We are pleased to note the ongoing work to improve CPIA methodology and transparency, and especially to involve countries in the rating process. We believe that CPIA can become an extremely valuable instrument of results-oriented global monitoring, reinforced by its link to IDA allocation. In time it can become the basis of an objective and consistent system of indicators to improve our understanding of how policies affect development.

We are gratified that infrastructure has been recognized as a key indicator of growth and investment climate. The Bank should continue developing more objective indicators that would complement and eventually replace an earlier generation of perception-based indicators of governance and corruption. It should also attempt to measure results of Bank-supported operations in the governance and anti-corruption area.

We agree that macroeconomic and trade policies in the donor countries and the quantity and quality of aid are highly relevant to development. Thus, we urge the Bank to go beyond the work by the IMF, WTO, and OECD on these issues and draw on its own operational and research experience. Bank reports should examine client countries' policies, but also developments in the trade and aid policies of the industrial countries, and the extent to which these policies conform to the Monterrey declarations. Likewise, there should be a candid assessment of IFI operations and their role in client countries.

World Bank Group Infrastructure Implementation Action Plan

We support the proposed action plan as an important step in the right direction. We see infrastructure as a key pillar of growth, together with macroeconomic stability, good governance, and a business-friendly regulatory environment. In this respect, we support innovative ways of financing infrastructure projects, including sub-national lending, risk mitigation instruments, and "Corporate Projects." We hope that these innovations will be mainstreamed.

When Bank business practices discourage infrastructure projects, borrowers look elsewhere for financing infrastructure needs. This is another example of why country ownership is important. Country governments are both Bank shareholders and political representatives of the will of their people, and the Bank should rely on them to formulate and express the vision of development unique to each country. NGOs

and other non-elected entities can also be a valuable additional source of information and opinion.

The role of public-private partnership in infrastructure needs more analysis. While some such partnerships work, we are concerned that attempts to attract the private sector into infrastructure projects often lead to open-ended public guarantees. Such arrangements combine unbudgeted public commitments with unfounded private contingent liabilities. The resulting confusion of responsibilities may have serious long-term political implications, including for the overall public sentiment toward the private sector.

Given the importance of infrastructure for sustainable development, we believe that this meeting should become the starting point of a full-fledged discussion of infrastructure issues by this committee. The action plan needs to be supported by further research work, including serious analysis of the factors hindering the expansion of World Bank Group activities in the area of infrastructure.

SPAIN: RODRIGO DE RATO FIGAREDO

Governor of the Bank and the Fund

The World Economic Outlook: Risks and Economic Policy Responses

After dispelling some of the macroeconomic and geopolitical uncertainties of the past months, the latest economic indicators point to a recovery of the global economy, albeit with marked geographic imbalances.

The most recent data on the U.S. economy already suggest a significant upturn. However, it is important to note that the role of the United States as the engine of growth of the world economy may not be effective if other areas do not join the process, correcting the imbalances that have been emerging. In any event, the U.S. economy still harbors some elements of risk that merit attention; the size of the fiscal deficit and the indebtedness of the domestic economies are reflected in a current account imbalance and leave growth vulnerable to the dampening effect of the foreseeable rise in interest rates.

On the other hand, interest rate adjustments in response to the depreciation of the dollar are occurring asymmetrically, with the euro assuming the lion's share of the adjustment. Meanwhile, some Asian economies, which are among the strongest in the world, maintain artificially low exchange rates, thereby preventing adjustment.

As other developed economies are weaker, especially in Europe, international growth will be overly dependent on growth in the U.S.

The virtual stagnation of the major economies in the area has been disappointing. In our opinion, Europe is realizing that the systematic implementation of growth policies alone is not sufficient to provide the necessary thrust. Furthermore, we have recently been involved in what I consider to be a sterile debate on the functioning and implementation of the stability pact. This error has been diverting our attention from the real challenge facing the European economies: growth. We understand that it is not possible to realize an acceptable growth potential without implementing far-reaching structural reforms that would remove the rigidities in our markets and add flexibility to our supply.

In Europe, the Spanish economy has increased its positive growth differential vis-à-vis the euro zone, which will exceed 1.5 percent of GDP this year. Continued fiscal surpluses and further development of the structural reforms of recent years will help consolidate the economic recovery, capping a decade of sustained growth and creation of over four million jobs.

In Latin America, improvements in the international economy, reorientation towards responsible macroeconomic policies, and firm support from the Fund have enabled economic and financial conditions to improve in recent months. This week, we held the Fifth Meeting of Iberian-American Ministers of Economy and Finance in Madrid, which highlighted the need for further market integration in the countries of the region. This must lead to an intensification of integration efforts, both in multilateral processes and in regional agreements. The region must also win the confidence of the international markets. To do so, it must continue the process of fiscal consolidation and public debt reduction. The needed recovery of the demand for investment, whether domestic or international, requires a reliably stable legal and institutional framework regulating the economic environment.

The signing of the arrangement between the Fund and the Argentine Government, supported by Spain, offers this friendly nation a great opportunity to begin that vital process of structural and institutional reform, based on its renewed credibility, while honoring its commitments, which will enable it to once more attract capital to the country.

The Role of the IMF in the Promotion of International Financial Stability

The International Monetary Fund plays a key role in the promotion and development of financial stability and the application of economic policies that lay the groundwork for sound, sustained growth and contribute to an improvement in living conditions and to poverty reduction for all citizens and countries.

For this task to be accomplished, countries must have an adequate say and representation in the decision-making bodies of the IMF, based on their respective importance and responsibilities in the global economy, which secure and strengthen the legitimacy of the institution. The Fund should continue working to make the participation of the various countries in the institution more meaningful, in keeping with these principles. In this context, the quota review takes on special importance as one of the main examples of representation, and in particular the correction of the situation of countries with misaligned quotas.

On the role that the IMF plays in the area of crisis prevention, I wish to highlight a number of factors. For supervision to be effective, steps must first be taken to correct the economic and institutional weaknesses identified in member countries. In the case of the less advanced economies, it is necessary to foster the complementary role played by the Fund in providing technical assistance to help consolidate their economic and institutional environment.

On the other hand, the availability of sufficient quality data is key to this preventive policy. The policies of providing and publishing those data have strengthened transparency, which has also been encouraged with the creation of the Independent Evaluation Office, whose first three reports have already demonstrated its usefulness in identifying areas of possible improvement in Fund policies. The strengthening of the transparency policy will lead to improvements in the effectiveness of supervision and the external image and credibility of our institution.

In the area of crisis resolution, the conditionality of the Fund's financial assistance should clearly identify the macroeconomic adjustment path and the structural reforms needed to ensure economic stability. In addition, we should applaud the practical, voluntary progress made in the design of resolution mechanisms such as the collective action clauses that have been used by Mexico and other emerging countries. Spain has undertaken to introduce clauses of this type when issuing foreign currency instruments.

Another tool that we feel to be of great interest for crisis resolution in middle- and low-income countries is the so-called Evian approach. In this regard, we are in favor of the introduction of flexibility in the procedures for the restructuring of these countries' external debt, so that appropriate solutions can be sought. Spain will therefore continue to support the current Paris Club efforts to define and profile the main characteristics of this system.

A noteworthy development of this past year was the implementation of the action plan to combat money laundering and the financing of terrorism. The action taken to combat terrorism in the financial context is key, and its success depends on broad international collaboration. Spain firmly supports this process.

We appreciate the very positive way in which the Fund's Managing Director has offered on this occasion to help developing countries facing difficulties as a result of trade liberalization. This is a positive contribution to the advancement of the Doha objectives, after the failure of Cancun.

The World Bank and Poverty Reduction

Spain reaffirms its commitment to work with the international community to ensure that the developing countries achieve the Millennium Development Goals (MDGs). We feel certain that success in this endeavor will depend on the joint effort of developing countries to apply an adequate mix of economic policies, good governance, and institutional capacity building. Developed countries should also provide greater access to their markets and adequate financial assistance in support of the relevant policies. Such assistance should go toward achieving the priorities set by the recipient countries and should be designed in such a way that they can be effective for each particular case.

With this conviction, Spain undertook, in Monterrey, to increase its ODA from 0.23 percent to 0.33 percent of GDP and stands ready to consider any mechanism that can serve to mobilize additional resources. The World Bank should play an important role in the search for alternatives, and we urge it to do so. Although we are convinced of the essential role that ODA can play, it is important to put it into perspective, especially by comparison with the role that should be played by the internal resources of developing countries.

Spain remains committed to the complementary roles of the two institutions for achieving the objective of reducing extreme poverty in sound economies that are capable of attaining and maintaining high levels of development.

SRI LANKA: K.N. CHOKSY

Governor of the Bank and the Fund

World Economic Outlook and the Role of Bretton Woods Institutions

It is encouraging that this year's Annual Meeting of the Fund and the Bank is being held in an environment where existing uncertainties regarding the outlook for the global economy have now considerably diminished, and the world economy is showing signs of recovery. This ray of hope for a recovery of growth has been a result of reduced geopolitical tensions, accommodative monetary and fiscal policy responses, corrective structural policies by countries, open trade regimes, and the

recent easing of oil price escalations. Painstaking economic adjustments and structural reforms made in some low-income countries, and emerging market economies, including my own country, have strengthened their fiscal foundations, and have improved resilience to setbacks.

We need to ensure that the positive developments are sustained and built upon. Support from the Bretton Woods institutions for economic adjustments and reforms by countries who are making genuine efforts to promote growth and reduce poverty, through market friendly and pro-poor policies, needs to be enhanced.

I appreciate the role being played by the Fund and the Bank in this regard and in making globalization work better for all. The Fund needs to strengthen its capacity to identify and reduce economic and financial vulnerabilities, covering all systemically important countries for this purpose.

With our own experience, we feel the PRSP/PRGF/PRSC approach is an appropriate vehicle for helping low-income countries. In this regard I urge that IDA allocations be increased to countries making genuine efforts to strengthen their socio and economic infrastructures, while also assisting them in their efforts to improve aid utilization.

Sri Lanka—Recent Developments and Prospects

I now desire to give an overview of the economic developments and prospects of my own country, Sri Lanka, since we met at our Annual Meeting in Washington last year. Economic progress is on target. Consequently, prospects are promising, and we are working on a Regaining Sri Lanka Program, which has received endorsement from both our multilateral and bilateral donors.

Last year, in 2002, we substantially met our budgetary goals. The preceding year's negative growth of 1.5 percent was turned into a positive growth of 4.0 percent in 2002. The budget deficit was reduced from 10.8 percent in 2001 to 8.9 percent in 2002. Inflation brought down from 14.2 percent to a single digit of 9 percent.

For the current year 2003, the Asian Development Bank has forecast an average growth of 6 percent for South Asia. Sri Lanka has set its target for the year at 5.5 percent. In the first quarter, we have achieved 5.5 percent. The projected fiscal deficit is a reduction from the 2002 figure of 8.9 percent to 7.5 percent. Our consumer price index has decreased. The unprecedented levels of the turnover recorded by the Colombo Stock Exchange have earned for itself recognition as one of the best performing stock markets in the region. Our currency has remained stable over the last 18 months. Cumulative exports have grown by 18 percent in US$ terms in the first half of this year. Foreign

exchange reserves are now at $5^1/_2$ months of imports of goods and services. The output of major agricultural products, particularly rice, reached a new peak. FDI inflows increased by 300 percent over 2001, the third highest in South Asia during the past 12 months. The State had reduced its liability to the banking sector, thus making more money available for productive private sector development. The Central Bank's policy rates have been reduced. Consequently, commercial lending rates have declined. We have been able to reduce direct corporate taxation. The resulting position is that the private sector, which the government desires to take the lead in the road to growth, has expanded industrial activity by 7 percent.

The government has concentrated on the recurring question of improvement of aid utilization. The utilization in the first eight months of 2003 has increased by 76 percent over the same period in the previous year. Our Parliament has enacted the Fiscal Management (Responsibility) Law, which fixes the GDP growth requirement and the fiscal deficit figures to be maintained annually up to the year 2006. The minister of finance is required to report thrice each year to Parliament on the government's budgetary management. This fiscal discipline supported by structural reforms enabled the government to implement certain bold but politically unpopular economic measures, which in the event proved beneficial. The up-shot of our efforts is that Sri Lanka gained substantial international confidence from its multilateral and bilateral donors at the Sri Lanka Aid Conference held in Tokyo last June. We also won for the first time a PRGF facility from the IMF, and a PRSC from the World Bank.

Sri Lanka is making a determined effort to establish a permanent peace within its borders, improve its own resources, and achieve economic independence, as we have politically. The prevailing peaceful conditions in the country have also helped greatly. However, we foresee the need for more time to maximize our progress.

In view of the fact that we have received both assistance and guidance from the Fund, the Bank, the ADB, and our bi-lateral donors, to achieve what I have just stated, I thought it fit to place before this Meeting the consequential progress we have made.

THAILAND: VARATHEP RATANAKORN

Governor of the Bank

I have the honor and pleasure to address the World Bank and IMF 2003 Annual Meetings. At the outset, permit me to express Thailand's appreciation to both the Bank and the Fund management and staff for

their hard work in the past year with regards to key development issues and poverty reduction.

In light of an improved outlook for world economic growth especially the United States and Japan, I am pleased to note that developing countries in Asia continue to be resilient and register a steady economic growth. Asia is ready to capitalize on this positive upward year-end outlook. However, we continue to be subjected to many underlying downside risks, particularly the new nontraditional threats, such as terrorism and new epidemic diseases like SARS. These new nontraditional threats have the potential to disrupt economic confidence of a nation, a region, and indeed the world in an instant.

Coping with such threats beyond the normal development issues will require closer international cooperation. As we all have worked hard to eradicate poverty and generate sustainable economic growth, we have to redouble our efforts to fight these new challenges to maintain financial and economic stability. More broad based, international cooperation and timely financial support, particularly from the Bank and the Fund, will help eliminate these threats at their core.

These issues should be of immediate and major concern for the Bank and the Fund in concert with the traditional development and financial stability issues. In addition, we wish to urge the Bank and the Fund to continue to support the development of new regional funding initiatives such as the Asian bond, which will enable more balanced access to international and regional capital flows based on the resources and savings of each region. Promoting the capability of developing countries to save, invest, and utilize their own international reserves to support their own regional financial requirements will improve a greater and more balanced free flow of funds and improve financial cooperation and liberalization between the developed and developing economies.

Toward this end, we hope that, at the next annual meeting, both the Bank and the Fund will be able to demonstrate their support and more active and concrete measures to assist in developing regional bond initiatives as well as to strengthen financial architecture required for the future.

Thailand welcomes the initiative to reform the governance structure of the Bank and the Fund proposed by the Monterrey Consensus. We believe that the Bank and the Fund are proceeding in a more democratic governance structure by increasing the voice and participation of the developing members. Much more remains to be done and we are awaiting further positive developments in the Thirteenth Quota Review of the Fund, especially the review of the formulas and specific quota increases for the developing countries. These actions will be the first meaningful step toward a fairer and more balanced governance of the

Fund. The developing world needs to have a greater say in the affairs and policy of the Bank and the Fund.

We welcome the progress on the effectiveness of the Fund surveillance activities especially on the diagnosis of risks and strengthening the assessment and development of standards and codes. We wish, however, to underline that such codes must strike a good balance between the socioeconomic needs and requirements of member countries, as well as fiscal and financial conditionality. No one single set of policy requirements is applicable to all countries at any given time. One size does not fit all. Thailand is a real case in point.

In future, the Fund programs must be flexible, well balanced, and consistent with the pace and position of the member concerned. We look forward to further progress of these difficult but relevant issues in moving forward to developing a sovereign debt structuring mechanism, as well as the design of effective voluntary code of conduct across the spectrum of Fund membership.

Permit me to briefly report on Thailand's recent economic progress and future prospects. The Thai economy has grown faster than forecast in the first half of this year, despite external economic uncertainties and global slowdown. The Thai economy expanded by more than 6 percent, the highest growth rate since the crisis of 1997. The strong growth momentum was achieved by both domestic and external components.

On the domestic front, the fiscal outlook continues to be extremely strong with high revenue collection and declining deficits. Private consumption continues to expand along with increased productivity. Despite the temporary impact of SARS, private investment is expected to expand due to a continuing accommodative monetary policy with low interest rates and a higher capacity utilization rate. Inflation remains low at 1.8 percent. The unemployment rate has peaked at 1.4 percent of the total labor force. Our "Dual Track" development policy has been the key to Thai economic success—in the past two years. The Dual Track policy is strengthening domestic growth foundations, as well as a strong external export drive, by maintaining competitiveness and diversification of our export markets combined to move the economy. Moreover, Thailand has been able to achieve new market opportunities, which have reduced external export volatility. As a result, Thailand has been able to prepay our IMF obligation two years earlier than scheduled and yet maintain high reserves with fiscal and monetary stability. Permit me to express Thailand's deep appreciation to the Fund and our true friends for their full support during our time of need. We shall always remember and treasure your friendship.

On the external front, Thailand expects to record another year of trade surplus with strong export growth, increasing at around 13.2 percent, as well as a continuing current account surplus of US$7.95 billion (5.7 percent

of our GDP). Our foreign reserve stood at US$39.26 billion, reflecting strong export growth of over 18 percent on a year-on-year basis and confidence from the international financial community.

Accordingly, international rating agencies have underlined our achievements by recent upgrading because of clear signs of economic recovery, strong and sustainable economic growth, fiscal and monetary stability, as well as strong external prospects. Much more remains to be done, but we are confident that Thailand will continue on this strong, stable, and equitable development path based on a firm foundation of domestic growth and a competitive export sector.

In conclusion, on behalf of the Thai delegation, I would like to express our sincere appreciation to our host, the government and the people of the United Arab Emirates for their warm welcome and hospitality during this meeting. We reaffirm our support to the Bank and the Fund in moving toward the achievement of the Millennium Development Goals by 2015. We strongly support the improvement of the role and voice of developing member countries, and we shall urge the Bank and the Fund to continue to improve the quality of services in promoting sustainable economic and equitable socioeconomic development in the world.

TONGA: SIOSIUA T.T. 'UTOIKAMANU

Governor of the Bank

It is an honor and a great pleasure for me to address the Board of Governors of the International Monetary Fund and World Bank Group on behalf of the government of the Kingdom of Tonga at the 58th Annual Meetings. I wish to extend my appreciation to the government and the people of the United Arab Emirates for its hospitality and excellent arrangements.

On the outlook for the world economy, the macroeconomic policies in industrial countries will continue to support worldwide economic activity beneficial to all countries, including small island economies such as Tonga. The recent depreciation of the U.S. dollar in an orderly fashion without triggering upward pressure on interest rates and the recent fiscal stimulus augurs well in terms of export competitiveness and growth for the U.S. economy. In addition, we note that a modest rebound is projected for the Japanese economy. It is our hope that the Japanese authorities will continue on a clear and strong commitment to the policies needed to reverse deflation to enable improved support of future growth prospects for the world economy.

The focus by the Fund on surveillance will continue to be supportive of reducing countries' vulnerabilities to external shocks especially within the context of identifying a criterion for gauging the soundness of policies that could lead to a more objective basis for policy advice.

Moreover, we welcome the formulation of new ways of providing for the quick disbursement of concessional finance to assist low income countries to deal with exogenous shocks.

For crisis prevention and management, the Bretton Woods institutions affect millions of people with the Fund becoming a rule-making institution whose decisions encompass international as well as national economic policy making. The legitimacy of such a process ought to be enhanced through a democratic framework for governance that requires the need for agreement on the fundamental reforms needed to strengthen developing country voting power, staffing, research, and other constraints faced by developing countries. The diffusion of decision-making power would also improve the perception of the broad acceptance and application of universal models of macroeconomic management and a one size fits all approach. Furthermore, it is considered that there is need for a series of new indicators to provide a comprehensive perspective as the process of measuring inputs and outcomes are necessarily complex.

We support the view that, in addressing poverty, donors must assist in strengthening the capacity, technical and financial assistance of small state economies like Tonga to implement and achieve the objectives of poverty reduction. Such assistance is crucial in addressing issues such as the way in which basic services are failing the poor, alternative service delivery arrangements, and what can be done to improve access of the poor to basic services.

Although the outcome of the Cancun meeting is a disappointing setback, multilateral trade liberalization remains essential to achieving the Millennium Development Goals (MDG). We firmly believe that trade opportunities should benefit all people, and we therefore continue to encourage developed countries to show commitment by focusing on the issues of open markets, fair access and the reduction of distortions to trade subsidies in all areas, which should help millions of people in developing countries lift themselves out of poverty.

In Tonga, the economy continued to perform below expectations during the past year with higher than expected inflation, slow GDP growth, and fragile external and fiscal accounts. The key challenges for Tonga in the short term are to preserve external viability through strict fiscal and monetary policies. The key challenge in the medium term is to restructure the public sector in order to support private sector led growth. These challenges are exacerbated by the vulnerability of our country to exogenous factors such as El Nino, energy prices increases and the effects of the outbreak of SARS.

However, this year will be the second year since the government embarked on a comprehensive economic and public sector reform program in order to respond to the short and medium term challenges

which the country faces. Progress has been made in the introduction of necessary legislation that will provide the foundation and framework for this reform program.

Finally, we would like to acknowledge with appreciation the technical and financial assistance that both institutions have provided to the government and people of Tonga. The assistance continues to improve the standard of living of our people and we look forward to a continued partnership for the future. May I conclude by wishing the Bank and the Fund continued success in resolving the difficult challenges that lie ahead.

TURKEY: ALI BABACAN

Governor of the Fund

Having the honor of addressing the Annual Meetings of the World Bank and the International Monetary Fund (IMF), I would like to begin by thanking the government and people of the United Arab Emirates for their warm welcome and hospitality during our stay in this beautiful city.

I am happy to see global economic and financial conditions starting to improve. The IMF foresees a gradual and moderate upturn in world output beginning in the second half of 2003. Demand and productivity in the United States appear to be strengthening, and Japan's economy seems to be on the road to recovery. The fundamentals of emerging-market economies are also improving. The agreement between the Fund and Argentina on a three-year stand-by program is an important step forward, both for the Argentine economy and for international financial stability. But as we are all aware, risks still abound, and the agendas of both countries and the international financial institutions are filled with threats and remedies. The international community must continue the discussion of global challenges begun during the Doha Round. The success of these discussions will be crucial for a sustainable economic recovery and durable poverty alleviation. I am encouraged by the proactive nature of the Fund's new initiative to provide financial assistance for developing countries facing the challenge of adjusting to the effects of multilateral trade reforms.

We welcome the World Bank's strong advocacy of trade liberalization. It is important to be explicit when identifying the direct effects of the industrial countries' protectionist policies, especially those regarding agricultural goods and textiles, on the market access of developing countries and the success of their efforts to reduce poverty. The World Bank's increasing focus on trade-capacity building and the corresponding increase in the Bank's trade-related lending are steps in the right direction. But unless they are accompanied by real trade liberalization, efforts to build capacity will come to nothing. The Cancun conference's

collapse before an accord was reached has dashed the hopes for a short-term convergence of views capable of bridging this policy rift. We urge the Bank to intensify its advocacy role, to support it with better analytical studies, and to disseminate its findings in a more systematic fashion.

But the improvements in the global economy have not yet been reflected by increased flows to developing countries. Despite some modest increases in official development assistance (ODA), more financial resources will still be needed to achieve the Millennium Development Goals (MDGs) by 2015. We are convinced that trade liberalization could be a much greater source of income for developing countries. Their prospects of achieving the MDGs would be significantly improved if they had better access to advanced-country markets.

The Monterrey Consensus called on the developed countries to make a serious commitment to help poor countries improve their living standards. Prompt action and increased aid levels are especially important. The more slowly help comes to the poor countries, the more complex and hard to solve their problems become. I strongly support the United Nation's ODA goal of 0.7 percent of gross national income, as emphasized by Managing Director Köhler in his recent statements.

Despite stronger institutional capacities and better access to markets, the middle-income countries also have their share of problems. High levels of debt and tight fiscal policies sometimes keep them from increasing their social spending and improving their progress toward the MDGs. The middle-income countries would obtain significant benefits from trade liberalization, in terms of more and larger markets and increased employment opportunities.

Let me also mention the importance of infrastructure. Without electricity, clean running water, and properly maintained roads, there cannot be civilized living conditions, adequate educational standards, or markets for the economy's products. I am therefore very glad that the World Bank has taken action on this front, by revisiting its infrastructure strategy and launching an action plan. I very much hope that the middle-income countries can also benefit from this fresh approach to infrastructure.

As to the need to enhance the voice of developing and transition countries, we do not expect a quick fix. But there is no doubt that to pursue the vision of the Monterrey Consensus, it will be necessary to continue and deepen the dialog between the advanced and the developing countries, and to give the developing countries a stronger voice and increased participation in the decision-making process.

When it comes to strengthening surveillance and promoting international financial stability, the Fund's many initiatives launched over the last eight years are very encouraging. But now, I think the time has come to closely monitor their implementation. Vulnerability analysis in the balance sheets of the major sectors of the economy represents an

important broadening of Fund surveillance. Information flows and transparency issues are also important for assessing potential risks. In this connection, improvements in the rate of completion of reports on the observance of standards and codes, countries' adherence to the special data dissemination system (SDDS), and countries' completion of financial sector assessment programs (FSAPs) are encouraging, though there is always room for improvement.

The international community and international financial institutions are working to devise new mechanisms for preventing and resolving crises. One of the more costly lessons of the last ten years is that the policymakers of developing countries should make more efforts to avoid or prevent the emergence of a crisis.

Prudent policies, good governance, better debt management, improved investment climate, and reduced corruption are important means for developing countries to avoid crises. Steadfast adherence to a good blend of well-designed domestic policies, together with prompt international assistance, can help greatly. Turkey provides a good example of crisis recovery through pursuit of correct and just policies.

Most important, I want to repeat that Turkey is determined to implement the economic program and achieve the long-desired goal of economic stability. It is fair to say that our government has made great progress on the economic front. In slightly less than a year, there are already concrete and visible results of the new government's economic policies. Growth is picking up, inflation is coming down, and interest rates are falling. Turkey has now begun to travel a clear development path leading to reforms on the economic, political, and social fronts.

These reforms are irreversible. Our aim is to have a productive, efficient, market-oriented, stable economy. Turkey is now going through a dynamic process of legal, political, and economic reforms on the road to membership in the European Union (EU). Our parliament has approved seven packages of harmonization laws that will bring Turkey's institutional structure closer to EU standards. The reform movement will bring universal standards and practices to all areas of daily life, from production to consumption, from health to education, from agriculture to industry, from energy to environment, and from justice to security.

UKRAINE: VALERIY KHOROSHKOVSKIY

Governor of the Bank

Ukraine welcomes the opportunity of having this Annual Meetings in Dubai and appreciates the efforts of the authorities. It is of utmost importance to continue having the Annual Meetings in a normal format in order to secure maximum benefits from official discussions and from the exchange of information and assessments of best practices among

delegations. Dialogue with the private sector is especially valuable. It is important to curb any factors which may in future interfere with the usual business of the meetings. One can also imagine an even more thought provoking program of seminars.

At the time of the previous meetings we emphasized the challenges of adjusting to the realities of the global economy. Though some progress in securing a better globalization has been achieved, new challenges are emerging all the time. Now the international community is facing the uneven prospects of further multilateral trade liberalization. It is indeed unfortunate given the ever more visible interdependence of successful development and increased trade with such indispensable public goods as peace and security, as well as with poverty alleviation. IFIs may in this new context consider even more research work and outreach efforts on the likely effects of trade liberalization. Offering some additional financial safeguards and perhaps guarantees for covering temporary balance of payments needs of countries which may need time to adjust to more open trade, may also help.

Improved prospects for global growth are accompanied by slowdowns in parts of Western Europe and by possible accumulation of new tensions in some segments of the financial markets. Transition economies and most emerging markets have been weathering recent slowdowns remarkably well. The new positive trend which has emerged: several countries facing the challenges of an ageing population have started reforming their pension and social security systems, or at least are debating such important reforms. Ukraine has just adopted the comprehensive pension reform legislation as well.

Given the less certain prospects for global trade, it is important to keep track of whether the quality of economic and financial globalization is improving. High quality globalization should mean that every part of the international community can be reasonably expected to win from better global and regional economic and financial integration. To this end it is important to manage the risks of low quality globalization, in order to prevent the concentration of risks in new regions or market segments.

We do not think that a reserve accumulation by successful emerging markets is the major component of current global imbalances. The exchange rate policy and trade surpluses of emerging markets are probably less important culprits than the volatility of G-3 currencies and stock markets, the fiscal expansion and accommodative monetary stance in several major economies, and the rapid changes in investor's sentiments. From the perspective of emerging markets with sustained trade surpluses, it is also important to have more balanced growth, which may be less dependent on only few external markets. Multilateral trade liberalization is one of the venues. Rebalancing of external and

domestic growth factors should be in any scenario underpinned by structural reforms in banking and corporate sectors, so that the rebalancing is fully owned by the authorities. In this light we would welcome more attention to and research of all relevant issues, where the so called "fear of floating" will be only one of the dimensions. International financial institutions have recently paid more attention to crises prevention and to some extent less—to crises resolution, despite the moral hazard and perception of unequal treatment involved in extraordinary financing. It is indeed important to prevent accumulation of unsustainable debts and to better predict changes in market sentiments. We are glad to acknowledge that many emerging markets and transition economies have reduced their debt burdens due to better growth facilitated by important structural reforms. Ukraine as well has experienced such positive developments: a stronger external position allows us to consider gradual early repurchases of our debt to the IMF. Nevertheless, the need for further cooperation with International Financial Institutions remains.

IFIs should consider more assistance and advice to member countries in upgrading the institutional and regulatory capacity of the financial sectors, fiscal management, achieving greater transparency and accountability. As it seems to us, concentrating predominantly on private sector development may inadvertently push to the back, seat the challenges of making government institutions more efficient. Implementing best practices in antimonopoly regulations, transparency and disclosure requirements, accounting standards, management of financial risks are of special importance to us.

Without quite valuable external expertise, Ukraine would not have been able to address in a timely manner the challenges of improving revenue collection, reducing quasi-fiscal deficits in the energy sector, implementing modern accounting and banking standards, improving efforts in fighting money laundering, or subscribing to SDDS. We cherish not only technical and other assistance, but also training possibilities, conferences and seminars, and civil society outreach efforts. Being committed to building a knowledge based economy in our country, we appreciate the enormous knowledge on best (and worst) practices accumulated by the Bank and Fund and would call on both institutions to improve their own knowledge management and knowledge dissemination efforts. Discussions on economic strategy and surveillance exercises may be more consistently used for discussing the experience of other countries in addressing similar challenges.

The improved treatment and reputation, better tailoring of precautionary arrangements of the Fund may in many ways help countries that do not have balance of payments financing needs. Such arrangements should concentrate on longer-term structural challenges, while currently

they reflect more of the short-term anti-crisis logic of stand-by arrangements. Longer and structural precautionary arrangements will allow for better coordination with longer term national goals and with the World Bank strategic vision.

The discussion at the Development Committee emphasized that it is realistic to expect some additional progress in addressing poverty, fighting HIV/AIDS, and improvements in infrastructure. The road to success will indeed depend not only on strong domestically-owned policies, but also on timely and adequate financing. This financing for sustainable economic growth is not to be exclusively official, though the World Bank has an indispensable role. Improvements in the investment climate, better conditions for entrepreneurial activities, improved corporate governance and deeper financial markets should promote a surge in investment, both domestic and foreign.

Ukraine continues to demonstrate good economic performance: the economy is expected to grow by 21 percent in the course of 2001–03, while inflation is subdued at 12–13 percent in three years. Since 2001 exports and imports increased by 38 and 41 percent respectively, while the level of foreign debt declined in relative and absolute terms. We managed to diversify our trade significantly, while the demand for our major exports has recently been good. Investment activity is picking up, household incomes are growing steadily, and we are aiming at a better balanced growth. To further support both domestic demand and supply response, we are implementing tax reform aimed at reducing rates and broadening the base; we have started the pension reform, are maintaining a healthy fiscal stance, and are conducting prudent monetary and banking policies. Privatization of especially large enterprises has accelerated recently as did our energy sector reform. We are considering ways and means of increasing the factors of growth stemming from innovations and knowledge.

We see some room for improvement in the streamlining of VAT legislation and improving its administration, in increasing the transparency, and in improving our communications with civil society. Completing the WTO accession negotiations remains among our priorities and we are currently trying to harmonize our legislation and regulations with WTO requirements and with EU best practices. We are also participating in efforts to remove trade barriers in the regional context.

UNITED ARAB EMIRATES: MOHAMED KHALFAN BIN KHIRBASH

Alternate Governor of the Bank
(on behalf of the Arab Governors)

I am honored to have the privilege of delivering the joint Arab Governors' speech for this year's Annual Meetings of the Boards of

Governors of the World Bank and the International Monetary Fund. At the outset, let me extend a warm welcome to the distinguished Governors, management, and staff of both institutions, members of delegations, guests, and visitors to the first Annual Meetings to be held in our region. I would also like to extend my congratulations to you, Mr. Chairman, on your selection as Chairman of the Annual Meetings and to welcome you in that capacity. On behalf of the Arab group, I would like to thank the United Arab Emirates for its tremendous effort in organizing this event, which will hopefully provide participants with the opportunity to become more familiar with the issues and challenges facing the region.

While occasionally showing temporary short-lived pickups in growth, the past three years have, for the most part, witnessed a weak global economy, which was reflected in a significant slowdown in economic activity in the major economic regions, as well as many emerging markets and developing countries. Because of its dominance and size, the slowdown in the U.S. economy was a major factor in the overall global weakness. More recently, we are heartened to note that forward-looking economic indicators appear to be signaling a recovery, at least in the world's largest economy. While the temporary revivals in the past two or three years were short-lived and quickly aborted, it does appear that the ongoing recovery in the United States is taking hold, following a period of unprecedented expansionary fiscal policies and near-record low interest rates. In spite of this, significant risks to the spread and sustainability of growth still abound.

In order to strengthen and, hopefully, sustain this welcome recovery, there is a need to address emerging, as well as long-standing, problems in a number of advanced economies. While short-run expansionary fiscal policies to sustain growth are understandable in a number of major countries, a need for fiscal consolidation in the medium term is clearly evident, particularly where such deficits threaten to jeopardize macro stability. We also should not lose sight of the impending pressures on pension systems virtually in all regions of the world, which is an important consideration in formulating fiscal policies over the medium term. In addition, bold structural reforms need to be pursued more actively in a number of major countries in order to effectively absorb the benefits of this incipient recovery, and hence reduce global imbalances that continue to plague major economic regions.

As the world has repeatedly witnessed, with increased globalization, the externalities arising from developments in the major countries are transmitted more rapidly to the global economy and, in particular, to emerging and developing economies. The increasing interconnectedness of the world economy highlights the need to strengthen the effectiveness of Fund surveillance. In addition to its surveillance of emerging

and developing countries, we call on the Fund to enhance the quality and effectiveness of its surveillance of major industrial countries. In particular, emphasis should be placed on addressing the present large macroeconomic imbalances in these countries, on achieving greater stability in the exchange rates of major currencies, and on accelerating structural reforms. Fund surveillance should also place more emphasis on addressing trade-distorting policies, including, in particular, tariff and non tariff barriers as well as subsidies to certain economic activities in industrial countries, which exceed US$300 billion annually in agriculture alone. These barriers not only negatively impact domestic growth and the well-being of the population of industrial countries, but also are highly detrimental to the economies of developing countries and are a serious impediment to the fight against poverty.

As we emphasized in our speech last year, increased globalization also calls for improved governance in the Bretton Woods institutions. In this regard, while we welcome the progress achieved in enhancing the voice and representation of developing countries in these institutions, we call for more efforts to ensure that the interests of the majority of the membership are better reflected in the decision-making process, with a view to strengthening global ownership and the legitimacy of both institutions and their policies. Progress on this front has been less than satisfactory. The Bank and the Fund also should continue to work within the cooperative and voluntary framework that has served the membership well. This will also enhance the candor of staff discussions with authorities in the context of surveillance. In addition, it is well to emphasize the pivotal role played by the provision of technical assistance to developing countries from the Bank and the Fund, and the urgent need to enhance the resources dedicated to this activity. Technical assistance is key to strengthening the institutions that form the basis for sustainable long-term growth. In addition, we underscore the importance of enhancing the participation of borrowing countries in the formulation of the policies of the International Development Agency.

Let me now address some of the other issues related to the World Bank Group, which continued to focus on its primary objective of poverty reduction especially in the context of the Monterey Consensus. In this regard, we commend the efforts to improve the quality of financed projects. We also support the priority accorded by the Bank to the education, health, and water sectors, as well as combating HIV/AIDS. In addition, we particularly welcome the increased focus on infrastructure projects and the measures taken to simplify lending procedures and reduce the cost of borrowing.

While we support the increased attention to private sector development and enhancing the business environment in developing countries, we call for more efforts to be devoted to our region by the International

Finance Corporation, particularly in the field of the financial sector, small- and medium-sized enterprises, and technical assistance to develop the private sector. Here, we note that employment creation is of high priority to absorb the increasing labor force in the Arab region and elsewhere. Small, well-conceived projects are better suited to address this important concern.

We would also like to note the large scope for expanding the activities of the World Bank Group into regional projects that have promising economic returns and that can capitalize on existing integration opportunities. In this regard, we call for more attention to regional projects in the water and irrigation sectors, as well as in connecting and integrating electricity grids.

We welcome the progress made so far in implementing the enhanced HIPC Initiative, which has succeeded in reducing the debt burden of many low-income countries. However, the process of bringing eligible countries into the initiative should be accelerated. In addition, a number of countries that have already received relief are facing difficulties in achieving a sustainable debt position. More realistic growth and export projections on which the amount of debt relief is based, as well as a careful consideration of issues such as growth promotion through trade and the adequacy of grants and concessional resources, are needed. We call on industrial countries to increase their provision of financial assistance which, in most cases, falls short of the UN target of 0.7 percent of GNP. Here, we would like to point out that the assistance provided by many Arab countries and institutions, including under the HIPC Initiative, has exceeded the UN target.

In view of the conflicts that continue to hinder economic development and poverty reduction in many countries, and to affect regional and global stability, we value the increased attention of the Bank and the Fund to post-conflict issues. We would urge that this effort be strengthened in cooperation with the UN and other relevant bodies. We also welcome the continued Fund involvement in the Sudan and the interest of the World Bank to resume its operations in that country. In this connection, we urge that the country be allowed to benefit from the HIPC Initiative as soon as possible, and note that it has met all the required conditions. With regard to the recent lifting of sanctions on Libya, we welcome this positive step that will help accelerate economic developments in that country.

The Arab countries are committed to continue playing their part in helping reach the Millennium Development Goals, most notably through the provision of high levels of official development assistance. We also continue to accord high importance to the maintenance of stability of oil prices at reasonable levels, with a view to serving the collective interest of both producers and consumers. We reaffirm our

commitment to multilateral trade liberalization in the context of the World Trade Organization, and stress the importance of the provision of adequate technical and financial assistance by international institutions to enhance the capacity of developing countries to conduct complex trade negotiations, and to overcome the short-term restructuring costs associated with trade liberalization. These areas are too often not accorded sufficient priority, even though they are essential in reaping the well-known benefits of trade.

Regarding recent developments in our region, in addition to the adverse impact of the global slowdown, severe geopolitical shocks, and the continued tensions in Palestine and the crisis in Iraq, culminating in the war in that country, have adversely affected the region. This was reflected in a drop in tourism and investment flows, and in some cases, damage to physical capital, institutions, and infrastructure.

In spite of these adverse global and regional developments, the Arab economies have shown a high degree of resilience, and their performance in the past year was significantly better than expected by many observers. What was judged to be impending economic crises in some countries were averted, and growth in the region is envisaged to increase in 2003 to 4.5 percent, a level similar to the projected average for developing countries. While buoyant oil prices contributed to this outcome in oil exporting countries, other factors behind the resilience and relatively good performance of the region lie in the economic reforms implemented over past years, the generally prudent policy stance, and the policy adjustments made to minimize the effects of adverse developments.

Despite a moderate fiscal easing in some countries to mitigate the economic slowdown, fiscal balances improved in the region as a whole as oil-exporting countries benefited from buoyant oil prices and refrained from spending the temporary increase in revenue. Additionally, and more significantly, the region continued to implement structural fiscal reforms including widening the tax base, enhancing customs and tax administration, and strengthening expenditure controls. Further progress has also been made in rationalizing subsidies and improving their targeting, as well as in increasing fees on services and utilities. Consequently, the countries of the region are expected to achieve a budget surplus of 0.8 percent of GDP on average in 2003.

Monetary and exchange rate policies continued to be geared to maintaining low inflation, projected at 3 percent in 2003, and enhancing the region's competitiveness. Ongoing Fund technical assistance is supporting the development of new indirect monetary policy tools, and efforts to enhance the policy frameworks. This permitted the introduction of more flexible exchange rate policies in some countries in the region, which should help enhance their resilience to external shocks.

The prudent conduct of monetary and exchange rate policies was reflected in the general absence of significant balance of payments pressures in the region despite the unfavorable global and regional conditions. Foreign exchange reserves stabilized and, in some cases, increased. Progress was also made in enhancing the soundness of financial sectors through strengthening prudential regulations and bank supervision, as well as the restructuring of banks. These reforms were in many cases guided by FSAP exercises, which have been completed for a number of countries in the region. Our countries are determined to continue to strengthen their financial systems, wherever there is a need, in order to reduce their vulnerabilities and the potential for their abuse, and to enhance their contribution to saving mobilization and private-sector development.

Progress continued to be made in implementing structural reforms with a view to encouraging the private sector and foreign direct investment, including through deregulation and privatization. Trade liberalization proceeded both within the region and with other economies, including in the context of free trade and association agreements.

Let me stress that, notwithstanding the ongoing reforms, there is a clear realization in the region that policies to enhance growth will need to be accelerated in order to absorb the rising labor forces in the region, to further diversify the region's economies, and to improve social indicators. The increasing attention to the upgrading of human capital, as well as sustained economic reforms, should continue to enhance productivity and growth. Continued support from the international community and the Bretton Woods institutions, both through technical assistance and, where needed, financial assistance, would be essential to help the countries of the region implement their reform agendas and withstand the economic hardship arising from the global slowdown and tensions in the region.

The difficult conditions to which the Iraqi people have been subjected highlights the need to spare no effort to alleviate their suffering and to help the reconstruction of the country, which in turn will contribute to achieving stability and prosperity in the region. We call on the international community to contribute to the rebuilding of Iraq by providing assistance to rehabilitate social and economic institutions, rebuild the infrastructure, and help the country resolve its economic problems. We look forward to the donors' conference, scheduled to take place next month, and hope that it will provide the opportunity to open a new chapter towards establishing a strong basis for the stability and development of the country, and the region in general. We underscore the right and responsibility of the Iraqi people to manage their resources, and to rebuild their institutions in accordance with their

freely exercised democratic choice in a manner that will enable the country to achieve economic stability and development.

With regard to the situation in Palestine, we commend the economic and financial reforms implemented by the Palestinian Authority in an extremely difficult environment. However, achieving the economic and social development of the Palestinian people hinges on ending the Israeli occupation and hostilities, as well as attaining a lasting, comprehensive, and just peace, based on UN Resolutions 242, 338, and 194. Achieving peace would help redirect large resources to economic development and improve living standards in Palestine and many countries in the region. We therefore call on the international community to exert every effort to bring the peace process to a successful conclusion and to provide more resources to help the Palestinian people in these difficult economic conditions. We would also like to express our appreciation of the assistance provided by the IMF and the World Bank to the Palestinian people, and in particular thank the staff of the two institutions who continued to work in the Palestinian territories under extremely difficult conditions.

Finally, I would like once again to welcome you all in our region and hope that this year will witness the hoped-for economic recovery and progress towards global stability and prosperity.

UNITED KINGDOM: GORDON BROWN

Governor of the Fund

Introduction

We meet here in Dubai at a time when there are clear signs that economic activity is strengthening in some major economies, and, more broadly, indicators point to the prospect of a steady and strengthening recovery going forward. When we met last April, it was a time of particular political and economic uncertainty and tension. Since then, the major uncertainties have clearly lessened. Nevertheless risks remain—in industrial, emerging market, and developing countries—and it is important that policymakers stand ready to take the necessary policy actions. This underscores the importance of continued international cooperation and multilateral progress.

While prospects have improved in some major economies, all countries have an interest in seeing more balanced growth going forward. So we must address the lack of sustainable, robust productivity growth in every continent of the developed world. Structural reform is vital in this respect. And we must secure a speedy resumption of the Doha Round.

Economic Stability

For rich and poor countries alike, stability is the precondition for global prosperity and growth, and all major countries—Japan, America, and Europe—will be asked this weekend what contribution their continent can make, not just to restore growth now, but to create the conditions for sustained long-term prosperity. With proactive monetary and fiscal policies, growth in some major economies is now strengthening. The United Kingdom is on track for stronger growth with low inflation. But because we must sustain growth, it is important that we focus also on structural reform. The G-7 have agreed an Agenda for Growth, and it is now vital that we implement reforms to overcome the barriers to higher productivity, employment, and growth.

In the United States, actions to strengthen corporate governance and demonstrate that fiscal policy is sustainable over the medium term are important. Japan must step up its financial sector reform. And, accompanied by stability oriented fiscal and monetary policy, Europe must push ahead with the necessary structural reforms that have held back the continent for too long. European ministers should together embrace flexibility for labor markets, liberalization in capital and product markets, and tax competition in place of tax harmonization—in truth, a new growth agenda for Europe. Most of all, we should recognize that it is only by encouraging enterprise—and rewarding it properly—that we will create the growth, productivity, and employment we need. This enterprise agenda will be at the heart of driving forward Britain's reforms in our pre budget report.

So Europe must embrace labor-market flexibility combined with policies that equip people with the skills they need for work. Europe must embrace liberalization in product and capital markets. The opening up of electricity utilities, telecommunications, and financial services markets must proceed with speed. And building on U.S. experience, we must do more, including through tax incentives, to promote a venture-capital industry.

In the United Kingdom, we are determined to play our part, both in maintaining the conditions for stability and growth and through structural reforms. In 1997, our commitment to put stability first led us to adopt a new fiscal and monetary regime, based on clear policy rules, well-established procedures, and an openness and transparency not seen in the past. This new framework makes us better placed than before to cope with the economic cycle, giving us low inflation, low interest rates, and low unemployment. And it is this commitment to long-term stability, growth, and employment that is the foundation of our decisions today.

In addition, in the budget in April 2003, I announced further steps to drive forward productivity growth across the United Kingdom, including:

a package of reforms to support new and growth businesses; further steps to support a modern and competitive tax system; reviews of innovation policy in the United Kingdom, and the interaction between businesses and U.K. universities; and additional measures to improve skills. Our pre budget report will announce major detailed reforms on the labor market and on work incentives.

With financial market conditions looking more favorable, now is the time also to focus on structural reform and improved debt management in emerging markets. More broadly, it is important that we use this period to identify problems early, address vulnerabilities, and provide candid advice on policy reforms going forward. Effective international surveillance and multilateral cooperation are essential tools for achieving this, strengthening crisis prevention, and so promoting stability and sustainable global growth.

This meeting in Dubai offers a window of opportunity. It is essential that we address the long-term challenges facing the international financial community:

- promoting the conditions for stability and growth, and strengthening the mechanisms for crisis prevention and crisis resolution;
- calling for urgent resumption of the trade talks as soon as possible to secure concrete progress with multilateral trade liberalization and deliver on the commitments made at Doha;
- creating the right domestic conditions for investment and stability;
- confronting the global war against poverty and addressing the urgent challenge of achieving the Millennium Development Goals, including the need to double aid through the International Finance Facility.

Crisis Prevention and Resolution

I believe that, just as we set down a new rules-based system in the United Kingdom for a new monetary and fiscal regime, we should, in pursuit of the objectives of stability, development, and prosperity, establish a new rules-based system of governance for the international financial community. This new system should be founded on clear procedures, with all countries, rich and poor, pursuing agreed codes and standards for monetary and fiscal transparency, and for corporate governance. That is why we have put in place the system of internationally agreed codes and standards. Almost half of the Fund membership has now completed a ROSC and over 70 percent of those have been published. We strongly welcome this. But we must continue to do more to enable all countries to participate, providing the necessary technical assistance. On transparency, we strongly support the steps agreed by the Board to enhance further the publication of Article IV reports and program documents.

Effective and persuasive surveillance is essential for all member countries. We welcome the Fund's considerable progress on reforms to strengthen surveillance. Yet significant challenges remain, and we will need to monitor carefully their implementation and impact. More broadly, I believe there is a strong case for further institutional reforms to ensure that the IMF is as credible and independent from political influence in its surveillance of economies as an independent central bank is in the operation of monetary policy. We must implement reforms to ensure:

- greater independence—ensuring that the Fund applies objective, rigorous and consistent standards of surveillance to all member countries; and that surveillance is, and is seen to be, independent of decisions about program lending and the use of IMF resources; and
- greater accountability—with the IMFC or the Board having a formal responsibility to set an annual surveillance remit, with the IMF management and staff reporting back each year on their performance and effectiveness against the remit.

It is important to ensure that surveillance impacts effectively on decisions made by program and non program countries alike. In this respect, we continue to believe in the importance of the objectives underlying the Contingent Credit Line—to provide incentives for countries to put in place strong policies and to support those members with strong policy frameworks from the impact of external shocks. It is important to find an effective way to achieve these objectives in the context of the Fund's review of the CCL.

On crisis resolution, we very much welcome the widespread introduction of Collective Action Clauses, and encourage their further use. We support the ongoing work by issuing countries and their creditors towards developing a code of good conduct. We encourage the Fund to continue to strengthen its analysis of debt sustainability and balance sheet vulnerabilities. And we welcome the ongoing work by the IMF on issues relating to debt restructuring raised during the work on the Sovereign Debt Restructuring Mechanism, including aggregation and inter creditor equity. Under this new framework we can move from letting crises happen and then intervening, to a new paradigm: systems that in themselves diminish the likelihood of crises; earlier awareness as difficulties arise; and more measured and orderly responses when crises have to be resolved.

Trade

The international community must make urgent progress on trade and development. We must reaffirm this weekend our full political

commitment to a multilateral approach to trade liberalization, and to making substantial and concrete progress. A speedy resumption of the Doha Round is vital for global growth and our development objectives. It should focus on the core issues of importance to developing countries for open and fair markets, especially in agriculture. This will be critical for demonstrating the international community's continued commitment to multilateral cooperation, supporting higher growth and financial stability, and enabling developing countries to participate on fair terms in the world economy and make progress towards the Millennium Development Goals.

There is clear evidence supporting the link between developing countries' own trade policies and their economic growth. In the last forty years those developing countries that have managed to be more open and trade more in the world economy have seen faster growth rates than those that remained closed. But any liberalization has to be appropriately sequenced and integrated into countries' poverty reduction strategies. We welcome the IMF's initiative to provide assistance to countries to help them address the transitional impact of trade reforms.

And, as developing countries have continued to argue so strongly, an agreement on agriculture is central to any progress on trade. Three quarters of the world's poor live in rural areas and an end to agriculture protectionism in the developed world could be worth as much as US$100 billion a year to developing countries. And if we were to halve protectionism more widely in agriculture and in industrial goods and services we would increase the world's yearly income by nearly US$400 billion dollars: a boost to growth of 1.4 percent. Developing countries would gain the most in terms of GDP growth—an estimated US$150 billion a year—but all countries and regions stand to benefit.

Creating the Conditions for Productive Investment

To ensure growth and development we must take steps to promote domestic and foreign investment—and find better ways for public and private sectors to work together in raising the level and quality of investment. Because investment will flow to those countries that are the most stable, and ever more rapidly away from those that where the environment for business is volatile and uncertain, there is an even greater premium than before on governments running a successful monetary and fiscal regime to achieve high and stable levels of growth and employment over the long term. This is true for all countries, industrialized and developing.

In seeking more favorable environments in which private sector investment can be more productive in developing countries, country-owned poverty reduction strategies have correctly focused on creating

the right domestic conditions for investment, including good governance and sound legal processes that deter corruption; improved infrastructure; and an educated and healthy workforce. We support the creation of investment forums bringing public and private sectors together to examine the barriers to investment and how to secure higher levels. Most importantly, investment forums are helping to break down the assumption that private sector development should be led solely by business or directed by the state—instead recognizing that public and private sectors must work together in partnership to secure economic growth and poverty reduction.

Achieving the Millennium Development Goals

Stability, trade and investment are all vital but there cannot be a solution to the problems that developing countries face without a fourth reform: a substantial transfer of additional resources from the richest to the poorest countries, in the form of investment for development, that builds new capacity to compete and addresses the long term causes of poverty. In 2000 for the first time the world community signed up to the historic shared task of meeting the Millennium Development Goals by 2015—including to eradicate extreme poverty, achieve universal primary education and radically reduce child poverty.

Then at Monterrey in 2002 the international community agreed a new compact for development that, in return for developing countries pursuing corruption free policies for stability and growth and creating favorable environments for trade and investment; developed countries should be prepared to increase vitally needed funds to achieve the Millennium Development Goals. And the additional $16 billion dollars a year of extra funding agreed represented the first increase in official development assistance for twenty years. For its part, the United Kingdom will increase its aid budget to nearly 4.9 billion by 2006—a near doubling in real terms.

Our aid is increasingly provided in support of poverty reduction strategies, which are leading to improvements in the policies of developing countries and in the focus of donor support. We welcome the Fund's ongoing efforts to align the PRGF behind the PRSP and in support of the MDGs, early work on a long-term role for the Fund in low-income countries, and we look forward to their continuing work on ensuring that there is adequate financing for PRGF arrangements.

At the same time we must also do more to make better use of existing resources, including the European Union aid budget. Reordering priorities, untying aid and pooling funds internationally could all release additional funds for the poorest countries. We must work to achieve the rapid and full implementation of the HIPC Initiative to

provide a robust exit from unsustainable debt. Of the 38 countries that stand to benefit from HIPC debt relief, there are now 27—23 from Africa and 4 from Latin America—which already benefit from debt relief that will rise to over US$70 billion in total. For these 27 countries the United Kingdom is providing 100 percent bilateral debt relief, and this offer is open to all HIPC countries as they become eligible for relief under the Enhanced HIPC initiative. And now we must move into the next stage—a plan for post conflict and conflict countries so that the full $100 billion committed in Cologne in 1999 can be written off.

We urge the IMF and the World Bank to continue to intensify their efforts to secure full participation of all creditors in the initiative, and to reaffirm the objective of ensuring debt sustainability for countries reaching completion point. We must also work together to review the methodology for calculating the amount of "topping up" debt relief available—which could provide an additional US$1 billion of extra debt relief, with pledges to the HIPC Trust Fund to meet the extra costs of AFDB and other non-World Bank multilaterals. For our part the United Kingdom pledges to contribute our share of these costs.

But debt relief and the aid already pledged will not be enough on their own if we are to meet the Millennium Development Goals. In particular urgent action is needed on health and education. Every year more than 10 million children die of preventable diseases (30,000 a day), and more than 500,000 women die in pregnancy and childbirth. The tragedy of HIV/AIDS is not only a human one, its impact on social and economic development in sub-Saharan Africa in particular is already reversing progress that has been made in the past. So, in Dubai we must follow up the recent agreement on access to life saving medicines, with the proper financing of health care delivery systems. The United Kingdom is committed to predictable, multi-year funding for the Global Fund to fight AIDS, Tuberculosis and Malaria.

And we know that education for all is central in order to promote a virtuous circle of debt reduction, poverty alleviation and economic development. The U.K. Government is committed to making the World Bank Fast Track Initiative work. But an estimated US$10 billion more each year is needed if we are to reach our goal of primary education for all. And health, including the battle against HIV/AIDS requires at least US$15 billion extra and probably US$30 billion.

We welcome the recent Bank paper on Supporting Sound Policies with Adequate and Appropriate Financing. The Bank estimates that a near doubling of the additional commitments made at Monterrey could be used immediately, and effectively to make progress on the MDGs, some US$30 billion annually. But they have also made clear that even this is an under-estimate of the resources required, with substantially

more likely to be needed in the short-medium term, with a current estimate of at least US$50 billion annually.

Our vision is clear. No country genuinely committed to economic development, poverty reduction and to the genuine good governance standards should be denied the chance to make progress because of lack of investment. The scale of resources required to meet this challenge cannot be met by either poor countries or by traditional aid. We need new means to deliver higher levels of support to finance health, but also education and anti poverty programs.

Hence, the proposal for an International Finance Facility. On the basis of long-term, binding donor commitments from the richest countries, some of which have already been made, the facility would leverage in additional money from the international capital markets to raise the amount of development aid for the years to 2015 from US$50 billion a year to US$100 billion per year.

The facility would provide a temporary framework seeking to raise additional funds for development in the years leading up to 2015. In providing an immediate, critical mass of predictable, untied and effective aid, predominantly in grant form, the facility would allow the poorest countries to invest in their priorities, and would provide the catalyst for growth-driving private investment. Further, this virtuous circle of investment for future success, as opposed to compensation for past failures, is fundamental to delivering sustainable debt relief; and to enable developing countries to build the economic capacity necessary to benefit from the trade reform critical to future world economic development and stability.

Just as the richest countries must fulfill their moral and political responsibility, developing countries must demonstrate a commitment to poverty reduction strategies, addressing political and economic stability and creating an enabling environment for human, physical and social investment. Anticorruption and pro stability policies must go hand in hand with country-owned poverty reduction strategies.

Building on the valuable discussions we have had so far in the international community, we call on the IMF and the World Bank to carry out further work on the case for more aid, aid effectiveness and absorption issues, as well as on the details of the facility. It is also important to widen and deepen our discussions, and we will want to consult closely with developing and emerging market countries over the coming months. The IMFC should return to this issue in the light of this further work.

Conclusion

So here in Dubai, we call for the whole international community to confront the global war against poverty. This is a window of opportunity when the richest countries must redeem their promises to the poorest

countries and work together to build a virtuous circle of debt relief, poverty reduction, trade, and economic development.

UNITED STATES: JOHN W. SNOW

Governor of the Bank and the Fund

To Sheikh Maktoum bin Rashid al Maktoum, emir of Dubai, and the people of the Emirate of Dubai, I want to express my heartfelt appreciation for your wonderful hospitality.

All our nations, today, have achieved a level of interdependence. Economic performance and financial flows in each of our economies affects all of our economies. This connection reinforces our mutual imperative for economic growth.

In the United States, President Bush has taken significant steps to accelerate economic growth. The president's Jobs and Growth Plan, in particular, has made a real difference. A recent *Wall Street Journal* survey of economists now predicts growth of 4.7 percent in the second half of this year. This month, President Bush unveiled a six-point plan for the economy to further strengthen the recovery.

Other countries have also moved to stimulate growth. We need to work together to build on this progress. And we believe strongly that progress is best achieved in a system incorporating the principles of free trade, free capital flows, and market-based exchange rates among the major economies.

Together, developing and industrialized countries alike should take advantage of the opportunities offered by free trade. The United States commends the willingness of the International Monetary Fund (IMF) and the World Bank to support developing countries with adjustment needs related to trade liberalization. This was an important message to World Trade Organization members at Cancun, despite the impasse.

The fact is, emerging markets are enjoying improved circumstances today. Borrowing costs have fallen; crises are less numerous and less severe; and more capital is flowing to these economies.

Not coincidentally, we have been making great progress in strengthening the international financial system. Collective-action clauses in sovereign debt are now the market standard. The official community has set clear limits on its resources, limiting contagion. Crisis prevention has improved as well.

We can and should go further. We need an IMF that is at the cutting edge in its analysis, resolute in its advice, and forceful in its support for strong economic policies.

The IMF should ensure that its analysis of member economies is thorough and rigorous. This means addressing the issue of currency mismatches. The IMF also needs to focus its lending where it can

achieve results—results that will reduce reliance on IMF resources. Moreover, greater transparency in IMF procedures and public disclosure of IMF documents will help the markets and the public at large to understand and support reforms.

Official assistance to developing countries should have the objective of raising productivity growth. Fast-growing economies create jobs and opportunities for their entire populations, far more than any external aid program can create.

President Bush's Millennium Challenge Account ties assistance directly to the performance of recipient countries to make a real difference for their populations. The World Bank, too, is increasing its use of grants, focusing on results, and helping countries foster a vibrant private sector. I want to specifically recognize the International Finance Corporation and International Development Association initiatives to expand small-business access to credit in Africa. I commend the Bank for a good start. Nonetheless, there is more to be done.

I call on the Bank to integrate the principles of rewarding performance and delivering results throughout its operations. We should fully disclose the performance rating system used to allocate resources to the poorest countries. We should conduct an external performance audit of the thirteenth replenishment of IDA (IDA-13) results commitment, to which the United States has tied its incentive contribution. We should further increase grant financing in the next replenishment of IDA, and the IMF should consider transforming its financial assistance to low-income countries from loans to grants.

I'd like to conclude by acknowledging our progress in fighting terrorist financing and in rebuilding the infrastructure and economies of Afghanistan and Iraq.

We have made important progress in protecting our citizens from terrorism by restricting terrorist financing and money laundering. I praise the World Bank, the IMF, and Financial Action Task Force for their ongoing contributions and look forward to a continuation of their work. In addition to denying terrorists access to the formal financial networks, we must also ensure that informal sectors are not havens for terrorist funds.

With regard to Iraq, the task of reconstruction and recovery is enormous. Substantial work remains before private-sector-led growth can bring greater opportunity to the Iraqi people. I am looking forward to next month's meeting in Madrid, where I hope to see the international community demonstrate its sustained commitment to Iraq.

Finally, I have just come from a trip to Kabul. Reconstruction is moving apace. To ensure success, however, the Afghan government needs the full support of the international community. The United States is doubling its commitment to Afghanistan over the next year.

VENEZUELA: JORGE GIORDANI

Governor of the Bank

Development today, to those who are neediest, means empowerment, and underdevelopment cannot be eliminated unless international organizations radically and profoundly alter their thinking.

The world order established following the second World War, now more than fifty years in the making, must be substantially overhauled so that the poorest members of society can benefit from what we call globalization. Recent world summits, including the one just concluded in Cancun, Mexico, demonstrate the need to find other solutions. Contradictory talk of trade liberalization and agricultural subsidies ultimately will get us nowhere, and their proponents must begin—frankly and transparently—to make the adjustments required to establish new ties between developed countries and underdeveloped countries. It is absolutely essential that the latter participate and receive an adequate hearing if we are to forge agreements that are just and beneficial to all.

Underdevelopment and poverty are two sides of the same coin. Underdevelopment results when the productive structure of society cannot adequately resolve the urgent problems of the majority of the population. Poverty is the most humiliating manifestation of the history of mankind, just barely past the dawn of the new millennium.

What will be done for the millions upon millions of human beings who are being pushed aside as technological advances astound even the most distracted observers?

This situation is a challenge to the community of nations, and to this meeting in particular, which we hope will continue to prove meaningful despite the judgments of the skeptics, who repeatedly view summit after summit with astonishment and disbelief. Indeed, we must have the audacity to acknowledge realities that reason and mankind cannot accept, and to confront the relentless waste of countless lives.

The challenges we face must spur us to find new alternatives, and we *will* find them if our quest for justice is sincere: we must recognize the substantive rights of women, acknowledge that human activity threatens to destroy the environment, acknowledge the rights of nation-states in the throes of global crisis, and confront the need to attack the problem of structural unemployment throughout the world. We cannot accept that we are doomed to fail. The World Bank and the International Monetary Fund must therefore take stock of their situation, their shortcomings, and their mistakes. The current global structural crisis will never end unless we recognize the need for a major shift in power at the global level. As citizens of a free and sovereign world, we must therefore create room for innovative, creative, and bold solutions. That quest is part of our commitment to life, thought, and action.

New hopes are blossoming now in Latin America and the Caribbean, and they must be very carefully nurtured if the manifest poverty and longstanding frustration of our people are truly to be addressed, and not merely observed. It is time to act. The goals for 2015, 2030, and 2045, and for decades beyond, cannot remain mere high ideals. This is also a task the World Bank must undertake if it is to survive, and the subject must remain permanently on the Development Committee's agenda, and it must be addressed. There is more than one solution, and we must also reject the idea that there is no alternative. The world's people are waging a relentless struggle for dignity, respect, and sovereignty.

A new millennium in the history of mankind has only just begun. It is time for us to act resolutely to create a more equitable and more just world characterized by genuine and effective coexistence. We are convinced that we must devote all our energies and efforts to achieve this goal, and we will be guided by this objective.

VIETNAM: LE DUC THUY

Governor of the Fund

On behalf of the delegation of the Socialist Republic of Vietnam, I would like to express our sincere appreciation to the management of the International Monetary Fund (IMF) and the World Bank Group, the organizers, and especially the government and people of the United Arab Emirates for their excellent arrangements for the member countries to attend these meetings of the Fund and the Bank in Dubai.

Regional and global economies have experienced numerous difficulties resulting from political instability in a number of regions, increases in oil price at the end of 2002 and early 2003, and the impacts of SARS. In the short run, the global economy may face many major challenges, such as an imbalance in the global balance of payment, volatility in stock markets, and (in particular) continuing instability in some areas in the Middle East. However, it is good to note that in recent months the world economy has showed signs of recovery and that it is expected to continue to grow at the rate of 4 percent in 2004. Given the recent overall picture of the global economy, the emerging Asian economies remain shining spots with an expected growth rate of 6 percent in 2003.

So far, the IMF and the World Bank have made a number of significant efforts, notably the IMF's effort to enhance crisis prevention and resolution, and the World Bank's effort to support sound policies with adequate and appropriate financing and to recommend specific solutions to enhance the voice and participation of developing and transition countries. It is notable that the Independent Evaluation Office was established in the Fund to help the Fund better understand the member

countries and to help member countries enhance their ownership. We hope that the office will play an important role in promoting dialogues between the Fund and member countries—dialogues that truly reflect the voice of member countries and that are needed to align the Fund's assistance and associated conditions with the economic, cultural, political, and legal conditions of each beneficiary country.

Among the developing countries in Asia, Vietnam remains a country recording sustainable and high economic growth. Its gross domestic product (GDP) growth rate was 7.04 percent in 2002 and is expected to be 7.1 percent in 2003. Prudent and flexible monetary policy not only helps keep the macro economy stable but also accelerates economic development. The inflation rate was controlled at 4 percent per annum in 2002, and the same level is expected in 2003. The industrial sector continues to enjoy a high growth rate, thus creating favorable conditions for sustainable economic growth. Other real sectors such as agriculture, forestry, and fishery have experienced structural shifts and reached a relatively high growth rate. These achievements not only help the country meet the demand of domestic consumption but also boost exports. As a result of high economic growth, budgetary revenues in 2002 and early 2003 substantially improved, sustaining budgetary expenditures, especially for poverty reduction, health, and education, for which targets have been met.

To achieve socioeconomic targets for 2003—namely, a GDP growth rate of 7 to 7.5 percent—total export and import value must increase by 7.5 to 8 percent, maximum CPI must be 5 percent, 1.5 million jobs must be created, and the poverty rate must be reduced to 12.5 percent. The government of Vietnam continues to make its best effort to maintain economic growth at a high and sustainable rate; mobilize and fully utilize all development resources; enhance competitiveness of enterprises; continue reform of state-owned enterprises and banking sectors (along with promoting development of private and small and medium-size enterprise sectors); effectively implement commitments and roadmaps for international economic integration (particularly in preparing adequate conditions for accession to the World Trade Organization); further develop and improve the quality of education, health, and training; and accelerate poverty reduction.

Significant contributions to our encouraging achievements have been made by the Fund, the Bank, and bilateral donors through the Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Support Credit (PRSC) programs and in the form of financing for key development projects in socioeconomic infrastructure and poverty reduction. The government highly appreciates the approval of the Bank for the PRSC II for Vietnam. With respect to the PRGF program, we continue to pursue the targets and conditions initially agreed

on by the government of Vietnam and the IMF, and we believe that the management of the Fund continues to provide us with valuable support.

I would like, on behalf of the government and the people of the Socialist Republic of Vietnam, to express our sincere thanks not only to the Fund and the Bank but also to the entire international financial community for their continuous active support and assistance to Vietnam.

CONCLUDING REMARKS BY JAMES D. WOLFENSOHN PRESIDENT OF THE WORLD BANK GROUP

May I start first by thanking you, Mr. Chairman, for your admirable chairmanship and the efficiency which one expects from a Swiss chairman in running these meetings. We've gone through very well, and I appreciate very much your contribution.

I certainly think these meetings have been a very important milestone in the fight against poverty, and I think we have managed, with the contributions of the Managing Director, and, to a limited extent, myself, and in particular the contributions of the Governors, to focus in on key issues. I think we started with the question of growth and the question of economics which are so critical and had excellent reviews of that in the IMFC meetings and then a further review and an adaptation at the Development Committee meetings. And I think that there was a reaffirmation by everybody that the issue of development and that the issue of poverty is central to the prospects of peace on our planet.

We started, of course, with the Millennium Development Goals and the agreements that had been reached in Monterrey and Johannesburg, and what I was impressed by was the real agreement on the part of everybody that development is a partnership between developed and developing countries and that the basis of this partnership, the basis of the contract, has clearly been established and is understood. This is a real step forward in terms of integrating the U.N. resolutions with our own work.

There was also the sense of urgency in dealing with the questions of development and the issue of poverty. I got the impression that both sides of the planet, the rich and the poor, have come to recognize that they need to fulfill the obligations that were articulated at the time of Monterrey and Johannesburg.

It became clear that many countries, to achieve the Millennium Development Goals, have both to fulfill their own obligations, but that if they do that the current levels of aid and assistance are not sufficient to allow the goals to be achieved. While this is a delicate subject and a difficult one, particularly when we're talking about a $16 billion increment in the next several years, it was taken on board by the developed countries that one needs to revisit the three questions that are all completely interrelated: the question of trade; the question of aid; and the question of debt relief. These are three issues which are, in a curious way, the same issue. It is the issue of transference of resources, the issue of interdependence between countries.

There was good acceptance this time of the agreements that were reached in Rome to push forward on the matters of coordination and simplifying procedures within the development field. There is now a

very conscious effort, different from the level that we've had previously, that Ministers of Finance and Ministers of Development now realize that it's in all our interest to come together in pursuit of the Rome agenda.

It was clear that many regarded the meetings in Cancun as a setback. Setback or not, it was an attempt to look at the balance of power in these negotiations. Most importantly, a sense that we should return to a multilateral and rule-based system as soon as possible and get the negotiations going again. A big disaster would be to move towards bilateralism and protectionism as a result of this negotiating position. I came away encouraged that in all the meetings, talking to many of the participants, it sounded to me as though there was a very strong desire to get back to a multilateral negotiation.

On the question of voice in our institutions, and certainly speaking for my own and my friend Horst Kohler—I've no doubt we'll talk about the Fund in a minute—I think there was general recognition that we've taken substantial steps in terms of trying to build capacity in offices with it. The capacity issue goes well beyond the issue of the number of people that are residing in Washington at any time, or the number of people that we are seeking to have for a few months to build up their experience.

The issue of capacity, I think, emerged very centrally. Then, as the Governor speaking on behalf of Africa just said, there seems now to be a general agreement that finally, finally we will get on to the question of capacity building in Africa in a serious way. Ever since I've been around, which is eight years, we've been talking about capacity building. We have made some steps, but unless this is really grasped in the most effective and sensitive way, I think there's not a lot of hope for us building capacity in the way that so many people would want.

And on the question of voting, we're in the hands, at least in the Development Committee, of our chair Trevor Manuel, because this is an issue for our shareholders, and Chairman Manuel, I think, is keen to give this a push forward.

So as we go out of here, I come away with a feeling that we need to follow up on the question of the levels of aid, and we've been asked to review with our colleagues in the Fund the Brown proposal for the IFF and other alternative pursuits to raise funding. We're working further on the question of the agenda from Rome, and there we're working closely also with our colleagues in the DAC. We're looking at the issue of scaling up, and there will a meeting next May in Shanghai, which I think has created quite a lot of interest as we move into the question of how we can take good projects, do them in scale and manage them over time.

I think everybody agreed that we need to look at the particulars of the Millennium Development Goals and make sure that on discrete programs such as the Education for All initiative we don't get blocked by lack of contribution. The Infrastructure Action Plan that we are addressing is important, and I think people seem to be reassured that the IFC and MIGA and the Bank contributions were useful and, additionally, that the pursuit of funding for the World Bank—for the World Panel on Water was something that we should pursue.

Then, finally, Mr. Chairman, I would simply like to thank very warmly the staff of the IMF and the World Bank who have worked so diligently in relation to these meetings, as well as the team from Dubai 2003. They have done a magnificent job. And once again, I would like to say that I feel very grateful to our hosts from the United Arab Emirates for the remarkable job that they did in allowing us to have a successful meeting. I think the meeting has not only been a success for us as participants, but I very much hope that it has caused the world to take a different view of this region as being much more than a region of trouble but a region which has hope and great potential.

CONCLUDING REMARKS BY THE CHAIRMAN THE HONORABLE KASPAR VILLIGER

My fellow governors, once again we come to the end of our annual deliberations on issues that are having and will continue to have a profound impact on the lives of those we represent. Before we go our separate ways, let us take a few moments to review some of the many useful points that have been raised. Although a number of important issues were discussed over the last few days, several of them stood out and should be reiterated. They are related to the global economic outlook, surveillance, trade, the Millennium Development Goals (MDGs), and the Poverty Reduction Strategy process.

First, we expressed our optimism that the global economy appears to be recovering. However, we underscored that the recovery remains fragile and that uncertainties remain. Policymakers must continue to implement sound polices if the recovery is to take firm hold and confidence in the global economy is to be restored. It is our shared view that each country should meet its responsibilities to ensure higher growth. In this regard, we noted the importance of reducing fiscal imbalances and pursuing structural reforms in a more vigorous manner.

Second, we emphasized the importance of strengthened and effective Fund surveillance to strengthen the resilience of the international financial system and promote sustainable growth. We identified a number of key issues that could improve the quality and effectiveness of surveillance, including looking more closely at progress on structural reforms and on the sustainability of medium-term frameworks, reducing vulnerabilities and improving debt sustainability analysis, and encouraging policy measures to reduce global imbalances. We also further underscored the importance of increased transparency and greater candor in the IMF's advice to its members.

Third, on trade, we emphasized the role greater trade liberalization can play in raising global growth and reducing poverty. However, we regretted the slow progress in reaching a conclusion to the Doha Round, particularly the recent breakdown of talks at Cancún. We stressed the importance of greater flexibility and political will on all sides to get the round back on track as soon as possible.

Fourth, we noted that progress toward achieving the Millennium Development Goals by 2015 needs to be accelerated. As discussed at Monterrey, this daunting task requires a well-balanced combination of good policies on the part of developing countries as well as increased resources from developed nations to finance growth, development, and poverty reduction. In this context, many of us stressed the importance of doing more to enhance the voice and participation of developing

and transition countries in the decision-making of the Bretton Woods Institutions.

Fifth, and closely related to the MDGs, is the issue of the Poverty Reduction Strategy Paper (PRSP) process and the Heavily Indebted Poor Countries (HIPC) Initiative. Many of us welcomed the progress that has been made in making the PRSP process an effective vehicle for fighting poverty. However, there is still much room for improvement. Among other things, we suggested that poverty reduction strategies should include trade-related priorities and must be integrated in policy formulation and budget planning processes to be effective. We also said that it is important to monitor how the developing countries and the donor community are carrying out their respective roles in the implementation of the PRSP process.

More generally, we encouraged the World Bank and the Fund to collaborate more closely. This collaboration is already working well in many areas, such as in their work on post-conflict countries, providing valuable technical assistance, and their efforts to combat the threats posed by money laundering and the financing of terrorism. We also commended the World Bank for its Infrastructure Action Plan.

All of the issues that we have raised over the last few days, not only the ones that I have just mentioned, are important. They cannot and should not be ignored. We have developed various strategies over the past few years at Johannesburg, Monterrey, and Doha. What is left now is to implement them in a bold manner if we are to achieve the MDGs and successfully defeat what is probably our oldest and most difficult challenge, a significant reduction in poverty. Meeting the hopes that we have raised and delivering on our promises will require a concerted effort on all parts, developing, transition, and developed countries alike. Each of us is like a railroad car of a train trying to get to the top of a mountain. But, none of us can do it alone. Each of us, no matter how large or small, needs to act as a locomotive so that collectively we can generate the power necessary to reach the top. I call on each of you to exert the influence that you have in your capitals to encourage the cooperation and partnership that is so necessary.

I must thank you for your support during my tenure as chairman of these meetings. I would also like to pay tribute to the leadership demonstrated by Mr. Wolfensohn and Mr. Köhler in positioning the Bank and the Fund to continue playing crucial roles in promoting macroeconomic stability and sustainable development, including in post-conflict countries, such as Iraq and Afghanistan. We also appreciate the commitment and the dedication of the staffs of our two institutions in carrying out their vital work.

We express our deepest appreciation to Mr. Ofosu-Amaah and Mr. Anjaria, as well as to the staff of the Joint Secretariat, particularly

Ms. Patricia Davies, for the excellent arrangements for these meetings. To the staff that was assigned to me in the Office of the Chairman, I say "thank you" for your valuable assistance.

On behalf of all of us, I express our sincere gratitude to the Dubai authorities and the government of the United Arab Emirates for hosting our meetings in this vibrant city. In this regard, we must acknowledge the tireless efforts of the planning and organizing committee, Dubai 2003, for the excellent job it has done. We will not soon forget the warm hospitality and friendly reception that we received from everyone in Dubai.

I would like to congratulate the governor of Singapore, who succeeds me as chairman of the Boards of Governors. I also thank him for the kind words he has just extended to me.

I wish you safe travels home, and I look forward to seeing you in Washington, D.C. next year.

SINGAPORE: LIM HNG KIANG

Governor of the Bank

Singapore is honored to accept the chairmanship of the Boards of Governors of the World Bank Group and the International Monetary Fund for the coming year. Singapore's chairmanship underscores our commitment to the critical role of the Bretton Woods Institutions in promoting a sound international financial system and reducing poverty worldwide.

Fellow governors, I am sure you will join me in thanking the Honorable Kaspar Villiger for his skillful and efficient conduct of this year's meetings.

Our discussions this year have touched on a number of important issues. The global economy seems to be in the nascent stages of a recovery. But we must continue to pursue sound policies to ensure that this recovery is sustained. And while the macroeconomic outlook has brightened, several important challenges remain. We must intensify our efforts to implement our Monterrey commitments, make meaningful progress toward meeting the Millennium Development Goals, and give new impetus to take forward the Doha trade round.

I would like to take this opportunity to thank President Wolfensohn and Managing Director Köhler and their dedicated staff for carrying out their work in such an effective and efficient manner. I would also like to convey our appreciation to our hosts—the government and people of the United Arab Emirates and Dubai—for their warm hospitality and excellent organization. The planning and execution for the Dubai meetings will serve as a model for us in Singapore, which as you know has the honor of hosting the Annual Meetings in 2006.

I look forward to seeing all of you next year in Washington, D.C.

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS[1,2,3]

Tuesday September 23	10:00 a.m.	Opening Ceremonies Address from the Chair Annual Address by President, World Bank Group Annual Address by Managing Director, International Monetary Fund
	3:00 p.m.	Annual Discussion
Wednesday September 24	9:30 a.m.	Annual Discussion
	3:00 p.m.	Annual Discussion[4]
Following the conclusion of the Annual Discussion		Procedures Committees Reports Comments by Heads of Organizations Adjournment

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[1] *The Meetings were held in the Dubai International Convention Centre (DICC) and all sessions were joint sessions.*

[2] *The International Monetary and Financial Committee and Development Committee met on Sunday, September 21, and Monday, September 22, respectively.*

[3] *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)

[4] *The 2003 Annual Meetings were adjourned at the conclusion of Wednesday's morning session; no afternoon session was held.*

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS[1]

ADMISSION

1. Sessions of the Boards of Governors of the World Bank Group and the International Monetary Fund 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 President of the World Bank Group, the Managing Director of the International Monetary Fund, 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 President of the World Bank Group and the Managing Director of the International Monetary Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

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[1] *Approved on March 13, 2003 pursuant to the By-Laws, IBRD Section 5(d), IFC Section 4(d) and IDA Section 1(a).*

AGENDA

IBRD[1]

Annual Report
Financial Statements and Annual Audit
Allocation of FY2003 Net Income
Administrative Budget for FY2004
Annual Report of the Development Committee
Forthcoming Annual Meetings of Boards of Governors—Change of 2004 Annual Meetings Dates
Selection of the Members of the Joint Procedures Committee and its Officers for 2003–2004

IFC[1]

Annual Report
Financial Statements and Annual Audit
Administrative Budget for FY2004
Membership of Bhutan

IDA[1]

Annual Report
Financial Statements and Annual Audit
Administrative Budget for FY2004

MIGA[2]

Annual Report
Financial Statements and Annual Audit
Selection of the Members of the MIGA Procedures Committee and its Officers for 2003–2004

A meeting of the Joint Procedures Committee was held on Monday, September 22, 2003, at 5:00 p.m. followed by a meeting of the MIGA Procedures Committee.

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[1] *Approved on September 4, 2003 pursuant to the By-Laws, IBRD Section 5(a), and 5(b), IFC Section 4(a), and 4(b), IDA Section 1(a).*
[2] *Approved on September 4, 2003 pursuant to Section 4(a) of the MIGA By-Laws.*

JOINT PROCEDURES COMMITTEE

Chairman	Switzerland
Vice Chairmen	Chad
	Thailand
Reporting Member	Pakistan

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Saudi Arabia
Swaziland
Switzerland
Thailand
United Kingdom
United States
Uruguay
Venezuela

REPORT OF THE
JOINT PROCEDURES COMMITTEE
REPORT I

September 22, 2003

At the meeting of the Joint Procedures Committee held on September 22, 2003, items of business on the agendas 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. *2003 Annual Report*

The Committee noted that the 2003 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audits, and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 2003 Bank and IDA Annual Report, together with the Report dated June 26, 2003.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions. . . .[1]

3. *Allocation of Net Income of the Bank*

The Committee considered the Report of the Executive Directors dated July 31, 2003 on the Allocation of FY03 Net Income. . . .[2]

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution. . . .[3]

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[1] *See page 217, 222*
[2] *See page 229*
[3] *See page 217*

The Committee submits the following report and recommendations on IFC business:

1. *2003 Annual Report*

The Committee noted that the 2003 Annual Report and the activities of IFC had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audit, and Administrative Budget*

The Committee considered the Financial Statements and the Accountants' Report contained in the 2003 Annual Report, and the Administrative Budget attached to the Report dated June 25, 2003.

The Committee recommends that the Board of Governors of IFC adopt the draft resolution. . . .[1]

3. *Membership of Bhutan*

The Committee considered the Report of the Board of Directors dated August 27, 2003 concerning Membership of Bhutan in IFC.

The Committee recommends that the Board of Governors adopt the draft resolution. . . .[2]

Approved:

/s/ Kaspar Villiger	/s/ Nawid Ahsan
Switzerland—Chairman	Pakistan—Reporting Member

(This report was approved and its recommendations were adopted by the Boards of Governors on September 24, 2003)

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[1] *See page 219*

[2] *See page 219*

REPORT III[1]

September 22, 2003

The Joint Procedures Committee met on September 22, 2003 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) has been presented to the Boards of Governors of the Fund and Bank pursuant to paragraph 5 of Resolutions Nos. 29-9 and 294 of the Fund and Bank, respectively. . . .[2]

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. *Forthcoming Annual Meetings of Boards of Governors—Change of 2004 Annual Meetings Dates*

The Committee considered the Reports of Executive Directors of the Bank and Fund, dated September 2, 2003 and August 28, 2003, respectively, on changing the dates of the 2004 Annual Meetings of the Boards of Governors.

The Committee noted that a letter had been received from the Governor for the United States requesting to be recorded as abstaining on the voting on these Resolutions.

The Committee recommends that the resolutions . . .[3] to the said reports be adopted, with this abstention recorded.

3. *Officers and Joint Procedures Committee for 2003/2004*

The Committee recommends that the Governor for Singapore be Chairman, and that the Governors for Barbados and Greece 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.

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[1] *Report II related to business of the Fund*

[2] *See page 19*

[3] *See page 218*

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: Barbados, Belgium, China, Colombia, Democratic Republic of Congo, France, Gabon, Germany, Greece, Guatemala, Japan, Nigeria, Norway, Papua New Guinea, Paraguay, Saudi Arabia, Singapore, Spain, Ukraine, United Kingdom, United States, Republic of Yemen, and Zambia.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Singapore and the Vice Chairmen shall be the Governors for Barbados and Greece and that the Governor for Nigeria shall serve as Reporting Member.

Approved:

/s/ Kaspar Villiger	/s/ Nawid Ahsan
Switzerland—Chairman	Pakistan—Reporting Member

(This report was approved and its recommendations were adopted by the Boards of Governors on September 24, 2003)

MIGA PROCEDURES COMMITTEE

Chairman	Switzerland
Vice Chairmen	Chad
	Thailand
Reporting Member	Pakistan

MEMBERS

Benin
Brazil
Cambodia
Chad
Cyprus
Denmark
France
Germany
India
Japan
Luxembourg
Malawi
Pakistan
Portugal
St. Kitts and Nevis
Saudi Arabia
Swaziland
Switzerland
Thailand
United Kingdom
United States
Uruguay
Venezuela

REPORT OF THE MIGA PROCEDURES COMMITTEE
REPORT I

September 22, 2003

At the meeting of the MIGA Procedures Committee held on September 22, 2003, 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. *2003 Annual Report*

The Committee noted that the 2003 Annual Report and the activities of MIGA had been discussed at this Annual Meeting.

2. *Financial Statements and Annual Audit*

The Committee considered the Financial Statements and Accountants' Report contained in the 2003 Annual Report.

The Committee recommends that the Council of Governors adopt the draft resolution. . . .[1]

3. *Officers and Procedures Committee for 2003/2004*

The Committee recommends that the Governor for Singapore be Chairman and the Governors for Barbados and Greece 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 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: Barbados, Belgium, China, Colombia, Democratic Republic of Congo, France, Gabon, Germany, Greece, Guatemala, Japan, Nigeria, Norway, Papua New Guinea, Paraguay, Saudi Arabia, Singapore, Spain, Ukraine, United Kingdom, United States, Republic of Yemen, and Zambia.

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[1] *See page 225.*

It is recommended that the Chairman of the Procedures Committee shall be the Governor for Singapore and the Vice Chairmen shall be the Governors for Barbados and Greece and that the Governor for Nigeria shall serve as Reporting Member.

Approved

/s/ Kaspar Villiger	/s/ Nawid Ahsan
Switzerland—Chairman	Pakistan—Reporting Member

(This report was approved and its recommendations were adopted by the Boards of Governors on September 24, 2003)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK BETWEEN THE 2002 AND 2003 ANNUAL MEETINGS

Resolution No. 550

First Amendment to the Agreement for the Establishment of the Joint Vienna Institute

RESOLVED:

THAT the Board of Governors hereby approves the First Amendment to the Agreement for the Establishment of the Joint Vienna Institute between the Bank and other international organizations, the text of which is set out in the Attachment to the Report of the Executive Directors dated January 22, 2003.

(Adopted March 6, 2003)

Resolution No. 551

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 2003, the remuneration of the Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be paid in the form of salary without a separate supplemental allowance, and such salary shall be paid at the annual rate of $188,980 per year for Executive Directors and $163,470 per year for their Alternates.

(Adopted August 8, 2003)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK AT THE 2003 ANNUAL MEETING

Resolution No. 552

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 2003 Annual Report, as fulfilling the requirements of Article V, Section 13, of the Articles of Agreement and of Section 18 of the By-Laws of the Bank.

(Adopted September 24, 2003)

Resolution No. 553

Allocation of FY03 Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated July 31, 2003 on "Allocation of FY03 Net Income" is hereby noted with approval;

2. THAT the addition to the General Reserve of the Bank of $2,410 million, plus or minus any rounding amount less than $1 million, and the reduction to the pension reserve of $29 million for the reasons given in the Report of the Executive Directors, are hereby noted with approval;

3. THAT the Bank transfer to the International Development Association, by way of a grant out of the FY03 net income of the Bank, $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 made at such time and manner as decided by the Executive Directors;

4. THAT the Bank transfer to the HIPC Debt Initiative Trust Fund, by way of immediate grant out of the Bank's net income, $240 million; and

5. THAT the Bank retain $100 million as surplus.

(Adopted September 24, 2003)

Resolution No. 554

Forthcoming Annual Meetings of the Boards of Governors
Change of 2004 Annual Meetings Dates

RESOLVED:

THAT the 2004 Annual Meetings shall be convened in Washington, D.C. beginning on Monday, October 4, 2004, and that Resolution No. 546 shall be amended accordingly.

(Adopted September 24, 2003)

Resolution No. 555

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the World Bank Group and of the International Monetary Fund express their sincere appreciation to the Government and people of the United Arab Emirates and to the Administration and people of the Emirate of Dubai for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Dubai International Convention Centre which were made available for the meetings; and

THAT they express their particular appreciation to the Governors and Alternate Governors for the United Arab Emirates and to their associates for the many contributions which they have made toward ensuring the success of the 2003 Annual Meetings.

(Adopted September 24, 2003)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IFC AT THE 2003 ANNUAL MEETING

Resolution No. 237

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Corporation consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 2003 Annual Report and the Administrative Budget attached to the Report dated June 25, 2003 as fulfilling the requirements of Article IV, Section 11, of the Articles of Agreement and of Section 16 of the By-Laws of the Corporation.

(Adopted September 24, 2003)

Resolution No. 238

Membership of Bhutan

WHEREAS, the Royal Government of Bhutan has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Royal Government of Bhutan, has made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Bhutan shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this Resolution:
   (a) "Corporation" means International Finance Corporation.
   (b) "Articles" means the Articles of Agreement of the Corporation.

(c) "Dollars" or "$" means dollars in currency of the United States of America.

2. *Subscription:* By accepting membership in the Corporation, Bhutan shall subscribe to 720 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, Bhutan shall pay $720,000 to the Corporation representing payment in full for the 720 shares of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Bhutan shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* Bhutan shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this Resolution as of the date when Bhutan shall have complied with the following requirements:
   (a) made the payment called for by paragraph 3 of this Resolution;
   (b) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this Resolution;
   (c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and
   (d) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* Bhutan may fulfill the requirements for membership in the Corporation pursuant to this Resolution until December 31, 2003, or such later date as the Board of Directors may determine.

(Adopted September 24, 2003)

Resolution No. 239

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the World Bank Group and of the International Monetary Fund express their sincere appreciation to the Government and people of the United Arab Emirates and to the Administration and people of the Emirate of Dubai for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Dubai International Convention Centre which were made available for the meetings; and

THAT they express their particular appreciation to the Governors and Alternate Governors for the United Arab Emirates and to their associates for the many contributions which they have made toward ensuring the success of the 2003 Annual Meetings.

(Adopted September 24, 2003)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IDA AT THE 2003 ANNUAL MEETING

Resolution No. 205

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 2003 Annual Report, as fulfilling the requirements of Article VI, Section 11, of the Articles of Agreement and of Section 8 of the By-Laws of the Association.

(Adopted September 24, 2003)

Resolution No. 206

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the World Bank Group and of the International Monetary Fund express their sincere appreciation to the Government and people of the United Arab Emirates and to the Administration and people of the Emirate of Dubai for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Dubai International Convention Centre which were made available for the meetings; and

THAT they express their particular appreciation to the Governors and Alternate Governors for the United Arab Emirates and to their associates for the many contributions which they have made toward ensuring the success of the 2003 Annual Meetings.

(Adopted September 24, 2003)

RESOLUTIONS ADOPTED BY THE COUNCIL OF GOVERNORS OF MIGA BETWEEN THE 2002 AND 2003 ANNUAL MEETINGS

Resolution No. 64

Amendment to Resolution No. 57 of the Council of Governors

WHEREAS, pursuant to Resolution No. 57, entitled "1998 General Capital Increase", adopted on March 29, 1999, the Council of Governors increased the authorized capital of the Multilateral Investment Guarantee Agency ("MIGA") by SDR785,590,000, divided into 78,559 shares (the "1998 GCI") and provided that each eligible country (i.e. countries that signed MIGA's Convention before March 29, 1999) could subscribe up to the number of shares specified in Resolution No. 57 in respect of that country;

WHEREAS, paragraph 3 of Resolution No. 57 established a subscription period of up to March 28, 2002 for the subscription of shares allocated to eligible countries under the 1998 GCI;

WHEREAS, by Resolution No. 61, adopted on May 6, 2002, the Council of Governors extended the subscription period to the 1998 GCI until March 28, 2003;

NOW THEREFORE, the Council of Governors resolves that:

(a) Resolution No. 57 is amended so that eligible countries may, before March 28, 2003, subscribe to the shares allocated to them under the 1998 GCI by depositing an Instrument of Contribution in a form similar to that attached;
(b) countries that deposit an Instrument of Contribution are requested to pay for their GCI shares as soon as possible;
(c) voting power corresponding to the GCI shares shall accrue when payment for such shares is made;
(d) at appropriate intervals, the Board of Directors shall review the status of subscriptions and payments keeping in mind the objective of parity and may, at any time, recommend that the Council of Governors set a deadline for the payment of subscriptions;
(e) GCI shares that have not been subscribed to as prescribed in paragraph (a) shall be used for the purposes of achieving parity of voting power between Category One and Category Two members, or if

parity of voting power has already been achieved, such shares may be allocated, while maintaining parity, to countries that become signatories to MIGA's Convention;

(f) the Management of the Agency shall present to the Board of Directors by March 30, 2004 a proposal to achieve parity of voting power;

(g) until parity of voting power is achieved, any country listed in Schedule A to the Convention which decides to become a member of MIGA shall do so by subscribing, at par, the number of shares set forth in that Schedule and in the manner set forth in the Convention.

(Adopted March 17, 2003)

Resolution No. 65

Amendment to MIGA's By-Laws with Respect to Financial Statements

WHEREAS, pursuant to Resolution No. 1, entitled "Adoption of By-Laws", adopted on June 8, 1988, the Council of Governors adopted the By-Laws of MIGA;

WHEREAS, Section 16 of the By-Laws, entitled "Budget and Audits" states in sub-paragraph (b) that a summary statement of the Agency's financial position and a profit and loss statement showing the results of its operations shall be circulated at appropriate intervals to members;

WHEREAS, in order to make the process of consideration of the financial statements consistent with the practice of the other members of the World Bank Group;

NOW THEREFORE, the Council of Governors resolves that:

Section 16(b) of the MIGA By-Laws is deleted in its entirety and is replaced with the following:

"(b) a summary statement of the Agency's financial position and a profit and loss statement showing the results of its operations shall be submitted to the Council of Governors to be considered by them at their annual meeting; and".

(Adopted April 3, 2003)

RESOLUTIONS ADOPTED BY THE COUNCIL OF GOVERNORS OF MIGA AT THE 2003 ANNUAL MEETING

Resolution No. 66

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 2003 Annual Report, as fulfilling the requirements of Article 29 of the MIGA Convention and of Section 16(b) of the By-Laws of the Agency.

(Adopted September 24, 2003)

Resolution No. 67

Resolution of Appreciation

RESOLVED:

THAT the Boards of Governors of the World Bank Group and of the International Monetary Fund express their sincere appreciation to the Government and people of the United Arab Emirates and to the Administration and people of the Emirate of Dubai for their gracious and warm hospitality during these Annual Meetings;

THAT they express their gratitude for the outstanding facilities at the Dubai International Convention Centre which were made available for the meetings; and

THAT they express their particular appreciation to the Governors and Alternate Governors for the United Arab Emirates and to their associates for the many contributions which they have made toward ensuring the success of the 2003 Annual Meetings.

(Adopted September 24, 2003)

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

January 22, 2003

First Amendment to the Agreement for the Establishment of the Joint Vienna Institute

1. The Joint Vienna Institute (JVI) is an international organization formally established under the Agreement for the Establishment of the Joint Vienna Institute (Charter), which has been entered into by its sponsoring organizations, the Bank for International Settlements (BIS), the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO), and the Bank. The JVI provides training to participants from former centrally planned economies in their transition to market-based systems. It offers a variety of courses in economic and financial management and administration for public officials, training officers and private sector executives from transition countries in Europe and Asia.

2. A memorandum was submitted by the President to the Executive Directors on the JVI in February 1994 (Establishment of the Joint Vienna Institute, R94-24, February 23, 1994). The Board of Governors subsequently approved the Charter between the Bank and other international organizations in April 1994 (Establishment of the Joint Vienna Institute, R94-68, April 27, 1994).

The Joint Vienna Institute: 1992 to 2002

3. The JVI began offering courses in 1992, functioning initially under interim and informal arrangements. It received coordinated support and assistance from its inception from five sponsoring international organizations (BIS, EBRD, IBRD, IMF and OECD) and the Austrian authorities. In 1994, it was formally established as an international organization under the Charter. In 1998 the WTO became the sixth sponsoring international organization.

4. Since its inception in 1992, more than 14,000 participants from transition countries have participated in training offered by the JVI. The training activities have included Introductory Courses in Market Analysis, courses in Applied Economic Policy and a wide-ranging seminar program.

5. The JVI has benefited from substantial support from the sponsoring organizations and other partners. The European Commission has played an important role since the early development of the JVI and has financed, through its TACIS program, the delivery of Introductory Courses for officials from TACIS countries, held at JVI centers in Kiev, Moscow and Tashkent. Generous financial support and cooperation has been provided also by the Austrian authorities, the European Central Bank, and a number of donor countries, including Belgium, the Czech Republic, Germany, Hungary, Italy, the Netherlands, Norway, Poland and Switzerland.

The Future of the Joint Vienna Institute

6. The IMF and the Austrian authorities signed a Memorandum of Understanding (MoU) on the continuation of the JVI on March 13th, 2002. The IMF is committed to using the JVI as its primary location for delivery of learning activities to transition countries in the ECA region. The Austrian authorities agreed to find and upgrade new facilities for the JVI, and plan to increase their contribution to learning activities of the JVI. The IMF and the Austrian authorities have in addition agreed to share the operating costs of the JVI.

7 It is expected that the IMF will continue to deliver 50% or more of the activities at the JVI. Some of the other sponsoring organizations may wish, on the other hand, to further reduce their involvement in the JVI. In the early years of the JVI, the Bank, through the World Bank Institute (then "Economic Development Institute" or "EDI"), was a major partner in the JVI's activities. Since 1997, however, the proportionate role of the Bank has steadily declined.

8 The Executive Board of the JVI (on which the Bank is represented) has proposed that the Charter be amended to reflect, *inter alia,* the implications of changes in partners' roles at the JVI. The proposed amendment to the Charter (First Amendment) is attached to this report as Attachment I, which shows the amendments from the original text of the Charter black-lined. The principal proposed amendments are as follows:
   a. Expand the mandate of the JVI to explicitly include the Baltic and Balkan countries, the members of the Commonwealth of Independent States and Asian transition countries (Article II, paragraph 1);
   b. Provide for two categories of membership in the JVI: "Primary Members" who will, *inter alia,* agree to share responsibility for

the operating costs of the JVI , and "Contributing Members" who will continue to participate in activities at the JVI but will not share responsibility for the operating costs beyond their proportionate use of the JVI (Article IV A);

c. Modify the representation of the members on the Executive Board of JVI to reflect the two categories of membership, with Primary Members appointing two persons and Contributing Members appointing one person to the Executive Board of JVI, and to provide that the Chairman of the Executive Board will be elected from among the representatives of the Primary Members and that the Vice-Chairman of the Executive Board will be elected from among the representatives of the Contributing Members (Article V, paragraphs 2(b)(i) and (c);
d. Modify the provisions for the votes needed for decisions of the Executive Board to reflect the two categories of membership to provide that certain specified decisions will require the approval of all Primary Members and one Contributing Member if there is only one Contributing Member and two Contributing Members if there are two or more Contributing Members (Article V, paragraph 2(f);
e. Remove the limited duration of the Charter (Article XV); and
f. Opening the Charter to accession by the Republic of Austria and providing that, upon accession, Austria will be a Primary Member (Article XVI, paragraph 2).

9. It is expected that the IMF and the Government of Austria will be Primary Members and that most or all of the remaining sponsoring organizations will choose to be Contributing Members. Management has advised the Executive Board of the JVI that the Bank would choose to be a contributing member, subject to approval of the attached First Amendment by the Board of Governors.

10. Article V, Section 2(b)(v) of the Articles of Agreement of the Bank reserves to the Board of Governors the power to "(m)ake arrangements to cooperate with other international organizations (other than informal arrangements of a temporary and administrative character)." Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution. . . .[1]

(This report was approved and the Board of Governors adopted its recommendation on March 6, 2003)

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[1] *See page 216.*

July 31, 2003

Allocation of FY03 Net Income

1. The General Reserve of the Bank as of June 30, 2003 was $19,132 million. As of that date, the surplus of the Bank was $100 million and the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totaled $293 million. The Bank's reported net income for the fiscal year ended June 30, 2003 (FY03) amounted to $5,344 million. The Bank's Operating Income is used as net income for annual net income allocation purposes. For FY03, Operating Income (which is the same as reported net income prior to FY01) was $3,021 million.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to FY03 net income. The Executive Directors have concluded that the interests of the Bank and its members would best be served by the following dispositions of the net income of the Bank:
   (a) the addition of $2,410 million to the General Reserve, plus or minus any rounding amount less than $1 million;
   (b) the pension reserve should be reduced by $29 million, representing the excess of the accounting expense for the SRP and RSBP over the respective contribution amounts, which thereby increases allocable net income correspondingly;
   (c) the transfer to the International Development Association, by way of a grant of $300 million, which amount would be usable to provide financing in the form of grants in addition to loans;
   (d) the transfer to the HIPC Debt Initiative Trust Fund, by way of immediate grant, of $240 million to be used to provide debt relief on debt owed to the International Development Association under the HIPC Debt Initiative framework; and
   (e) the retention as surplus of $100 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 24, 2003)

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[1] *See page 217.*

REPORT OF THE BOARD OF DIRECTORS OF IFC

August 27, 2003

Membership of Bhutan

In accordance with Section 17 of the By-Laws of the International Finance Corporation, the application of the Royal Government of Bhutan for membership in IFC is hereby submitted to the Board of Governors.

Representatives of the Royal Government of Bhutan have been consulted informally regarding the terms and conditions recommended in the draft resolution and they have raised no objection thereto.

Accordingly, the Board of Directors recommends that the Board of Governors adopt the draft resolution . . .[1]

(This report was approved and the Board of Governors adopted its recommendations on September 24, 2003)

[1] *See page 219.*

REPORTS OF THE BOARD OF DIRECTORS OF MIGA

February 7, 2003

Proposed Amendment to Resolution No. 57 of the Council of Governors

1. On March 29, 1999, the Council of Governors of the Multilateral Investment Guarantee Agency (MIGA) adopted Resolution No. 57 entitled "1998 General Capital Increase" (1998 GCI)[1] which increased the authorized capital of MIGA by SDR785,590,000, divided into 78,559 shares each having a par value of SDR 10,000 (equivalent to US$850 million at the fixed rate of SDR1.00 = US$1.082). These 78,559 shares were allocated to 161 countries that were signatories to the Convention establishing MIGA (Convention) as of March 29, 1999. Paragraph 3 of Resolution No. 57 established a subscription period of up to March 28, 2002.

2. At the end of the three year subscription period, only 66.25% of the $850 million had been subscribed to and only 66 of the 161 countries eligible[2] had fully or partially subscribed to the GCI shares allocated to them. In order to give eligible countries more time to subscribe to the GCI shares, on May 6, 2002, the Council of Governors adopted Resolution No. 61 extending the subscription period to the GCI shares until March 28, 2003.

3. MIGA Management has held discussions with members concerning their unsubscribed GCI shares. Several countries have deposited letters of intent[3] stating that they intend to subscribe to the GCI shares allocated to them under the 1998 GCI, but that they are not in a position to complete payment by the termination of the extended subscription period either due to budgetary constraints or their legislative processes. A number of other eligible countries have chosen not to subscribe altogether because they expected that they would not be able to meet the payment deadline. Thus, it appears that many eligible countries will not be able to complete the necessary procedures by March 28, 2003.

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[1] *A copy of Resolution No. 57 of the Council of Governors is attached.*
[2] *Countries that signed MIGA's Convention before March 29, 1999.*
[3] *Hereinafter referred to as "Instrument of Contribution."*

4. During the extension of the subscription period, until January 24, 2003, 15 countries paid fully for the GCI shares allocated to them, 2 countries have paid partially and 83 have not paid at all for the GCI shares allocated to them. As of January 24, 2003, of the 161 countries entitled to subscribe, 78 countries (21 from Category One and 57 from Category Two) have subscribed and paid US$622,723,460. As of date, 83 Category Two countries have not subscribed either fully or partially. All but 2 Category One countries have subscribed and paid in full for the GCI shares allocated to them. These two countries have reiterated their intention to buy all the GCI shares allocated to them and have confirmed their support for the successful completion of MIGA's GCI.

5. Any decision on MIGA's GCI has important repercussions on parity of voting power and membership. Article 39(c)(iii) of the Convention sets the principle of voting power parity between Category One and Category Two members. As a large number of Category Two members (83) have not subscribed or paid for the shares allocated to them, the gap between the voting power of the Category One and Category Two countries could widen substantially.[4]

6. Adopting different procedures for subscription and payment would help to close the gap because it would give eligible Category Two countries that have not been able to subscribe to their allocated GCI shares an opportunity to do so over time.

7. By Resolution No. 55, adopted on May 14, 1998, the Council of Governors, postponed the review and reallocation of MIGA's shares for the purpose of achieving parity of voting power until the expiry of the subscription period to the 1998 GCI. Doing so immediately upon the termination of the subscription period on the basis of the GCI shares which have been subscribed and paid in full would prejudice the admission of new members. It is, therefore, proposed that Management engage in consultations with the shareholders regarding the issue of parity of voting power and make proposals to the Board by March 30, 2004.

8. Resolution No. 57 of the Council of Governors did not make a distinction between subscription and payment. In the booklet entitled, Information on Subscription to Capital Stock under Council of

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[4] *As of January 24, 2003 Category One countries have 101,942 votes and Category Two countries have 86,913 votes.*

Governors Resolution No. 57, dated April, 1999, the Annex to Attachment I, entitled "Instructions for Payment of Subscriptions," sets forth that—"Payment of the cash portion of the subscription increase should be made at anytime within the three year subscription period." In the present circumstances, it is in the interest of MIGA to ensure full participation in its GCI in order to strengthen its capital base and to demonstrate the full support of its shareholders. Therefore, it is proposed that eligible countries that so wish, be allowed to subscribe to the GCI shares by submitting an Instrument of Contribution, in a form similar to the one attached to the proposed Resolution, before March 28, 2003[5]. Countries that have deposited an Instrument of Contribution should pay for their GCI shares as soon as possible. In the absence of an Instrument of Contribution received by MIGA from any eligible country before March 28, 2003, such country will be deemed to have waived such right. Additional voting power corresponding to the subscribed GCI shares will accrue when payment for such shares is made.

9. Accordingly, the Board of Directors recommends that the Council of Governors adopt the resolution . . .[6] amending the subscription process set out in Resolution No. 57, by allowing eligible countries that so wish, to subscribe to the GCI shares allocated to them by submitting an Instrument of Contribution, in a form similar to the one attached to the proposed Resolution, before March 28, 2003. It is proposed that countries that have deposited an Instrument of Contribution pay for their GCI shares as soon as possible. In the absence of an Instrument of Contribution received by MIGA from any eligible country before March 28, 2003, such country will be deemed to have waived such right. Additional voting power corresponding to the subscribed GCI shares will accrue when payment is made. GCI shares that shall not have been subscribed to as prescribed in paragraph (a) of the proposed Resolution shall be used for the purposes of achieving parity of voting power between Category One and Category Two members, or if parity of voting power has already been achieved, such shares may be allocated, while maintaining parity, to countries that become signatories to MIGA's Convention. It is further recommended that the Council of Governors

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[5] *Article 39(f) of the Convention: "The Convention shall issue regulations regarding the making of additional subscriptions under Section (e) of this Article. Such regulations shall prescribe reasonable time limits for the submission by members of requests to make such subscriptions."*

[6] *See page 223.*

require that the Board of Directors review the status of subscriptions and payments of the GCI shares, at appropriate intervals, keeping in mind the objective of voting parity and recommend to the Council of Governors to set a deadline for the payment of subscriptions, if necessary. It is also recommended that by March 30, 2004 the Management of the Agency submit a proposal to achieve parity of voting power and that until parity of voting power has been reached, Schedule A to the Convention remain in force. It is also recommended that the other provisions of Resolution No. 57 remain unchanged.

(This report was approved and the Board of Governors adopted its recommendation on March 17, 2003)

MULTILATERAL INVESTMENT GUARANTEE AGENCY

Resolution No. 57

1998 General Capital Increase

WHEREAS the original authorized capital stock of the Agency amounted to One billion Special Drawing Rights (SDR 1 billion) at a fixed value of 1.082 United States dollars per each SDR;

WHEREAS, in accordance with Article 5(c) of the Convention, the Council of Governors, may at any time, by special majority, increase the capital stock of the Agency;

WHEREAS Article 39(e) of the Convention states:

> In case the capital stock of the Agency is increased pursuant to Section (c) of Article 5, each member which so requests shall be authorized to subscribe a proportion of the increase equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Agency, but no member shall be obligated to subscribe any part of the increased capital.

WHEREAS the Board of Directors has submitted a proposal to the Council of Governors for an increase in the authorized capital of the Agency;

WHEREAS the Board of Directors has proposed regulations for the subscription by members of the additional capital, prescribing in accordance with Article 39(f) "reasonable time limits for the submission by members of requests to make such subscriptions";

NOW THEREFORE the Council of Governors resolves as follows:

1. The authorized capital stock of the Agency shall be increased by SDR 785,590,000, divided into 78,559 shares, each having a par value of SDR 10,000. All payment obligations shall be settled on the basis of the value of the SDR in terms of United States dollars at the rate of exchange of SDR 1 equals US$1.082, as set forth in Article 5(a) of the Convention.

2. The provisions of this Resolution shall become immediately effective when Governors exercising not less than two-thirds of the total

voting power representing not less than 55 percent of the subscribed shares of the capital stock of the Agency shall have voted in favor of this Resolution.

3. The subscription period shall commence on the date of approval of this Resolution and will cease three years thereafter. During this period, each signatory to the Convention listed in the attached Annex, entitled "Allocation, Subscription and Payment of the 1998 General Capital Increase," may subscribe up to the number of shares set forth opposite its name; provided those signatories that have not completed their membership requirements before the end of the subscription period shall not be entitled to subscribe the additional shares of capital stock. Members shall not be required to submit requests to subscribe the shares. It is understood that by making their payment each member has taken all necessary internal legislative steps to authorize its subscription of MIGA's 1998 General Capital Increase.

4. The subscription price shall be at par, and payment of subscriptions shall be made as follows:

   —17.65 percent cash in a "freely usable currency," as defined in Article 3(e) of the Convention; and
   —82.35 percent subject to call by the Agency and payable in a "freely usable currency" when required to meet its obligations.

   The Council of Governors encourages members to make the subscription increase payments in two installments, the first during the first year of the subscription period for 50 percent of the paid-in portion, and the balance during the second year of the subscription period.

5. Each member that subscribes the additional shares shall have one additional subscription vote for each share of the additional capital subscribed. No additional membership votes (apart from the 177 membership votes that each member already has in accordance with Article 39(a) of the Convention) shall be allocated to subscribers of the additional capital.

6. As set forth in Article 39(c) of the Convention, shares that remain unsubscribed at the end of the three-year subscription period shall be utilized towards achieving parity of voting power between Category One and Category Two members.

(Adopted on March 29, 1999)

ALLOCATION, SUBSCRIPTION AND PAYMENT OF THE 1998 GENERAL CAPITAL INCREASE

1. ALLOCATION OF SHARES AND SUBSCRIPTIONS

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
CATEGORY ONE:					
Australia	1,306	13,060,000	14,130,920	2,494,107	11,636,813
Austria	591	5,910,000	6,394,620	1,128,650	5,265,970
Belgium	1,547	15,470,000	16,738,540	2,954,352	13,784,188
Canada	2,260	22,600,000	24,453,200	4,315,990	20,137,210
Denmark	547	5,470,000	5,918,540	1,044,622	4,873,918
Finland	457	4,570,000	4,944,740	872,747	4,071,993
France	3,705	37,050,000	40,088,100	7,075,550	33,012,550
Germany	3,865	38,650,000	41,819,300	7,381,106	34,438,194
Greece	213	2,130,000	2,304,660	406,772	1,897,888
Ireland	281	2,810,000	3,040,420	536,634	2,503,786
Italy	2,150	21,500,000	23,263,000	4,105,920	19,157,080
Japan	3,884	38,840,000	42,024,880	7,417,391	34,607,489
Luxembourg	88	880,000	952,160	168,056	784,104
Netherlands	1,653	16,530,000	17,885,460	3,156,784	14,728,676
Norway	533	5,330,000	5,767,060	1,017,886	4,749,174
Portugal	291	2,910,000	3,148,620	555,731	2,592,889
Spain	980	9,800,000	10,603,600	1,871,535	8,732,065
Sweden	800	8,000,000	8,656,000	1,527,784	7,128,216
Switzerland	1,143	11,430,000	12,367,260	2,182,821	10,184,439
United Kingdom	3,705	37,050,000	40,088,100	7,075,550	33,012,550
United States	15,641	156,410,000	169,235,620	29,870,087	139,365,533
Subtotal:	**45,640**	**456,400,000**	**493,824,800**	**87,160,075**	**406,664,725**
CATEGORY TWO:					
Albania	44	440,000	476,080	84,028	392,052
Algeria	495	4,950,000	5,355,900	945,316	4,410,584
Angola	143	1,430,000	1,547,260	273,091	1,274,169
Argentina	956	9,560,000	10,343,920	1,825,702	8,518,218
Armenia	61	610,000	660,020	116,494	543,526
Azerbaijan	88	880,000	952,160	168,056	784,104
Bahamas, The	76	760,000	822,320	145,139	677,181
Bahrain	59	590,000	638,380	112,674	525,706
Bangladesh	259	2,590,000	2,802,380	494,620	2,307,760
Barbados	52	520,000	562,640	99,306	463,334
Belarus	178	1,780,000	1,925,960	339,932	1,586,028
Belize	38	380,000	411,160	72,570	338,590

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
Benin	47	470,000	508,540	89,757	418,783
Bolivia	95	950,000	1,027,900	181,424	846,476
Bosnia and Herzegovina	61	610,000	660,020	116,494	543,526
Botswana	38	380,000	411,160	72,570	338,590
Brazil	1,127	11,270,000	12,194,140	2,152,266	10,041,874
Bulgaria	278	2,780,000	3,007,960	530,905	2,477,055
Burkina Faso	47	470,000	508,540	89,757	418,783
Burundi	56	560,000	605,920	106,945	498,975
Cambodia	71	710,000	768,220	135,591	632,629
Cameroon	82	820,000	887,240	156,598	730,642
Cape Verde	38	380,000	411,160	72,570	338,590
Chad	46	460,000	497,720	87,848	409,872
Chile	370	3,700,000	4,003,400	706,600	3,296,800
China	2,392	23,920,000	25,881,440	4,568,074	21,313,366
Colombia	333	3,330,000	3,603,060	635,940	2,967,120
Congo, Dem. Rep. of	258	2,580,000	2,791,560	492,710	2,298,850
Congo, Republic of	50	500,000	541,000	95,487	445,513
Costa Rica	89	890,000	962,980	169,966	793,014
Cote d'Ivoire	134	1,340,000	1,449,880	255,904	1,193,976
Croatia	143	1,430,000	1,547,260	273,091	1,274,169
Cyprus	79	790,000	854,780	150,869	703,911
Czech Republic	339	3,390,000	3,667,980	647,398	3,020,582
Dominica	38	380,000	411,160	72,570	338,590
Dominican Republic	112	1,120,000	1,211,840	213,890	997,950
Ecuador	139	1,390,000	1,503,980	265,452	1,238,528
Egypt, Arab Rep. of	350	3,500,000	3,787,000	668,406	3,118,594
El Salvador	93	930,000	1,006,260	177,605	828,655
Equatorial Guinea	38	380,000	411,160	72,570	338,590
Eritrea	38	380,000	411,160	72,570	338,590
Estonia	50	500,000	541,000	95,487	445,513
Ethiopia	53	530,000	573,460	101,216	472,244
Fiji	54	540,000	584,280	103,125	481,155
Gabon	73	730,000	789,860	139,410	650,450
Gambia, The	38	380,000	411,160	72,570	338,590
Georgia	85	850,000	919,700	162,327	757,373
Ghana	187	1,870,000	2,023,340	357,120	1,666,220
Grenada	38	380,000	411,160	72,570	338,590
Guatemala	107	1,070,000	1,157,740	204,341	953,399
Guinea	69	690,000	746,580	131,771	614,809
Guinea-Bissau	38	380,000	411,160	72,570	338,590
Guyana	64	640,000	692,480	122,223	570,257

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
Haiti	57	570,000	616,740	108,855	507,885
Honduras	77	770,000	833,140	147,049	686,091
Hungary	430	4,300,000	4,652,600	821,184	3,831,416
India	2,323	23,230,000	25,134,860	4,436,303	20,698,557
Indonesia	800	8,000,000	8,656,000	1,527,784	7,128,216
Israel	361	3,610,000	3,906,020	689,413	3,216,607
Jamaica	138	1,380,000	1,493,160	263,543	1,229,617
Jordan	74	740,000	800,680	141,320	659,360
Kazakhstan	159	1,590,000	1,720,380	303,647	1,416,733
Kenya	131	1,310,000	1,417,420	250,175	1,167,245
Korea, Republic of	342	3,420,000	3,700,440	653,128	3,047,312
Kuwait	709	7,090,000	7,671,380	1,353,999	6,317,381
Kyrgyz Republic	59	590,000	638,380	112,674	525,706
Latvia	74	740,000	800,680	141,320	659,360
Lebanon	108	1,080,000	1,168,560	206,251	962,309
Lesotho	38	380,000	411,160	72,570	338,590
Libya	418	4,180,000	4,522,760	798,267	3,724,493
Lithuania	81	810,000	876,420	154,688	721,732
Macedonia, FYR of	38	380,000	411,160	72,570	338,590
Madagascar	76	760,000	822,320	145,139	677,181
Malawi	59	590,000	638,380	112,674	525,706
Malaysia	441	4,410,000	4,771,620	842,191	3,929,429
Mali	62	620,000	670,840	118,403	552,437
Malta	57	570,000	616,740	108,855	507,885
Mauritania	48	480,000	519,360	91,667	427,693
Mauritius	66	660,000	714,120	126,042	588,078
Micronesia, Fed. St. of	38	380,000	411,160	72,570	338,590
Moldova	73	730,000	789,860	139,410	650,450
Mongolia	44	440,000	476,080	84,028	392,052
Morocco	265	2,650,000	2,867,300	506,078	2,361,222
Mozambique	74	740,000	800,680	141,320	659,360
Namibia	82	820,000	887,240	156,598	730,642
Nepal	53	530,000	573,460	101,216	472,244
Nicaragua	78	780,000	843,960	148,959	695,001
Niger	47	470,000	508,540	89,757	418,783
Nigeria	643	6,430,000	6,957,260	1,227,956	5,729,304
Oman	72	720,000	779,040	137,501	641,539
Pakistan	503	5,030,000	5,442,460	960,594	4,481,866
Palau	38	380,000	411,160	72,570	338,590
Panama	100	1,000,000	1,082,000	190,973	891,027
Papua New Guinea	73	730,000	789,860	139,410	650,450
Paraguay	61	610,000	660,020	116,494	543,526

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
Peru	284	2,840,000	3,072,880	542,363	2,530,517
Philippines	369	3,690,000	3,992,580	704,690	3,287,890
Poland	582	5,820,000	6,297,240	1,111,463	5,185,777
Qatar	104	1,040,000	1,125,280	198,612	926,668
Romania	423	4,230,000	4,576,860	807,816	3,769,044
Russian Federation	2,391	23,910,000	25,870,620	4,566,164	21,304,456
Rwanda	57	570,000	616,740	108,855	507,885
Samoa	38	380,000	411,160	72,570	338,590
Saudi Arabia	2,391	23,910,000	25,870,620	4,566,164	21,304,456
Senegal	111	1,110,000	1,201,020	211,980	989,040
Seychelles	38	380,000	411,160	72,570	338,590
Sierra Leone	57	570,000	616,740	108,855	507,885
Singapore	118	1,180,000	1,276,760	225,348	1,051,412
Slovak Republic	169	1,690,000	1,828,580	322,744	1,505,836
Slovenia	78	780,000	843,960	148,959	695,001
Solomon Islands	38	380,000	411,160	72,570	338,590
South Africa	719	7,190,000	7,779,580	1,373,096	6,406,484
Sri Lanka	207	2,070,000	2,239,740	395,314	1,844,426
St. Kitts & Nevis	38	380,000	411,160	72,570	338,590
St. Lucia	38	380,000	411,160	72,570	338,590
St. Vincent and the Grenadines	38	380,000	411,160	72,570	338,590
Sudan	157	1,570,000	1,698,740	299,828	1,398,912
Suriname	63	630,000	681,660	120,313	561,347
Swaziland	44	440,000	476,080	84,028	392,052
Syrian Arab Republic	128	1,280,000	1,384,960	244,445	1,140,515
Tajikistan	56	560,000	605,920	106,945	498,975
Tanzania	107	1,070,000	1,157,740	204,341	953,399
Thailand	321	3,210,000	3,473,220	613,023	2,860,197
Togo	59	590,000	638,380	112,674	525,706
Trinidad and Tobago	155	1,550,000	1,677,100	296,008	1,381,092
Tunisia	119	1,190,000	1,287,580	227,258	1,060,322
Turkey	352	3,520,000	3,808,640	672,225	3,136,415
Turkmenistan	50	500,000	541,000	95,487	445,513
Uganda	101	1,010,000	1,092,820	192,883	899,937
Ukraine	582	5,820,000	6,297,240	1,111,463	5,185,777
United Arab Emirates	284	2,840,000	3,072,880	542,363	2,530,517
Uruguay	154	1,540,000	1,666,280	294,098	1,372,182
Uzbekistan	133	1,330,000	1,439,060	253,994	1,185,066
Vanuatu	38	380,000	411,160	72,570	338,590
Venezuela	1,088	10,880,000	11,772,160	2,077,786	9,694,374
Vietnam	168	1,680,000	1,817,760	320,835	1,496,925

COUNTRIES	Number of Additional Shares Allocated	Total Subscription (in SDR)	Total Subscription (in US$)	Freely Usable Currency (in US$)	Callable Capital (in US$)
Yemen, Republic of	118	1,180,000	1,276,760	225,348	1,051,412
Yugoslavia, Fed.Rep.of	176	1,760,000	1,904,320	336,112	1,568,208
Zambia	242	2,420,000	2,618,440	462,155	2,156,285
Zimbabwe	180	1,800,000	1,947,600	343,751	1,603,849
Subtotal:	**32,919**	**329,190,000**	**356,183,580**	**62,866,406**	**293,317,174**
GRAND TOTAL	**78,559**	**785,590,000**	**850,008,380**	**150,026,481**	**699,981,899**

2. INSTRUCTIONS FOR PAYMENT OF SUBSCRIPTIONS

In accordance with the foregoing Resolution of the Council of Governors on the 1998 General Capital Increase, members will pay in 17.65 percent of the shares allocated to them in a "freely usable currency" and remain liable thereafter to a call on part or all of the balance of shares to be paid in a "freely usable currency" when required by the Agency to meet its obligations. It is understood that by making their payment each member has taken all necessary internal legislative steps to authorize its subscription of MIGA's 1998 General Capital Increase.

Payment of the cash portion of the subscription increase should be made anytime within the three-year subscription period. However, it is recommended that members make their subscription increase payments in two installments, the first during the first year of the subscription period for 50 percent of the paid-in portion, and the balance during the second year of the subscription period.

The authorized increase in the capital stock of the Agency shall be 78,559 shares, each having a par value of SDR10,000. All payment obligations shall be settled on the basis of the value of the SDR in terms of United States dollars at the nominal rate of exchange of SDR 1 = US$1.082, as set forth in Article 5(a) of the Convention.

Subscriptions shall be allocated to each eligible member as set forth in Section 1 of this Annex. Payments shall be made in a "freely usable currency," shall be calculated at the market rate of exchange in effect on the date of payment, and shall be deposited in MIGA's account in the following banking institutions:

For Payments in British Pounds Sterling:

Bank of England
London
Account: Multilateral Investment Guarantee Agency (MIGA) Account General

For Payments in Euro:

Deutsche Bundesbank
Frankfurt
Account: Multilateral Investment Guarantee Agency (MIGA) Account General

For Payments in Japanese Yen:

Bank of Japan
Tokyo
Account: Multilateral Investment Guarantee Agency (MIGA) Account General

For Payments in U.S. Dollars:

Federal Reserve Bank
New York, N.Y.
Attention: Foreign Department
Account: Multilateral Investment Guarantee Agency (MIGA) Account General

Communications with MIGA

Members should address general correspondence or questions concerning the 1998 General Capital Increase to MIGA's Corporate Secretary at the following address:

The Corporate Secretary
Multilateral Investment Guarantee Agency
MC11-353
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Telex: MCI 248423 (WORLDBANK)
Fax: (202) 522-1642
(202) 522-1640

Specific questions on methods of payment may be addressed to MIGA's Office of Central Administration at the following address:

Manager, Budgeting and Accounting
Office of Central Administration
Multilateral Investment Guarantee Agency
U12-017
1818 H Street, N.W.
Washington, D.C. 20433

Telex: MCI 248423 (WORLDBANK)
Fax: (202) 522-2660
(202) 522-2620

MULTILATERAL INVESTMENT GUARANTEE AGENCY

1998 General Capital Increase

SUGGESTED FORM OF INSTRUMENT OF CONTRIBUTION

_____(Name of country) has at present _____ shares in the capital stock of the Multilateral Investment Guarantee Agency and hereby intends to subscribe to _____ additional shares allocated to it under the 1998 General Capital Increase. Payment for these shares will be made as soon as possible. _____ (Name of Country) understands that until payment is made, the additional votes corresponding to these GCI shares will not accrue.

Sincerely,

_____
Name:
Title:
For _____(Name of country)

January 8, 2003

Proposal to Amend MIGA's By-Laws With Respect to Financial Statements

1. At present, MIGA's financial statements are approved by the Executive Vice President, on behalf of the President and are circulated to members on the recommendation of the Audit Committee of the Board of Directors. In their report for the fiscal year 2002, the external auditors noted that the other members of the World Bank Group are required to have their financial statements approved by the Group's Executive Directors and considered by the Board of Governors at their annual meeting. Therefore, the external auditors recommended that MIGA adopt a similar process so as to be consistent.

2. Article 29 of MIGA's Convention, entitled "Accounts" states that "The Agency shall circulate to members at appropriate intervals a summary statement of its financial position and a profit and loss statement showing the results of its operations." Following the Convention, the By-Laws of MIGA, adopted on June 8, 1988 states in Section 16(b) that "a summary statement of its financial position and a profit and loss statement showing the results of its operations shall be circulated at appropriate intervals to its members."

3. Section 16 of the By-Laws, entitled "Budget and Audits" also states that the Board of Directors adopt financial regulations that shall govern the financial administration of the Agency. The Financial Regulations, adopted by the Board of Directors on June 22, 1988 addresses the issue of accounts and statements in Section 7(b) where it states that "At appropriate intervals, the President shall also prepare and circulate to members a summary statement of the Agency's financial position and a profit and loss statement showing the results of the Agency's operations."

4. Based on the procedures set out in the By-Laws and the Financial Regulations, the Agency has been circulating its financial statements to the Board of Directors and to the members. Since there is no requirement or mandate to submit the financial statements to the Board of Directors for approval or to the Council of Governors for consideration at its annual meeting, it has not been done to date, although the Annual Report that incorporates the financial statements, is always circulated to the Board of Directors and the Council of Governors.

5. During the meeting held on July 31, 2002, the Audit Committee of the Board requested that MIGA Management look at how its legal framework could be changed to make the process for approval of the financial statements consistent with the practice of the World Bank Group. MIGA Management reviewed the legal framework of the other members of the World Bank Group for this purpose. Article V, Section 13(a) of the Articles of Agreement of the International Bank for Reconstruction and Development ("IBRD") states that "The Bank shall publish an annual report containing an audited statement of its accounts and shall circulate to members at intervals of three months or less a summary report of its financial position and a profit and loss statement showing the results of its operations." Based on the Articles of Agreement, Section 18 of the IBRD By-Laws states that "The Executive Directors shall have an audit of the accounts of the Bank made at least once each year and on the basis of this audit shall submit a statement of its accounts, including a balance sheet and a statement of profit and loss, to the Board of Governors to be considered by them at their annual meeting." Similarly, Article IV, Section 11(a) of the Articles of Agreement of the International Finance Corporation ("IFC") states that "The Corporation shall publish an annual report containing an audited statement of its accounts and shall circulate to members at appropriate intervals a summary statement of its financial position and a profit and loss statement showing the results of its operations." Based on the Articles of Agreement, Section 16 of the IFC By-Laws states that "The Board of Directors shall have an audit of the accounts of the Corporation made at least once each year and on the basis of this audit shall submit a statement of its accounts, including a balance sheet and a statement of profit and loss, to the Board of Governors to be considered by it at its annual meeting." The Articles of Agreement of the International Development Association ("IDA") are very similar in this regard and state in Article VI, Section 11(a) that "The Association shall publish an annual report containing an audited statement of its accounts and shall circulate to members at appropriate intervals a summary statement of its financial position and of the results of its operations." Section 8 of the IDA By-Laws state that the provisions of Section 18 of the By-Laws of the Bank shall apply *mutatis mutandis.* In the documents reviewed, the procedure for submitting the financial statements to the Board of Governors at the annual meetings is clearly spelled out but there are no details regarding the approval process. The practice is that the financial statements are approved by the Board of Directors and then submitted to the Board of Governors for consideration at their annual meeting.

6. Section 16 (Budget and Audits) in the MIGA By-Laws does not spell out the requirement of submitting the financial statements to the Council of Governors for consideration. It only states that the financial statements shall be circulated to members at appropriate intervals. Therefore, MIGA's By-Laws should be amended so that the section on Budget and Audits is consistent with similar sections in the By-Laws of the other members of the World Bank Group. Section 16(b) of the MIGA By-Laws should be amended by deleting it in its entirety and replacing it with the proposed language given below.

   Present Section 16(b):
   "(b) a summary statement of the Agency's financial position and a profit and loss statement showing the results of its operations shall be circulated at appropriate intervals to members; and"

   Proposed new Section 16(b):
   "(b) a summary statement of the Agency's financial position and a profit and loss statement showing the results of its operations shall be submitted to the Council of Governors to be considered by them at their annual meeting; and"

7. Accordingly, the Board of Directors recommends that the Council of Governors adopt the draft Resolution . . .[1] amending Section 16(b) of the MIGA By-Laws.

(This report was approved and the Board of Governors adopted its recommendation on April 3, 2003)

[1] *See page 224*

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Alternate Governor
Abdul Rahimy

Adviser
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Michael Carnahan
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Anwar Al-Sadah
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Ebrahim Al-Khalifa
Isa Abdulrahman Althawadi
Abdulkarim Buallay
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Juergen Steltzer
Gerhard Stratthaus
Juergen Zattler

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Ernest Ako-Adjei
Frank Brako Adu
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Habib Ben Mansour
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Tri Surya
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Shirley Tyndall*

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Toshihisa Miyamoto
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Ken Vitisia

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Alternate Governor
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Tae Young Choi
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Jae-Soo Chun
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Tae-Sik Lee
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Kyrgyz Republic

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Tobias Nobrega Suarez

Adviser
Ali Aguilera
Alejandro Dopazo
Per Kurowski

Vietnam

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Dang Anh Mai

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Le Dac Cu
Tran Ngoc Minh
Nguyen Duc Thai Han
Nguyen Hoang Long
Nguyen Thi Hong Thuy
Pham Minh Tu
Dinh True Phan
Tran Dinh Dinh
Trinh Cong Thang
Chi Mai Vu

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Abdulwahab Al-Hajjri
Omar Salim Bazara
Galal Mohamed Moula
Hussain Ali Otaifa
Ahmed Saeed

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Siforiano Sangulukani Banda
Patrick Chewe Mulenga
Ronald Simwinga

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Nicholas Ncube

Adviser
Charles Chikaura
Zvinechimwe Churu

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Tajikistan

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Nibhat Bhukkanasut*
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Alternate Governor
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Leroy Mayers

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Alternate Governor
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Alternate Governor
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Yemen, Republic of

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Zambia

Governor
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Alternate Governor
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Zimbabwe

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* Temporary

OBSERVERS AT THE 2003 ANNUAL MEETINGS

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Omar Kabbaj
Ahmed M.F. Bahgat
Abdirahman Beileh
Henock Kifle
Theodore F. Nkodo
Guy Terracol

African Export-Import Bank

Christopher Chuka Edordu
Benedict O. Oramah

African Fund for Guarantee and Economic Cooperation

Libasse Samb
Alimi Saliou Ichola
Habib Soumana

African Union

Hamad Yassin El Nil

Andean Development Corporation

Luis Enrique Garcia Rodriguez
Carolina Espana
Fidel Jaramillo
Hugo Sarmiento

Arab Authority for Agricultural Investment and Development

Abdulkarim Mohammad Al-Amri Al-Shamsi
Rahma Yousef Halilulla
Larbi Hamdi
Habib M. Kaabachi
Youssef Abdel Fattah Mohamed
Rajagopal Ramamoorthy
Ahmed Mohamed Shaker

Arab Bank for Economic Development in Africa

Medhat Sami Lotfy
Kamal Mahmoud Abdellatif
Ahmed Abdallah Alakeil
Driss Alandaloussi
Ould Ebe Ebe

Arab Fund for Economic and Social Development

Abdlatif Y. Al-Hamad
Azzeddine Bouchelaghem
Mervat Wahba El-Badawy
Husam Omar Khalil

Arab Monetary Fund

Jassim Abdulla Al-Mannai
Sherif Abdel Khalek
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Ghassan Mouin Bechara
Ali Ahmad Bolbol
Hazem Abd El Aziz El-Beblawi
Kamal Elsamkary
Aziz Gebara
Mustapha Kara
Jamel Eddine Zarrouk

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Michael Peter Barrow
Robert M. Bestani
Thierry de Longuemar
Philip C. Erquiaga
Stephen Paul Groff
Veronica L. John
Yasushi Kanzaki
John Lintjer
Bindu N. Lohani
Frank J. Polman
Eva L. Relova
Edgardo Pelagio Rodriguez
Kunio Senga
Craig M. Steffensen

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Oluremi Omotoso
Daniel Gyimah
Victor J. Nembelessini-Silue
Vianney J.M. Nyirimihigo
Kenneth Edozie Ogegbu
Lawrence Okeluc Osa-Afiana

Bank for International Settlements

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Svein Andresen
Gavin Bingham
Luca Errico
Andre Icard
Daniele Nouy
Robert Sleeper
Josef Tosovsky
Josef Van't Dack
William R. White

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Pacifique Issoibeka
Adam Madji
Andre Mfoula Edjomo
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Black Sea Trade and Development Bank

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Valery Vladimirovich Aksenov
Vitalij Vasyliovych Lisovenko
Nejdet Sarisozen
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Caribbean Development Bank

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Center for Latin American Monetary Studies

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Central African States Development Bank

Anicet-Georges Dologuele

Central American Bank for Economic Integration

Harry Brautigam
Carlos Americo Basco
Jaime Chavez
Roberto Pereira
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Central American Monetary Council

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Sergio F. Recinos Rivera

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Alex Gitari Kwimenya
Donald Mark Pearson
Cyprien Sakubu

Commonwealth Secretariat

Winston Cox
Indrajit Coomaraswamy
Eliawony J. Kisanga

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Mohamed Obaid Al-Mazrooei

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Nunzio Guglielmino
Orhan Guvenen
Krzysztof J. Ners
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Nuwe Amanya-Mushega
David Sajjabi

East African Development Bank

Godfrey B. Tumusiime
Vivienne Apopo
Mahesh K. Kotecha
Peter Opande

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Christian N. Adovelande
Oluremi Aribisala
Koffi M. Kouakou
Frank Ofei
Thierno Bocar Tall
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Willem Buiter
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Charles O. Sethness
Gabriela Sotela
Anita A. Ruiz

Inter-Arab Investment Guarantee Corporation

Fahad R.H. Al Ibrahim
Khogali A. Abubakr

International Fund for Agricultural Development

Lennart Bage
Uday Abhyankar
Susan Baraldi
Rasha Omar
David Paqui
Fawzi H. Rihane
Abdelmajid Slama

International Labour Organization

Eddy Lee
Samir M. Radwan

Islamic Development Bank

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Zul-Kifl Salami
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Mohameden Mohamed Sidiya
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League of Arab States

Abdulrahman Sehebani
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Nordic Investment Bank

Jon Sigurdsson
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Erkki A.O. Karmila
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Donald J. Johnston
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OECD-Development Assistance Committee

Richard Manning

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Abdelaziz M. Abu-Dagga
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Hani Hashem Shawa
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Saudi Fund for Development

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Mesfer F. Al-Mesfer
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United Nations

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UN Children's Fund

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Anupama Rao Singh

UN Conference on Trade and Development

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David Lockwood
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Hala Mouneimne
Ercan Murat
G. Ravi Rajan
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UN Economic Commission for Africa

Kingsley Y. Amoako
Elene Makonnen
Ali Todaro

UN Economic and Social Commission for Western Asia

Nabil Abou Dargham
Ahmed Samerai

United Nations Educational, Scientific, and Cultural Organization

Usam Isa Ghaidan
Jo Hironaka
Mir Asghar Husain

West African Development Bank

Yao Agbo N'De Hounouvi

West African Economic and Monetary Union

Frederic Assomption Korsaga
Joachim Ouedraogo

West African Monetary Institute

Michael Olufemi Ojo
Peter J. Obaseki

World Health Organization

Katja Janovsky

World Trade Organization

Karen McCusker
Francisco Thompson-Flores

Singapore Planning Team for 2006 Annual Meetings

Venkataraman Anantharaman
David S. Beevers
Warren James Buckley
Chee Chean Wee
Chiam Choong Juke
Chu Pau Wah
Foo Jacky Kong Seng
Goh Bob Kee Leong
Heng Margaret Chee Bee
Krishnasamy Bhavani
Eddy Lagman
Lee Gerald Hwee Keong
Lee Hwee Hong
Lim Cheng Hoe
Lim Keng Hoe
Lim Kok Peng
Lim Lee Lee
Lim Wee Leng
Mok Doris Chck Fong
Ng Bee Theng
Ng Nam Sin
Ong Veronica Lay Fong
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Shih-Teo Siew Poh
Patrick Sim
Sim Tristan Tong Ping
Ramcharan Gill Singh
Tan Dave Hon Kiat
Tan Irene Peck Ling
Tan Kim Seng
Tan Kok Hoe
Tan Maggie Pin Neo
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September 23–24, 2003

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