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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
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Statement by the Hon. **PETER COSTELLO**,
Governor of the Bank and the Fund for **AUSTRALIA**,
at the Joint Annual Discussion

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The global economic outlook remains favourable, aid flows are increasing, many of the world's poorest countries will receive further debt relief and the Doha development agenda remains at the forefront of the fight against poverty.

This puts us in a strong position; however, too many people still live in poverty. The challenge is to ensure that the opportunities that have been created are not squandered. Global economic activity needs to remain strong through reforms to broaden and deepen economic growth. Aid needs to be made more effective and developing countries need to continue to strengthen their institutions and governance. Debt relief needs an accompanying focus on debt sustainability to prevent history from repeating itself. Very importantly, we all need to throw our support behind the Doha development agenda — trade and investment opportunities are far more important than aid and debt relief in lifting countries out of poverty.

Economic outlook

While the outlook for the world economy remains favourable, reflecting accommodative policy settings, healthy corporate balance sheets and benign financial market conditions, medium-term risks are skewed to the downside and remain centred on global current account imbalances. Associated with this, growth divergences across regions remain wide, with the expansion still led by the United States and China, increasing the world economy's exposure to developments in these economies. A key challenge for the membership is to ensure that there is a broadening and deepening of global growth, under-pinned by a mix of policy, structural and relative price adjustments.
Australia's economic expansion is now into its 14th year, and as noted in the recently released Article IV report, continued strong growth is anticipated. This strong performance is under-pinned by an ongoing commitment to a medium-term macroeconomic framework and structural reforms, with low unemployment, increased competition, low inflation and the near elimination of public debt among the benefits.

Aid

Global aid flows have increased significantly in recent years and are projected to increase even further between now and 2010. Australia has played its part, and will continue to do so.

Since 2000-01 Australia's aid has increased by more than 30 per cent in real terms. At the recent UN Summit in New York, Australia announced a substantial commitment of additional aid, with the goal of doubling Australia's aid by 2010 to around A$4 billion. This commitment is subject to annual budget review, taking into account the effectiveness of the additional funding and strengthened governance and reduced corruption in recipient countries.

This decision reflects the Australian Government's ongoing commitment to helping developing countries, while recognising that it is ultimately up to countries to take primary responsibility for their own development.

Australia's aid programme will continue to have a particular focus on the Asia-Pacific Region. Many people in Asia remain in poverty and the recent United Nations *Investing in Development* report has identified that the Pacific is off-track with respect to almost every Millennium Development Goal and falling back in some areas. While poverty in the Pacific does not have the same profile as poverty in Africa, the core problem of both regions is that they contain certain fragile states (Low-Income Countries Under Stress — LICUS), as well as many small states. Finding ways to effectively engage with fragile states is a key challenge for the entire international community.

For these reasons the Australian aid programme focuses on those countries in the Asia-Pacific region; the Government has demonstrated this commitment by implementing large, long-term and whole-of-government development programmes in Solomon Islands, Papua New Guinea and Nauru and a partnership to support Indonesia's reconstruction and development efforts.

Debt relief

The proposal for 100 per cent multilateral debt relief for Heavily Indebted Poor Countries (HIPCs) being considered at this meeting has our support. We urge the World Bank and the Fund to implement this proposal as soon as possible to enable poor countries to benefit from it. We also emphasise that it is important that the savings from debt relief are applied to poverty reduction programmes in an environment of improving governance and institutions and not lost due to corruption or mismanagement.

I would also like to emphasise the importance that the Australian Government places on ensuring that countries do not build up unsustainable debts in the future. The joint IMF/World Bank Debt Sustainability Framework can play an important role here. Preventing unsustainable borrowing from occurring in the future will require all creditors and borrowers to accept that it is not in anyone's interest for countries with excessive levels of debt to continue to receive assistance in the form of loans. We therefore urge the IMF and the World Bank to further refine and promote the Debt Sustainability Framework as the key tool to inform the lending and borrowing decisions of today to ensure that HIPCs do not need debt relief in the future.

Trade liberalisation

Meaningful trade liberalisation is the single greatest contribution the international community can make to achieving sustainable reductions in poverty. Without it, our efforts on aid and debt relief will at best be of limited benefit, and at worst counterproductive. If 2005 is to become known as the 'Year of Development' then it is critical that the global community supports the Doha agenda.

Australia welcomes the leadership shown by President Bush when he pledged that the United States is ready to eliminate all tariffs, subsidies and other barriers to the free flow of goods and services as other nations do the same.

As has been emphasised at these meetings, the Doha Round will not be a development round if countries do not begin to tear down barriers to agricultural trade. This is particularly the case for sub-Saharan Africa. To provide one example, research by the Food and Agricultural Policy Research Institute (quoted in the forthcoming *September 2005 World Economic Outlook*) indicates that removing global agricultural subsidies would raise cotton prices by 12 per cent over the period until 2012, equivalent to over US$200 million a year for African producers.

Role of the IMF in low-income countries

We welcome the Fund's recent reassessment of its role in low-income countries. A key consideration for the Fund is how it interacts with the international community to provide assistance. The Fund should focus on its core mandate around macroeconomic and financial stability as the underpinning for growth and poverty reduction. It is important for the Fund to ensure that all of its instruments for assisting low-income countries — including the new Policy Support Instrument, the new Shock Facility and debt relief — are effective and complementary.

The Medium-Term Strategy of the IMF

We have been encouraged by the Fund's recent medium-term strategy (MTS) discussions, and we welcome the strategic approach outlined in the Managing Director's Report. In particular, we welcome the intention to better focus the Fund's work in several areas.

We encourage greater focus on areas within the Fund's core mandate, including international monetary co-operation, global prosperity and financial stability, and temporary balance of payment support. Within these areas, the MTS has usefully set out the general emphases that will be needed for countries at different stages of economic development.

Ultimately, the challenge for the Fund will be to translate the MTS into action. This will depend fundamentally on organisational and cultural change within the Fund, including budget reform and priority setting for resource allocation, and we look forward to further consideration of these critical governance issues.

Quotas

We welcome the Fund's acknowledgement in its MTS that the current quota allocation puts its legitimacy at risk. We wish to see these issues addressed in the context of the Thirteenth General Review and agree that even if there is no general increase, there is a need to consider revised quotas at that time. The challenge for the membership remains to generate wide-spread support for an option that balances greater recognition of rapidly-growing economies, particularly in Asia, with the need to provide smaller developing nations with adequate voice.