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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **RALPH GOODALE**,
Governor of the Bank and the Fund for **CANADA**,
at the Joint Annual Discussion

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As we meet here in Washington this weekend, it is a time to reflect on how we can work together to make a positive change in our world. The ravages of Hurricane Katrina felt in the southern United States last month remind us that we are all vulnerable to loss. It is a lesson that must guide us in all our efforts, this weekend and beyond. I would like to take a moment to express my sincere condolences to those who have lost so much over the past several weeks. Canada offers you our friendship and support as you begin the difficult process of rebuilding.

Hurricane Katrina and the tsunami in Asia last year remind us how interdependent the world has become. The Bretton Woods Institutions are there to help members maximize the benefits of this increasing globalization, while mitigating the risks. This weekend's meetings could represent a turning point in our collective efforts to promote global prosperity and reduce poverty and vulnerabilities. Five years since the Millennium Summit and ten years remaining to the international deadline to achieve the Millennium Development Goals (MDGs), we must focus our collective attention to helping countries, especially those in Africa, achieve the MDGs. We also have a window of opportunity to complete the process of debt relief for low-income countries at the International Development Association (IDA), the African Development Fund and the International Monetary Fund (IMF). For the IMF, this weekend's meetings are also an opportunity to take stock of its role in supporting the international monetary system and its success in fulfilling its mandate of fostering a stable and prosperous global economy and financial system. The conclusions of the Managing Director's Strategic Review both reaffirm the central relevance of the Fund's mandate to its members and demonstrate clearly the institution's capacity for renewal.

Focusing on the MDGs and Africa

As leaders emphasized during the UN summit a few days ago, with only a decade left to meet the MDGs, many countries, especially in Africa, are at risk of not reaching them. Success will likely require a significant scaling up of actions by both donors and recipients. Good policies, increased aid and improved aid effectiveness are critical to achieve the necessary progress.

Certainly, some progress has been made. Global poverty rates are falling, led by Asia, and real progress has been made in Latin America and the Caribbean. But in other parts of the world, we are not seeing the results that we hoped. In Africa, many countries are off track on all the MDGs, with more than 300 million people still living in abject poverty and two million expected to die this year from HIV/AIDS.

The Commission for Africa was motivated by a desire to meet these challenges. The Commission emphasized the underlying principle that development – and the achievement of the MDGs – must be led by Africa itself. And it laid out concrete actions where donors could support African initiative. The World Bank's Africa Action Plan is a welcome contribution to this response.

Aid will only have a meaningful impact in countries with strong domestic institutions and an environment that allows enterprise and human initiative to flourish. To this end, we must continue to work to strengthen Poverty Reduction Strategies (PRS) by broadening their content, strengthening their focus on the poorest and improving the effectiveness of the participatory processes, including greater involvement of parliamentarians and civil society. Credible, costed, results-based PRSs can serve to attract greater levels of support.

At the global level, more concentrated efforts must be made to level the playing field and to ensure that developing countries become better integrated into the global trading system. A successful Doha round that lowers tariffs and non-tariff barriers, for example, could lift over 100 million people worldwide out of poverty by 2015. This was a key message of the Commission for Africa report. We welcome the work of the World Bank and IMF on "Aid for Trade" to overcome the constraints on some countries' abilities to benefit from the lowering of trade barriers.

Aid budgets are increasing, and are increasingly focused on the poorest countries. Recent commitments made by donor countries mean that total annual ODA flows in 2010 will be around US$50 billion more than in 2004. Significantly, at least half of this increase will be directed to Africa – resulting in a doubling of ODA to that continent. Canada will double its overall international assistance by 2010, and double its assistance to Africa by 2008. Canada is focusing its bilateral assistance on 25 countries – 14 of them in Africa – where aid is most needed and most likely to be effective. With strong support from Canada and other donors, IDA has been able to increase funding for its programs by 25 per cent over the previous replenishment – the largest expansion of IDA resources in two decades. Canada increased its contribution by almost 40%. Donors have also recognised the vulnerability of poor countries to exogenous shocks, and are addressing these through proposals such as an IMF concessional facility to help countries faced with short-term difficulties arising from adverse shocks to their balances of payments and the broadening of the World Bank Group's efforts on catastrophic insurance.

Aid must also be delivered and used effectively. Mutual accountability between donors and recipients for results is essential. To this end, we strongly support the Bank's direction to enhance its framework for monitoring, reporting and following up on the delivery of aid commitments. We are also encouraged by the World Bank's efforts to deepen the harmonization and alignment of aid resources. It will be critical to ensure that our commitments with respect to untying aid are met. We welcome the initiative by the OECD-DAC to move this forward. It will be important to continue discussions to ensure that developing countries have the capacity to employ increased resource flows effectively.

Completing the process of debt relief for low-income countries

Reducing unsustainable debt burdens in low-income countries is an essential part of helping them achieve sustained growth and poverty reduction. Canada has contributed more than $2.3 billion to this cause, and we are committed to a further $1.3 billion in further debt relief. We must keep the momentum going.

The debt forgiveness plan proposed by G-8 Finance Ministers is an unprecedented multilateral effort to complete the process of debt relief for low-income countries. By freeing up fiscal space for critical investments in health and education, this initiative will help to promote growth and reduce poverty. The proposal provides additional resources for poor countries, ensures that they are treated equitably, maintains the financial capacity of the international financial institutions, and provides the proper incentives for good governance.

There remain many issues to be resolved, but we have the will to move forward. It is our hope that we can come to an agreement this weekend to push ahead with this proposal. Canada will do its share to implement this initiative.

If we want to ensure that poor countries have the fiscal flexibility to promote macroeconomic stability/growth and implement poverty reduction strategies, we also need to be sure that the more vulnerable countries do not slide back into a debt trap. In this regard, countries need to avoid unnecessary borrowing and to access financing on highly concessional terms. We therefore support the proposed Policy Support Instrument (PSI) for instances when a lending relationship with the Fund is not necessary. Such an instrument would provide a structured mechanism for regular provision of policy advice, and, just as importantly, allow the Fund to provide the "public good" of an assessment of country policies useful for donors and markets. Finally, the strategic provision of grants is another key tool for avoiding a new build-up of unsustainable debts. We strongly support IDA's and the African Development Fund's grant allocation frameworks, which are based on debt sustainability considerations.

Reinvigorating the Fund

The measures already discussed are needed to improve the chances of the most vulnerable countries of achieving the Millennium Development Goals. However, there are risks in the global economy that affect all countries, including ongoing global imbalances and high and volatile oil prices. The IMF plays an important role in mitigating these risks, but changes in the international financial system since the Fund's establishment mean it will need to adapt its governance, surveillance, lending and capacity building activities as well as its relationship with members and stakeholders. IMF Managing Director Rodrigo de Rato has recognised this pressing need and has tabled substantive reforms. We welcome his proposed Strategic Directions.

The Fund's central mandate continues to be relevant and the mission of the Fund – to promote global prosperity and financial stability – remains as valid as it was in 1944. We welcome the Managing Director's conclusion that the Fund's four broad lines of activity – surveillance, lending, capacity building, and its work to assist low-income countries – represent the right channels by which it can achieve its objectives. The key challenge for the Fund is now to move forward in the directions outlined in his report, with the objective of "re-tooling" the IMF to meet the challenges of the 21st century.

Among the many welcome aspects of his report is its clear recognition that the Fund, as a policy advisor, can only be effective when the recommendations that flow from its solid analytic work are communicated in a persuasive and influential manner. This requires that the Fund engage more broadly, so that its policy recommendations become an integral part of the public debate on reforms. For these reasons, we wholeheartedly endorse the Review's goal of developing a communications strategy based on best practices.

The proposed strengthening of surveillance, a core function of the IMF, provides an opportunity to better influence policy development and help prevent crises. Tightening the focus of surveillance, both within and between countries, on policy areas and issues of national relevance and systemic importance for global economic and financial stability would strengthen its impact. A more selective and focused approach should allow the Fund to tailor its advice to the constraints and opportunities within countries. An element of this is better integrating technical assistance into the surveillance process, to ensure that members have the expertise and sustained capacity to implement reforms. Taking a longer-term view of specific issues of importance to the global economy, as proposed by the Managing Director, would strengthen the Fund's contribution to global efforts to maintain international financial stability.

Further clarifying the international approach to crisis resolution will help in both crisis prevention and resolution. Today's crises (with origins in the capital account of the balance of payments) are too large for the Fund to respond to merely by providing financial assistance of increasing size. Rather, the magnitude of capital account crises, the need to avoid distorting private sector investment decisions and the inability of the Fund to act as a true lender of last resort underscore the need for lending to be guided by *"rules of the game"*. The establishment by the Fund in 2002 of a policy framework to guide decisions on exceptional access is a key step in this direction. This framework should be reviewed in order to clarify its application and strengthen its credibility.

Improving the Fund's ability to respond to crises also requires it to understand better the dynamics of capital account crises, including the behaviour of private capital markets. The Fund must identify the factors that will support sustained re-access to international capital markets in a manner that places less emphasis on large-scale assistance.

The IMF serves and is accountable to its members through a governance structure based on the principle that quotas and the associated structure of voting power should aim to reflect countries' relative economic weight. However, differences in the patterns of growth among members have created a situation whereby the structure of quotas embodies in some respects a legacy of the past, not the realities of today. In order to sustain the legitimacy of the Fund as a universal and cooperative institution, a determined effort is needed to ensure that the distribution of quotas, voting power, and voice reflect developments in the global economy. While there is no need for consideration of a general quota increase at this time given the overall adequacy of the Fund's resources, a redistribution of quotas and voting power to those rapidly-growing economies, largely in Asia, whose quotas have not kept pace with their greater role in the global economy would further strengthen the legitimacy of the Fund's governance arrangements. There is an urgent need to begin a process that will achieve these objectives.

Concluding Remarks

Poverty on a global scale is falling, but the challenges of meeting the MDGs in Africa remain. This weekend we are discussing how we can make achieving the MDGs in all parts of the world a reality. The only way to do so is to work together. Developing countries and their development partners, including the private sector and civil society, need to work together to make tomorrow better for all people. Finally, as we look ahead to the risks and challenges facing the global economy, there can be no doubt about the value of a strong, effective IMF and World Bank.