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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **PETER COSTELLO, M.P.,**
Governor of the Fund and the Bank for **AUSTRALIA,**
at the Joint Annual Discussion

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

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steps to increase the legitimacy and effectiveness of the IMF and World Bank, most notably the agreement to address the outdated and unrepresentative system of quotas at the Fund.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

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

Quota and voice reform

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

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

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

Executive Directors who represent the largest constituencies and examine the process for appointing the Managing Director of the Fund.

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

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

Surveillance

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

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

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

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

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

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

IMF Role in Emerging Markets

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

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

IMF-World Bank collaboration

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

World Bank engagement in middle and low income countries

While welcoming the World Bank's consideration of its long-term sustainability and engagement in middle income countries, Australia considers that further work is required to develop a long-term strategic direction for the Bank's engagement with this very important client group.

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

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

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

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

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