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Statement by the Hon. **MICHAEL CULLEN**,  
Governor of the Bank for **NEW ZEALAND**,  
at the Joint Annual Discussion



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**Introduction**

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

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

Over the past year New Zealand announced that it would support the Multilateral Debt Relief Initiative (MDRI) scheme, making firm and indicative commitments totalling NZ\$68.93 million from 2007 to 2043. A clear goal of the initiative is to free up resources for countries to meet the Millennium Development Goals (MDGs), and I am encouraged that there is some evidence that this is being achieved

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

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

**On Doha and its Impact on Development**

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

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

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

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

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

### **IMF Reform**

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

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

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

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

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

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

New Zealand is committed to ensuring that the governance arrangements within the Fund are clear and transparent. We believe that economic weight should be the predominant determinant of shareholding. We see this as a key point of principle as my expectation is that whilst New Zealand may lose actual quota share relative to our current allocation we will gain overall from having a Fund that is more representative of all its members. As I mentioned to the Managing Director in June, we see this as part of being a “good international citizen”.

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

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

### **World Bank – Effective, Targeted Engagement**

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

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

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

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

In the Pacific, both the Bank and the Fund have a tremendous role to play in the provision of valuable expert knowledge and technical assistance to the small island states of the region. We understand many of the challenges that the Bank faces mobilising resources into non-lending environments, but would welcome the opportunity to work with new East Asia Pacific Vice President, Jim Adams, to find workable solutions.

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

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

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

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

### **Fund – Bank Collaboration**

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

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

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

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

### **Concluding Comments**

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