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

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Developments in the Global Economy and Financial Markets and Implications for New Zealand

The Annual Meetings this year are taking place at a very challenging time for all member countries. The implications for economic activity and global growth from the current financial market turmoil and high commodity prices are serious – addressing these implications will require the concerted focus of our governments, with support from the Fund and the Bank as appropriate.

The New Zealand economy, like a number of others, is currently facing imbalances in the areas of inflation, household debt, house prices and the current account. As a result of drought, higher consumer prices and previous monetary tightening, output declined in the first two quarters of 2008 and is expected to have declined marginally in the September quarter.

Like others, the New Zealand economy is not immune to international developments, which we are expecting to be transmitted to New Zealand through the cost and availability of credit, business and consumer confidence, lower terms of trade, and exchange rates.

There are signs the economy is beginning to turn and growth is forecast to be positive in the final quarter of 2008 thanks to the recovery from the drought and tax cuts, but will remain subdued throughout most of 2009 as negative influences continue to affect the economy.

Maintaining Momentum of Reforms

New Zealand is pleased to see concrete steps in the last few years taken by both the Fund and the Bank, which are aimed at enhancing their effectiveness, legitimacy and credibility. In particular, New Zealand welcomes the Fund's quota and voice reform package, which includes a built-in regular review mechanism, the Fund's efforts to ensure that it will operate on a financially sustainable footing, and its ongoing efforts to reform its internal governance. In terms of the Bank, we have been supportive of its efforts to renew its strategic direction and we look forward to agreement on a comprehensive package on voice and participation reforms in the near future.

Reform is an ongoing and long-term process at both institutions and it is important for all members to ensure that the momentum to continue, firstly for proposed reform on different aspects to be progressed, and secondly for agreed proposals to be implemented.

World Bank Voice and Participation

New Zealand fully supported the Bank's commitment to develop a comprehensive package on voice and participation reforms for consideration by Governors at this meeting.

The eventual package needs to be comprehensive, achieve its aim of increasing voice and participation, be based on an inclusive and transparent process, and take into account the distinct nature of the Bank's development mandate.

We would like to specifically note that we see comprehensiveness as meaning that the package covers more than just shareholding issues, but includes aspects such as the merit-based appointment of the President, strengthening Board effectiveness and efficiency, and enhancing voice and participation in the Bank's operational work. New Zealand has supported and continues to support an open and transparent process for the appointment of senior positions at International Financial Institutions, which should be open to candidates from all regions of the world based on merit.

The different components of an eventual package are important in ensuring that all members continue to have a Bank that will be able to deliver effectively on its mandate. We look forward to further discussion on the package in the coming months, with the hope that agreement will be reached on its key elements along the agreed timeline.

IMF Principles for Sovereign Wealth Funds

New Zealand is pleased with the consultation, effort and thought that has gone into the development of the *Santiago Principles*.

We believe that the practices and principles covered in the document will help ensure that Sovereign Wealth Funds (SWFs) have the appropriate legal framework, objectives, and coordination with macroeconomic policies; institutional framework and governance structure; and investment and risk management framework.

IFIs Work on Food and Fuel Prices

New Zealand appreciates the extensive analytical work that has been undertaken by the Bank and the Fund on the food and fuel price increases. We are supportive of the policy options put together to assist countries facing particular challenges as a result of price inflation. We believe it would be extremely valuable if various regional departments could undertake work more specifically tailored to their particular region, taking the regional and country-based contexts into account.

We also support the financial measures being offered by the Bank and Fund to those countries most affected by the price increases.

Development Effectiveness

New Zealand welcomes the Accra Agenda for Action and encourages the Bank to work closely with donor and country partners to implement it. Addressing these aid effectiveness challenges will also require an internal focus on culture, incentives, systems and practices.

New Zealand acknowledges the encouraging progress in the Bank's work on development effectiveness, as noted by the 2008 Annual Review of Development Effectiveness (ARDE). The use of impact evaluations and the results management system for IDA are promising developments in corporate-level monitoring and evaluation.

We note that project performance for low-income countries (LICs) continues to show a rising disconnect between the Bank's optimistic self ratings of project performance and IEG's final ratings of development outcomes. It is highly important to achieve the necessary improvements in the Bank performance management system including strengthened results frameworks with robust baseline data, for realistic assessments of development results.

The challenge for the Bank to improve performance management is partly one of changing the incentives and culture of staff towards more accurate reporting. This is common to most development agencies. The persistence of incentives for staff to work on the preparation of projects rather than implementing them is a well-recognised major issue. This supply-driven culture in project preparation tends to stimulate over-optimism in assessing the likely outcome at the start of a project in order to get it approved. As shown by the 2008 ARDE, often only after the project has been completed, are more realistic assessments taken.

World Bank Engagement in the Pacific

New Zealand welcomes the increasing World Bank engagement in the Pacific. We anticipate the growing regional presence will facilitate better coordination and cooperation efforts for Pacific governments. In expanding its outreach it is important that the Bank draws fully on the resources available through other donors' existing relationships with developing member countries, and adds value to these rather than attempting to replicate them. The challenge is to ensure that donors work collectively with each other and our Pacific partners to improve efficiency, responsiveness and accountability of economic advice and programme delivery.

In this respect, we urge the Bank to expedite further harmonisation efforts in the Pacific through finalising plans for shared country offices with the ADB in Samoa, Solomon Is and Tonga. We welcome confirmation of the decision to co-locate two experts in the IMF's regional technical assistance facility, PFTAC, in Suva, and look forward to seeing their impact on strengthened efforts to improve SoE management and the follow-up of public financial management surveys across the region.

New Zealand is pleased to be part of the Pacific Regional Infrastructure Facility (PRIF) and we look forward to the upcoming design and prioritisation process in phase one. Our interest is particularly in the potential for improved technical assistance, donor coordination, and a greater emphasis on infrastructure maintenance.

Global Public Goods

New Zealand stresses the need to identify the Bank's comparative advantage in global public goods (GPGs), especially given the Bank's increasing array of global programs, notably in climate change. Going forward it will be necessary for the Bank to strengthen incentives to deliver GPGs at the country level. This could include the provision of clearer organizational arrangements to best select and link responses at country, regional, and global levels; enhance the delivery of knowledge to country teams working on GPGs; and ensure that the perspectives of developing countries are effectively connected with global responses. It will be important to draw on the existing knowledge of all development partners in such situations.

Where GPGs are in conflict with a country's expressed interest, questions of cost burden and ownership need to be fully considered, while carefully avoiding conditionality- and supply-driven approaches (especially given the substantial increase in GPG trust funds). New Zealand encourages the development of global-level frameworks, which provide incentives to countries including financial mechanisms for incremental costs, as a positive response. We look forward to more concrete recommendations on how to address this challenge, and assurances that this issue will be seriously considered.

World Bank New Zealand-Pacific Remittance Project

During the past year a number of New Zealand government agencies, in conjunction with the World Bank, have funded and worked on the New Zealand-Pacific Remittance Project, aimed at reducing the transactional costs of remittances in the Pacific region. These costs can be anywhere from 15% to 25% of the value of the remittance and the World Bank has identified that remittances to the Pacific region have tripled over the past decade to reach US\$425 million.

As an outcome of this project, the government recently approved a new regulation under the Financial Transactions Reporting Act to encourage the development of a more competitive remittance market, with greater transparency, a wider use of formal channels and better informed consumers. This should result in a significant reduction in the costs of remitting money and represents a very practical way to contribute to the well-being and quality of family life in the Pacific.