Summary Proceedings

of the Fifty-Eighth Annual Meeting
of the Board of Governors

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DOCUMENTS AND RESOLUTIONS OF THE BOARD OF GOVERNORS

INTRODUCTORY NOTE

The Fifty-Eighth Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C. on October 3, 2004, jointly with the Annual Meetings of the Board of Governors of the World Bank Group. The Honorable André-Philippe Futa, Governor of the Bank and the Fund for the Democratic Republic of the Congo, served as Chairman. These Proceedings include statements presented by Governors during the meetings; resolutions adopted by the Board of Governors of the Fund since the last Annual Meeting in September 2003; reports, recommendations, or communiqués issued by the Committees of the Board of Governors at the time of the meetings; and other documents relating to the meetings.

Shailendra J. Anjaria
Secretary
International Monetary Fund

Washington, D.C.
November 1, 2004

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND GOVERNOR OF THE FUND AND THE BANK FOR SINGAPORE

Lim Hng Kiang

Managing Director de Rato, President Wolfensohn, fellow Governors, Excellencies, Ladies and Gentlemen:

Introduction

Welcome to the 2004 Annual Meetings of the International Monetary Fund and the World Bank Group. It is indeed a great honor for Singapore and for me personally to be chairing these meetings.

On behalf of all the Governors, I would like to extend a warm welcome to the new Managing Director of the IMF, Mr. Rodrigo de Rato. We look forward to his leadership of the IMF. Together with Mr. Wolfensohn of the World Bank, we believe that the two of them will play a critical role in leading the IMF and the World Bank during this critical juncture in the global economy.

I would also like to express our deepest appreciation to the former Managing Director Horst Köhler for the energy and focus he brought to the IMF. I am sure all of you join me in congratulating him on his assumption of the Presidency of the German Federal Republic.

60 Years of the Bretton Woods Institutions

Fellow Governors, this year's meetings coincide with the 60th anniversary of the founding of the Bretton Woods Institutions. The past six decades have been a period of general stability and rising prosperity. Economic growth and development have improved the quality of life for millions of ordinary people. However, given the ever increasing pace of globalization, important challenges remain: poverty still plagues much of the world's population; not enough people have benefited from the positive scale of globalization; and the voices of the poor have sometimes been drowned out. It is vital that we learn the right lessons from the past sixty years, so that we can all work together to secure greater prosperity and equity going forward.

Let me highlight three key lessons. First, a stable macroeconomic framework and sound economic policies are prerequisites for sustainable growth. For developing countries, we need rapid economic growth to raise living standards and reduce poverty. Through its surveillance work, the IMF has encouraged and assisted member countries to implement policies that will reduce the risk of crisis and make their economies more resilient. The IMF also emphasizes the soundness of economic policies, including a greater focus on debt sustainability, financial sector health, and sound institutions and governance.

Second, structural and macroeconomic reforms are necessary to strengthen prospects for growth and poverty reduction. The development record of the past sixty years has shown that the main drivers of economic growth—entrepreneurship, investment, and innovation by the private sector—depend strongly on the right environment. And the right environment includes sound macroeconomic policies, openness to trade, good governance and institutions, strong financial markets, and the availability of key physical infrastructure.

Third promoting free and open trade. We have also witnessed how important international trade has been for economic development and poverty reduction. In this regard, we are optimistic about the agreement reached in July on a negotiating framework for the next stages of the Doha round of international trade talks. While there will be transitional difficulties in some countries, there is no doubt that a successful Doha round will benefit all countries, especially those in the developing world. These benefits will be much more substantial and far-reaching than the existing levels of concessional assistance to developing countries.

The IMF and the World Bank have played crucial roles in promoting the global agenda. Going forward, they must ensure that their support for members—in terms of policy advice, capacity building, and financial assistance—remains effective and relevant. For instance, IMF surveillance should increasingly focus not only on the financial systems of individual countries, but on their systemic implications on global financial stability. In trade, the World Bank, as well as the IMF, should continue to strongly support efforts to promote trade and investment liberalization.

Developmental experiences in Asia

Fellow Governors, the positive development experiences of the last six decades could be illustrated by the example of the Asian economies. Rapid economic growth in East and South Asia has pulled hundreds of millions of people out of poverty. The lesson from Asia's economic performance is that, with appropriate policies and strong commitment, it is possible for countries to grow rapidly over an extended period of time. The Bretton Woods Institutions have contributed significantly to the development of Asia.

In recent years, particularly after the financial crisis in the region, IMF initiatives and surveillance have focused on helping countries to strengthen their policymaking processes. This has helped bolster the ability of the Asian economies to generate growth, prevent future crises, and withstand shocks. The World Bank, meanwhile, is moving toward a longer-term accelerated development framework in Asia, focused on achieving high rates of economic growth, improving global and intra-regional integration, enhancing social stability, achieving the Millennium Development Goals and strengthening governance.

Asia's role in the world economy is growing. Many important developments in this century will originate from the region and will likely have important implications not only within Asia, but on global affairs. An example is China's and India's increasing prominence in the global economy. Their continued economic success and stability will become increasingly more important for other countries in the region and around the world.

This underscores the importance for the two institutions to strengthen their engagement with Asia, as there are and will be many developments within the region that will have an impact on global financial stability. A significant development in Asia is the greater urgency for regional financial and economic integration. Asian economies have started pursuing Free Trade Agreements very aggressively both at the bilateral and regional levels. For instance, the Association of South East Asian Nations, or ASEAN, is negotiating Free Trade Agreements with China, India, Japan, and Korea. In recent years, there have also been suggestions to work toward an East Asia Community, where there will be free movement of goods, capital, and people.

On the financial front, ASEAN plus the three partner countries, China, Japan, and Korea—what we affectionately term as the ASEAN+3 countries—have also launched a number of important initiatives, including the Asian Bond Market Initiative and the Chiang Mai Initiative to strengthen regional financial cooperation. These initiatives are aimed at peer surveillance, additional mutual support during balance of payments liquidity problems, and developing the domestic bond markets. These will contribute toward the overall resilience and dynamism of Asian markets.

Going forward

Fellow Governors, although it has been sixty years since the founding of the Bretton Woods Institutions, the core principles and mandate of the two institutions continue to be relevant. However, some adjustments will have to be made to respond to the challenges of the current realities.

First, the threats of terrorism and violence have added new complexities to the work of the IMF and the World Bank. We have seen—for the first time—aid workers and staff of the United Nations and the Bretton Woods Institutions being targeted by extremists. While these threats are real and current, we must not allow them to impede the growth and developmental efforts that the IMF and the World Bank have actively been pursuing. We have to find ways to continue life as normal, while being prepared for the unthinkable.

Second, the world is more closely integrated than sixty years ago, and will become increasingly so. Events in one part of the globe will quickly affect the rest of the world. To be effective, our response must be comprehensive; our actions must be more timely; our commitment must be global.

Third, the structure of the global economy is quite different from what it was sixty years ago. As we look ahead, we see the need for fundamental reforms to give all member countries a voice in the two Bretton Woods Institutions. This is crucial for equity and proper governance, and ultimately for the political credibility and legitimacy of the two institutions. Only in this way can we maintain the framework of cooperation that has worked so well in the past and remains critical in the period ahead.

Conclusion

Fellow Governors, the strength of the economic and financial system established in 1944 has been its multilateral character and its ability to adapt to the changing economic and financial landscape. On this 60th anniversary of the Bretton Woods Institutions, let us all reaffirm our commitment to this framework of cooperation. Let us be bold and innovative as the global economy continues to change at a rapid pace. But most important of all, let us spread progress and prosperity to all countries so that no one is left behind.

With these remarks, let us now turn to the work at hand. I hereby declare the 2004 Annual Meetings of the International Monetary Fund and the World Bank Group open.

OPENING ADDRESS BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Rodrigo de Rato y Figaredo

Mr. Chairman, Governors, Distinguished Guests: it is a pleasure to welcome you to these Annual Meetings on behalf of the International Monetary Fund. Let me first express the IMF's gratitude to Horst Köhler - now President Köhler - for his leadership of the institution these past four years, and also to Anne Krueger for assuming the role of Acting Managing Director in the transition period. My personal thanks also to the Deputy Managing Directors for their help and counsel in the months since my appointment and to Jim Wolfensohn for extending a warm welcome and a hand of collaboration.

Governors: I am deeply honored to have been chosen to lead an institution with such vital responsibilities and a 60-year history of promoting global welfare. The role and mandate of this institution were well thought out by its founders and have stood the test of time. Of course, there have been dramatic changes in the world economy since 1944 to which the Fund has constantly adapted. The last decade has been a particularly challenging time for the Fund. But it has emerged as a stronger institution from that experience, one that has adapted its instruments—surveillance, lending and technical assistance—in response to the lessons learned. So there is a tradition of adapting our methods to changes in the world economy to serve the needs of our members. It is a tradition I certainly intend to uphold.

My first few months at the Fund have been a time of listening. Visits to Africa, Asia and Latin America have informed me about the policy priorities of governments. I have also learnt from discussions on the strategic direction of the Fund which have been energized by the 60th anniversary of the Bretton Woods Agreement. These discussions, along with the excellent work of our Independent Evaluation Office, are essential to maintain the Fund's effectiveness. And you will have noted their influence in my report to the IMFC.

Sustaining the recovery

Let me begin with some thoughts on the global recovery and how to sustain it. Over the last year, the recovery has become increasingly well-established. Global GDP growth this year is expected to be the highest in nearly three decades. In financial markets, the start of the transition to higher interest rates has been successfully managed by most countries. In short, the world economy has mounted a vigorous recovery from the slowdown of 2001. This is a remarkable performance in the face of the shocks experienced in the past few years. Some of this resilience is due to the improvements in policy frameworks and in the international financial architecture put in place after the crises of the 1990s. These are improvements for which you and your countries deserve credit, and we should be proud that the IMF and the World Bank have played a role in fostering these improvements. Looking ahead, there is much for our members to do to sustain the global recovery, and, therefore, there is much for the Fund to do to nudge them in the right direction.

Let me mention three areas. First, policymakers need to monitor carefully—and be prepared to address—the near-term effects of higher oil prices on their economies. To date, in many of our member countries, the impact of higher oil prices on output and inflation appears moderate. But a high oil bill places an especially heavy burden on the poorest countries, in part by reducing their ability to finance other much-needed imports; the Fund stands ready to help countries cope with this problem.

Second, the challenge of maintaining an orderly transition to higher interest rates has not ended. The move to a neutral monetary policy stance should be continued through timely actions by central banks. They should also communicate their intentions clearly as this will help financial markets adjust better to these policy actions. Of course, the desirable pace and timing of monetary tightening vary among countries, depending on their cyclical situations and the extent to which oil prices are contributing to inflationary pressures.

Addressing global imbalances

Third, we also need to continue policy actions to have an orderly adjustment of current account imbalances. This is a global problem and the solution requires efforts by many countries.

In the United States, the Federal Reserve earlier this year started to take welcome steps in response to the signs that the expansion had regained momentum. What is now needed is for U.S. fiscal policy to follow suit and carry out a more ambitious deficit reduction over the medium term.

European countries should use the recovery to implement structural reforms. This opportunity to boost medium-term growth was missed during the last upswing.

I hope Japan's continuing progress in dealing with its financial and corporate sector weaknesses will give a sustained boost to its growth, and thus contribute to the reduction in global current account imbalances.

Greater exchange rate flexibility in emerging Asia will serve both multilateral and national needs. In addition to reducing global imbalances, it would help countries in the region to better withstand external shocks.

Strengthening medium-term growth

We should also use this time of cyclical recovery to address structural challenges to continued global growth. We try to push these to the back of our minds by calling them *medium-term* issues, but they are now staring us in the face. The medium-term has come sooner than we thought.

First, there is a need to strengthen fiscal positions over the medium term. Public debt-to-GDP ratios need to be brought back to tolerable levels in a number of countries, including many in Latin America. Strengthening fiscal positions will help developed and developing countries deal with the pressures from aging populations. There is much to be learned from the examples of countries like Australia, Canada, Chile and Sweden, which have taken pre-emptive actions to bolster their fiscal positions, including through pension reform.

Second, we need energy policies that can bring about a better balance between energy supplies and demands. This balance can be achieved through changes in the structure of taxation, other policies to boost energy efficiency, and polices to encourage more innovation in alternative sources of energy. While efforts of oil-producing countries to stabilize the market through increased output are welcome, the medium-term solution will require investment in capacity expansion.

In many oil-producing countries in the Middle East—and in some in Africa, Latin America and the CIS as well—there is a need to save windfall revenues. This is particularly the case in countries with high public debt levels. Increased transparency about the use of revenues from natural resource sectors is much needed too. I commend the governments that have shown a commitment to transparency through their participation in the Extractive Industries Transparency Initiative (EITI).

Third, Doha Round negotiations are central to sustained growth. While recent framework agreements contain welcome commitments to reduce agricultural subsidies as part of an eventual settlement, they also leave many loose ends to be tied in other areas. A stepped-up political commitment is needed so that all countries can continue to benefit from a multilateral trading system.

Our new Trade Integration Mechanism can help countries facing short-term balance of payments difficulties in the transition to a more open global trade environment. In July, Bangladesh became the first country to benefit from this mechanism.

Keeping the IMF effective

The introduction of the Trade Integration Mechanism is only the latest example of a Fund that is responsive to the needs of its members. As I mentioned, the history of the Fund is one of constant adaptation of instruments to maintain the institution’s effectiveness. That is why I have launched a strategic review to discuss what changes are needed in the years ahead.

Promoting global financial stability

Surveillance of course remains at the heart of the IMF's work. The biennial review of surveillance, and my report on the policy agenda, show how surveillance is being sharpened to help countries adopt polices that will deliver sustained economic growth. A number of initiatives are also underway so that surveillance can provide early warnings of problems and hence serve as a better tool for crisis prevention. But to be effective, IMF surveillance cannot rely on early warning alone; it must also prompt early action. There is room for improvement here.

First, a prerequisite for effective surveillance is that our analysis and arguments should be convincing and expressed candidly. Where countries are following good policies, the findings of our surveillance help spread the word about best practices to other countries. But, by the same token, we should not shy away from pointing out problems with countries' economic policies to their policymakers and to the international community. The overwhelming endorsement of transparency by our member countries—the publication rate for country staff reports is now above 75 percent—is welcome. Making markets and the public aware of problems can prompt early action and strengthen the incentives for the adoption of good policies.

Second, country surveillance must be based upon a clear understanding of the specific circumstances of each country as well as the linkages across economies implied by financial integration. Even if a country is not itself at risk, its policies may have an impact on other countries and on the stability of the system as a whole. This requires that we intensify our firm surveillance of systemically important countries and of global capital markets.

Third, we must continue with the intensive health check-ups of financial sectors conducted through the Financial Sector Assessment Program. Over ninety countries have thus far taken advantage of the program. In a world of contagion, a clean bill of health for a country's financial sector is good news not only for the country itself but for its trading and financial partners too.

But however good our surveillance is, crises will not disappear, and the Fund will be called upon to help mitigate their impact. As shown by recent programs, the Fund stands ready to assist members facing temporary financial difficulties. Over the last decade, this crisis resolution has sometimes required the commitment of substantial amounts of Fund resources. In most cases, this commitment has paid off: it has supported strong stabilization and reform programs and helped to limit or avoid contagion. The IMF's loans to Mexico in 1995, to Korea in 1997, and the support in recent years to Brazil and Turkey, are some of the examples from the recent past where large-scale support was appropriate. That said, we also need a Fund that can say "No". The prospect of the Fund declining to provide financial support would strengthen the incentives to implement sound policies, thus avoiding the need for Fund support in the first place.

Assisting in the global war on poverty

Promoting financial stability through better crisis prevention and resolution is one aspect of the Fund's work. No less important is our work in low-income countries. In the last few years, the poverty reduction strategies drawn up by countries have served as the basis for the Fund's work with them. The Independent Evaluation Office recently concluded that this approach has had a positive impact on economic policy design and implementation in low-income countries. But the review also makes a number of recommendations on how the approach can be improved.

National ownership remains the foundation of successful poverty reduction strategies. A home-grown initiative such as the New Partnership for Africa's Development is for me a very positive example.

It acknowledges the responsibility of developing countries themselves to implement sound economic policies, and strengthen governance and institutions.

The Fund can help in its core area of expertise—provision of macroeconomic policy advice, including on financial sector reform. There can be little hope of sustained poverty reduction without macroeconomic stability. We have seen encouraging results where such stability has been complemented by structural reforms and by targeting public spending to areas of greatest benefits to people. Mozambique, Tanzania, and Uganda have seen sustained improvements in economic performance. Growth rates have also picked up in other African countries that have made progress in curbing inflation and establishing better control of the public finances.

Where such improvements in policymaking are evident, developed nations should fulfill their end of the bargain by liberalizing trade and delivering aid. They should improve access to their markets for developing countries' exports and dismantle trade-distorting subsidies. There must also be increased aid, not just for the countries under the HIPC Initiative but for others as well. In some countries, we are indeed seeing larger inflows of foreign assistance, including to combat HIV / AIDS. Other ideas for increasing aid for low-income members, including deeper debt relief and increased grant financing, are needed and welcome. The Fund is ready to help design polices that would help countries make the most effective use of these increased resources. Better aid coordination among donors, and multi-year commitments, are also needed to make development assistance more effective. But, first and foremost, we need to increase aid levels now.

Managing the IMF

Keeping the IMF effective will also require changes in management practices at the Fund. In addition to the work on the strategic direction of the Fund, we are working to ensure that the Fund is managed in a way that meets the highest standards of efficiency and financial integrity. This includes adopting a medium-term budget framework and conducting a review of the Fund's financial structure.

Voice and participation

We must continue to find ways to guarantee that the voices of all our member governments are heard. As you know, some very specific steps, such as providing more support to the African Executive Directors' offices, have already been taken. It is also important that the Executive Board maintain a consensus approach to decision-making, that we ensure representation of all regions and countries on the IMF's staff, and that management and staff listen to—and absorb—the policy priorities of all our member governments.

Many members want deeper progress on issues of voice and participation that would take into account changes happening in the world. It is my responsibility, in my first speech to you as Managing Director, to reflect these concerns; addressing them is vital to the viability of this institution. But changes in quota and voting shares will require a political consensus among our members that is not yet evident.

Conclusion

Mr. Chairman, Governors: the global outlook is bright, but far from risk-free. Let us seize this opportunity to make progress in tackling now difficult issues that will otherwise impose high costs in the future. The Fund stands ready to assist its members in improving the prospects for sustained growth to help them weather the shocks we will face in the future. I would like to thank you again for the confidence you have shown in me, and I am committed to working with all of you to tackle the challenges that lie ahead.

OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP

James D. Wolfensohn

Securing the 21st Century

Introduction

Mr. Chairman, Governors, distinguished guests, let me warmly welcome you to these Annual Meetings in the 60th year after the founding of the Bretton Woods institutions.

I salute my new colleague Rodrigo de Rato as Managing Director of the IMF. We have already begun to work closely together and I have come quickly to appreciate his experience and judgment. My colleagues and I would like also to congratulate my friend Horst Koehler on his appointment as President of Germany, and thank him for his significant contribution to the work of our two institutions.

The World Bank Group has a long and proud history. We contributed to global reconstruction after World War II before taking on our new role seeking to reduce poverty throughout the world. We have been an agent for growth with equity.

With only $11 billion contributed from shareholders to the IBRD, we have made almost $400 billion in loans. The IFC, founded in 1956, has brought $67 billion into the emerging markets. MIGA has issued $13.5 billion in guarantees. ICSID, meanwhile, has registered 159 cases where it has helped settle disputes.

On the strength of donor contributions and reflows from borrowers, IDA has committed $151 billion. The countries eligible for IDA are home to 80 percent of the world's poorest people who live on $1 a day. IDA is a truly remarkable instrument, designed to be effective and accountable. I hope our shareholders will increase their contributions to the next replenishment.

We must keep IDA strong.

I am proud of our achievements over the last 10 years. We may be 60, but we are young. We are a united institution, determined in our goal of "fighting poverty with passion."

We seek to support our clients as partners, respecting their culture and aspirations. We ourselves are diverse, with staff from 140 nations.

More than two-thirds of our country directors are now in the field, with our offices linked by satellite, making videoconferencing and distance learning a part of all our lives. We are one of the most modern global businesses.

During these years, we have sought to put our client countries clearly in the driver's seat. We listen more and lecture less. And we are not afraid to be self-critical.

We provide financing for projects, and knowledge - offering our global experience to clients. Our greatly expanded World Bank Institute plays a key role in this respect. So does our affiliate, the Development Gateway, which makes available on the internet information on development projects as well as synthesis of experience.

We have broadened our approach to development to make it comprehensive. We have confronted the issue of debt with the creation of HIPC, and attacked corruption, working with governments in more than 100 countries.

Our strategy is based on two pillars – investing in people, and creating a stable business climate so that investment is facilitated and jobs are created.

Working with the private sector is a central part of our Group's activities. We continue to benefit from both the support and criticism of a vibrant civil society throughout the world.

Development is about people. We focus on the important role of women and youth in development, and the special needs of indigenous communities, the Roma, and other excluded minorities. We are supportive of the special needs of people with disabilities.

The environment is also central to our work for we know that true and lasting development without preserving our planet is simply not possible.

We know that we can only be effective in partnership with others. We have reached out to the UN, and all other multilateral and bilateral agencies. To further improve our effectiveness, we are strengthening harmonization with others.

We have much to do. It seems that the challenges and problems are never ending. But great progress is being made and I would like to thank all my colleagues for their extraordinary work and commitment. There is no more dedicated nor more able group of people working to improve the world than our team at the World Bank Group.

Let me also express my profound appreciation to the Executive Directors of the Board, and to their predecessors for their many constructive contributions. They play a vital but sometimes difficult role as officers of the institution and as representatives of their countries.

An insecure world

At annual meetings in the past, I have spoken to you on many subjects, including the challenge of inclusion, the cancer of corruption, the importance of comprehensive development, and the need for a new global balance between rich and poor.

Today, I would like to discuss what is perhaps the most difficult challenge for the coming years. How do we better manage the big global issues – poverty, inequity, the environment, trade, illegal drugs, migration, diseases, and yes, terrorism?

This year, we are reporting record economic growth. And yet, somehow, we feel less secure about the future. Deep down, there is a nagging concern about the way the world is evolving.

One need only look at the cement barriers surrounding these buildings to understand the big difference from past years. They are not there for protestors. They are there for terrorists. A computer found in Pakistan showed that the Bank and Fund have been targeted by Al Qaeda.

Terror has reached our door

In recent times, we have seen things that cause us to question our basic humanity. Bloody wars in Afghanistan, Iraq and large parts of Africa. Unspeakable genocide and killing in Darfur. Despicable acts of terror in Bali and Madrid. Growing violence between Israel and Palestinians of Gaza and the West Bank. In Beslan, we have seen children taken hostage and shot in the back. In Baghdad, innocent men are brutally beheaded on television.

In reaction, we have become preoccupied with security. It is absolutely right that, together, we fight terror. We must. The danger, however, is that in our preoccupation with immediate threats, we lose sight of the longer-term and equally urgent causes of our insecure world: poverty, frustration, and lack of hope.

Over the past decade, Elaine and I have visited more than 100 countries. We have met with poor people in all of them – in villages and shanty towns, in remote rural areas, and in the slums.

Just like all of us in this room, they want to live safely and peacefully. Women want to build their lives free of violence against them both inside and outside their homes. They want education for their children. They want voice and respect. They want to retain their cultural integrity. They want hope.

They want security – but they define it differently than we do. For them, it is not about concrete barriers and military force. For them, it is the chance to escape poverty.

If we want stability on our planet, we must fight to end poverty. Since the time of the Bretton Woods Conference, through the Pearson Commission, the Brandt Commission, and the Brundtland Commission, through to statements of our leaders at the 2000 Millennium Assembly - and today - all confirm that the eradication of poverty is central to stability and peace.

It is still the challenge of our time.

We can meet the challenge

We know that development works. Over the last two decades alone, the proportion of people in poverty in the world fell by half - from 40 percent to 21 percent. Life expectancy in developing countries has increased by 20 years. Adult illiteracy has been halved to 22 percent.

The Bank's chief economist Francois Bourguignon, and I, have published a paper for these meetings that looks back on the lessons of development over the last decade, and looks ahead to the challenges of the future.

We can build on these lessons. At a conference in Shanghai that we organized with the Chinese government earlier this year, developing countries shared their experience of what works and what does not. Over 100 case studies showed that we can accelerate development rapidly if poor people are treated as agents of change, not objects of charity.

Many of you participated in the meetings in Doha, Monterrey, and Johannesburg. The developed countries made promises on aid, trade and debt relief. And let me add that we are very supportive of the proposals on aid and debt reduction that have been put forward by the US, UK, France, Brazil, and others. The developing countries, for their part, promised to do much more to build capacity and institutions, strengthen legal and judicial frameworks, improve financial systems, transparency, and fight corruption.

Next year we will meet at the UN to review progress in achieving the Millennium Development Goals—with 10 short years to go until 2015. Thanks to China and India, we know that the overall objective of cutting poverty in half, will likely be met. But we also already know that most of the other goals, for most countries, will not be met. Africa, in particular, will be left far behind.

So what are we going to do about it? What are our children going to do about a world that, in 2015, threatens to be even more out of balance—even more insecure—than it is today?

I believe, Mr. Chairman, that we must raise our game as an international community. We must do a better job of managing the key global issues that will determine our future. As I see it, there are three urgent priorities:

- Protecting the planet--through better stewardship of our environment;
- Scaling up poverty reduction; and
- Educating our youth differently for the 21st century—and giving them hope.

Let me touch on each of these.

Protecting the planet: environmental sustainability

First, protecting our planet.

We must promote growth with a full awareness of the natural systems on which all life depends. Economic growth does not have to come at the expense of the natural environment. They work together.

We all must do a better job of protecting our planet's fragile environment and addressing global warming. It has been three decades since the Stockholm environment conference, and despite progress made in some areas, the way we have abused the earth since then is alarming.

People in the rich world have overused and wasted tremendous amounts of energy. The average US citizen or Canadian uses nearly 9 times more energy than the average person in China - 12 times more than the average African. And as the climate changes, it is the poor in small island states, Latin America, South Asian countries, and sub-Saharan Africa who will be the most vulnerable to ravages of drought and floods.

Forests are cut down relentlessly. Of the world's species, a quarter of the mammals, and a third of the fish are either vulnerable or in danger of immediate extinction. Ninety percent of the big fish in the oceans have been killed off.

Mr. Chairman, we have proven ourselves better at menacing the planet than preserving it.

This was brought home to me two weeks ago when we had a visit from a poor but proud farmer who lives near Machu Picchu in the Peruvian highlands. He was in Washington for the opening of the National Museum of the American Indian, along with thousands of other representatives of Indigenous Peoples. As part of the opening celebrations of the museum, we at the Bank had a forum on culture and development.

He was wearing a traditional hat and dress, and his face was weathered by years of living at windy, high altitudes. Speaking in his native Quechua language, he told me that his mountains were “sad”. The glaciers formed on them for thousands of years had been the “smile” on the face of the mountains and those glaciers are now getting smaller every year, he said. As they recede, there is no water to refill the lakes and rivers. The animals suffer – the alpaca yield is half the normal size. The income of the valley has dropped 50 percent. Farmers are abandoning their homelands.

So this man from Machu Picchu had a simple question: “Can you help me get my glaciers back?”

For those who doubt the impact of global warming, this was an urgent cry for help. For him, this was not some abstract, long-term issue. It is an issue of immediate concern. For him, it is a matter of security.

Perhaps his cry for help is being heard. I welcome the recent decision of the Russian Government to ratify the Kyoto Protocol. Let us build on this effort, and other signals of support, to get political commitment by our leaders to fulfill our common responsibilities that were agreed at the Johannesburg Summit.

Environmental challenges affect all of us, but poor people are particularly vulnerable. We must give higher priority to renewable energy. New and clean technologies can allow the poor to achieve the benefits of development without having to face the same environmental costs the developed world has experienced.

We must keep the promise to preserve our planet

Scaling up the fight against poverty

The second urgent area where we must keep our promise is in scaling up poverty reduction.

We all know the basic facts. Half the people in the world live on less than $2 a day. A fifth live on less than a $1 a day. Over the next 25 years, two billion more people will be added to the global population – 97 percent of them in developing countries, most of them born into poverty.

Over the past decade, a quiet revolution has taken place in the effectiveness of development assistance: with countries taking ownership of their own programs; with aid being focused on good policies; and with increasing coordination among donors. Taken together, these changes can help us double or triple the impact of aid in the coming decade.

We can also multiply the effect of projects to reach more people. As you know, this has been a real issue for the Bank and our partners. We complete a project for five schools, or 100 miles of road, or 10 community programs--when the need is for 5,000 schools or 10,000 miles of road or 5,000 community programs.

At the Shanghai conference, we learned how we can build on small, successful projects—and scale them up. Common to all them was consistent management over a period of years, simple replicable models, and full participation of poor people.

I have seen it happen.

In 1996 while visiting China, I met a woman from the Loess Plateau where we supported an agricultural project in that arid, mountainous region. Living in a cave, she had no power or running water, and had little prospect of improving her life.

This spring, I had an emotional reunion with her and she told me about how her life had improved, how she now has two caves, doors, windows, water and power. How she had bought her son a motorcycle. How her son had found a wife. How she was now looking to educate her daughter.

She was one of three million people who found hope through a series of 32 similar projects in the plateau completed over 10 years. Projects that were carried out by thousands of individuals with spades literally turning rocky land into arable soil. The area is no longer dry and threatening, it is lush and full of crops and animals.

We and our Chinese partners provided management for 10 years, repeating the process while benefiting from lessons learned. These lessons are now being implemented elsewhere in China for the benefit of millions of people living on marginal lands.

The message is clear – we can scale up poverty reduction and thus build a more secure world.

Youth and education

Poverty, of course is of major concern to young people—and youth is the third global issue that I believe we must deal with urgently.

Almost half the world's population is under the age of 24. Half of the 14,000 new HIV infections that occur each day are in young people aged 15-24. More than 50 percent of young people of working age cannot find a job. With alarming frequency, youth are becoming involved in conflict—either as victims or, just as tragically, soldiers.

What then can we do for them and for ourselves to lead to peace?

One thing I have learned is that we must engage young people in finding the solution. Last month, when I met with youth leaders from 83 countries in Sarajevo, I was struck by their genuine desire to build a better future of harmony, respect, and peace. The young Bosnians, Serbs, and Croats I met were eager to put the country's past behind them. But they felt it was the adults who were holding them back. As they did in Paris the year before, they told me they are not the future – they are the now.

We must support our youth through education to create their better world. And it begins with early childhood development—because we know that a child's future is largely determined in the first six years of life.

I am very proud that the Bank is a leader in this field. We have invested over $1 billion in childhood education, and we make our global experience available to all via our website.

We are also actively pursuing the Millennium Goal of getting all children into primary school by 2015. But we have to recognize that education is not just about getting kids into school. Content and quality are key—and children need to stay in school.

Children in developed and developing countries also need to learn more about each other. I fear that today there is too much education for hate that will not be reversed in later years.

Providing children with a quality education is not only the right thing to do, it also has a huge development impact. If the 115 million children now out of school were to enroll, some 7 million new HIV infections could be avoided over the next decade. That is why, two years ago, we launched the Fast Track Initiative—to accelerate access to primary education for children not in school today. What has been our experience?

We estimated that $3.6 billion in additional aid flows is needed each year, for the next few years, to ensure that all children complete primary school. That comes to $1,200 per class of 40 children to pay for the teacher, books, and classroom, or just $30 per year for each child who is not now in school. This compares with the $150 per person that is currently spent on military and defense expenditures.

Sadly, the international community has not yet been able to mobilize the money. We are letting the children down--just as we did in 1990 in Jomtien, in Dakar in 2000, and again in Monterrey in 2002.

We are not keeping our promise.

Global leadership for the 21st Century

Mr. Chairman, these issues – protecting our planet, scaling up the war on poverty, and educating our youth, are among the most critical for a more secure world. We know what needs to be done. Why is it not happening?

I think it is because, as an international community, we are not managing global issues well enough. And yet, more than ever in the past, the most important issues facing us are global, not domestic, and long-term not short-term.

The way our system works today is that, at a sequence of global meetings, we agree on objectives. On everything from environmental targets, to the importance of gender equity, to education. In recent years, under the remarkable leadership of Secretary-General Kofi Annan, the UN has convened a number of international conferences. In the year 2000, as we all know, the Millennium Assembly set goals for 2015 and they were adopted unanimously.

National governments supported by international agencies and responsible institutions then try to achieve those objectives. Every five years or so, another global meeting is held to review progress. Usually that meeting concludes that we have not achieved the objectives. New targets are set. Blame and praise is attributed and we set out on the next five years.

During those five years, various groupings of heads of state and ministers spend a day or two per year discussing one or other of the global targets and commitments. The most visible annual gathering is the G8. But there are many others: the G10, G20, G24, and G77. And there are regional groupings of leaders in Asia, Africa, Latin America, Europe, and elsewhere.

Although these meetings have contributed to the enormous gains in development over the past decades, we are falling behind on the goals we have set. We need stronger leadership and we need more continuous engagement on the key global issues.

Actually, this was the original idea behind the G7 when it first met a quarter century ago. It was a recognition by the leaders of the major countries that they needed to set aside two days a year and consider long-term global issues. Their meetings are hugely visible and important. They bring the attention of the entire world to key issues.

But global challenges have only grown more demanding. And the balance between the developed and developing world has changed greatly in the past 25 years, and is set to change further.

Perhaps the G8 leaders, who have achieved so much, would consider coming together on a more frequent basis, with a broad representation from other parts of the world to seek new ways of supporting urgent global issues. In this way, they could report on global progress, publicize efforts in pursuit of the goals, and help ensure that promises are fulfilled.

In today's world, we are not only national citizens, but global citizens. Without greater visible engagement by global leadership, we will not make the breakthroughs we need to ensure real security and peace.

Conclusion: promises to keep

Mr. Chairman, we are one world. Damage to the environment somewhere is damage everywhere. Poverty somewhere is poverty everywhere. Terror somewhere is terror everywhere. If there is a bombing in Bali, or Madrid, or Moscow, we all get scared. We all feel insecure.

Making our planet equitable and safe is an issue that we all need to come together on - and we need global leadership and political will to do it. That is the only way we can keep our promises to the farmer of Machu Picchu, the woman on the Loess Plateau, and the young people in Sarajevo.

It is our duty to ourselves. It is our duty to our children. It is the choice we must make for security and peace.

REPORT TO THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND BY THE CHAIRMAN OF THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Gordon Brown

Chairman, Governors and distinguished guests, I report from the IMFC, meeting on the eve of the 60^{th} anniversary of the IMF

- Now more than ever vigilant in our enduring responsibility for ensuring global economic stability
- Now more than ever mindful of the increased importance of our role in surveillance and agreed that it must be enhanced for the next step in the IMF's history
- And conscious of our duties not just to the beneficiaries of global economic growth but to the poorest and most vulnerable who are at risk of being its victims.

With our starting priority this year the task of sustaining the global recovery which is strengthening, but whose impact remains uneven.

And with oil prices doubling in little more than a year, and global imbalances worsening, we agreed that action must be taken to address risks to recovery. We accepted the advice of the new Managing Director, whom we welcome to the job, that in the coming months, the Fund's surveillance should focus on; the impact of high oil prices and worsening terms of trade; the sustainability of medium-term fiscal positions and debt in many member countries; the management of policy responses to inflationary pressures; and economic reform and flexibility.

Second, we wished to emphasise the importance to growth of stability in oil markets around reasonable prices consistent with sustained global growth. We welcomed the decisions made by oil-producing countries to continue to expand production and we urge on them further measures to increase capacity. We also called on oil consuming countries to take measures to promote more sustainable use of energy. And for the first time we agreed on the importance of new efforts to improve information about the oil market and to increase transparency and called for continued dialogue between consumers and producers.

Third, we agreed that all countries should take advantage of the recovery to address medium-term vulnerabilities and challenges. We agreed that bold reforms on a wide front are needed to strengthen fiscal positions, remove structural impediments to growth, reduce financial and corporate vulnerabilities, support the correction of global current account imbalances, and accelerate the reduction of poverty.

And, we agreed that it is our shared responsibility here to bring forward policies to achieve an orderly resolution of global imbalances, to achieve progress on medium term fiscal consolidation in the United States, continued structural reforms to boost growth in Europe and Japan, and in emerging Asia – to take steps towards greater exchange rate flexibility, supported by continued financial sector reform.

Finally, as well as addressing these risks to the global recovery, we discussed our concern at the slowness of progress – especially in sub-Saharan Africa.

Four years at the turn of the millennium, in an historic declaration, this body and every world leader, every international body, almost every single country signed up to a historic shared commitment to right the greatest wrongs of our time.

Our promise that in return for action on corruption, and to improve the environment for trade and investment in the poorest countries, the richest countries would help ensure that:

- By 2015 every child would be at school.
- By 2015 avoidable infant deaths would be prevented.
- By 2015 poverty would be halved.

But already, so close to the start of our journey, we can see that our destination risks becoming out of reach, receding into the distance. So unless we take concerted action now, already we can see that the promise is at risk of going forever unfulfilled, and we will be remembered not for promises made but for promises broken.

For at best on present progress in sub-Saharan Africa:

- Primary education for all will be delivered not in 2015 but 2130 - that is 115 years too late.
- The halving of poverty not by 2015 but 2150 - that is 135 years too late.
- And elimination of avoidable infant deaths not by 2015 but by 2165 - that is 150 years too late. And the world will say that 150 years is too long to wait for justice.

Next year, 2005, five years on from the Millennium Declaration, will be a crucial, defining year: a year of challenge and a year of opportunity when the richest countries must redeem their promises to the poorest countries making the reforms, and work to build a virtuous circle of debt relief, poverty reduction, trade and economic development.

So we agreed on the need to strengthen the joint work of the IMF and the World Bank in low income countries, for which we congratulate Rodrigo de Rato and Jim Wolfensohn.

We welcomed the joint report of the IMF and World Bank to improve aid effectiveness and on financing modalities, and we encourage further analysis by the Bank and the Fund on the mechanisms for increasing aid flows, including the International Finance Facility, and other innovative mechanisms – and we look forward to a further report at our next meeting

And in the vexed and critical area of debt relief, we have made progress, with more to come, in: first, agreeing the extension of the HIPC Initiative; second, in the continuing work to develop a framework for debt sustainability; and third, in considering how we can achieve 100 per cent relief to multilateral debt.

The 60th anniversary of the IMF is a timely opportunity to reflect on the forces that will help shape the institution's priorities going forward. The committee welcomes the work on the IMF's strategic direction initiated by the Managing Director and looks forward to a discussion at its next meeting.

But it is also the moment when aware of urgent needs, conscious of our founding ambition that prosperity to be sustained must be shared, more aware than ever that both peace and prosperity are indivisible, we must reaffirm our vision and we must make our 60th anniversary the year when we moved further and faster to create a world economy that instead of working for some of the people some of the time works for all of the people all of the time.

REPORT TO THE BOARDS OF GOVERNORS OF THE FUND AND THE BANK BY THE CHAIRMAN OF THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES (DEVELOPMENT COMMITTEE)

Trevor Manuel

Mr. Chairman, Mr. de Rato, Mr. Wolfensohn, Governors, ladies and gentlemen: as Chairman of the Development Committee, I am pleased to report to you on the Committee's work during the two meetings held in 2004.

When I last reported to you in Dubai, I advised you that the central focus of our meetings had been the implementation of the strategies, partnerships and actions agreed in Monterrey and Johannesburg to achieve the Millennium Development Goals. The partnership set out in Monterrey identified the clear need for strengthened efforts by both developed and developing countries, as well as international institutions. For developing countries, three areas in particular were emphasized: improving the environment for investment and private sector activity, strengthening governance, including public financial management and increasing human capital through broader and more effective delivery of basic services to the poor. For developed countries, increased market access, debt relief and increases in the volume, predictability and effectiveness of aid were highlighted.

We have continued to focus on these same critical issues during the last year.

At the Committee's Spring meeting, we reviewed the first *Global Monitoring Report* prepared, at our request, by the staff of the Bank and the Fund to assess progress on the policies and actions needed to achieve the MDGs. Despite progress on many fronts, including significant reforms undertaken by developing countries and important gains in reducing income poverty, it is not adequate. We are concerned that, based on current trends, most Millennium Development Goals will not be met by most developing countries, particularly in sub-Saharan Africa.

Progress in the reform effort in many developing countries has been demonstrated not only in the reduced levels of global poverty – but also in the strong growth being witnessed in the global economy today. This has had a direct and positive effect on the capacity of these countries to carry out country-led efforts to reduce poverty. At the same time, we are mindful that not all developing countries have benefited from this rise in global growth and that further efforts are required to spread the opportunities for private sector-led growth.

In that regard, we have stressed the importance of a successful conclusion of the Doha Development Agenda. We noted with satisfaction the many positive signs emerging from Geneva and elsewhere. The challenge is now to seize the opportunity to turn the recently agreed frameworks into tangible results.

To take advantage of new opportunities, we have to help developing countries strengthening their capacity to compete. This means in addition to improved trade access and support to address potential adjustment costs, helping them to strengthen their investment climates. We have welcomed the renewed focus in the Bank being given to private sector development and urged an intensification of work on potential sources of growth and ways to mobilize them.

Strengthening the foundations for growth also depends critically on addressing the large infrastructure needs in many countries. We have considered progress on the Bank Group's Infrastructure Action Plan and called for an acceleration in support of country efforts, including at the regional level.

These and other actions required to lay the basis for sustained stronger growth are critical to our ability to achieve the MDGs, as is the progress in providing effective health systems, education for all and other basic social services. Regrettably, reform efforts in many developing countries continue to suffer from a lack of adequate funding. We are on the verge of missing the first MDG next year which is to achieve gender equality in primary education. We have called urgently on donor countries to respond to this initiative and provide the necessary financial support. The world cannot allow any more generations of children to have their lives wasted.

As we stated in Monterrey, sound policies by developing countries must be supported by adequate and appropriate financing. Ensuring this and enhancing aid absorptive capacity through policy and institutional reforms is critical to the virtuous cycle of actions needed to meet the MDGs. We urged all countries, without delay, to take specific steps to meet their commitments to provide additional aid resources by 2006.

We have also examined a report by the Bank and the Fund on innovative mechanisms that could provide additional financial support – including an International Finance Facility, global taxes and voluntary contributions. In considering these options, we agreed on the need to ensure additional resources and that too little resources are currently available. We also acknowledged the flexibility that could be achieved through the use of variable geometry in the implementation of new financing options. We have asked the Bretton Woods Institutions to continue their work and to report back to us at our next meeting on how to take such options forward.

While welcoming the broad agreement within the international community to harmonize and align support behind country-owned policies, we recognize that further concrete actions are required to turn this into clear and specific commitments and timetables. We have urged that the Second High Level Forum on Harmonization in Paris next Spring agree to indicators and benchmarks. At the same time, while welcoming progress on implementing the Poverty Reduction Strategy, we called for further efforts to address remaining challenges and have called for a review of efforts by the Bank and the Fund to streamline their aggregate conditionality.

The Committee has reviewed progress under the HIPC initiative. We have reconfirmed our commitment to its implementation and full financing, and agreed to extend its sunset clause for another two years. The achievement of long-term debt sustainability is an essential underpinning for growth. We have welcomed the development of a forward-looking debt sustainability framework to help low-income countries manage their borrowings and avoid a buildup of unsustainable debt, while pursuing the MDGs. We have asked the Bank and the Fund to complete the remaining work on making this new framework operational as soon as possible. At the same time, we have also called on staff to accelerate their work on ways to help reduce the vulnerability of these countries to exogenous shocks.

Finally, as called for at Monterrey, we have continued our discussion of innovative and pragmatic ways to enhance the voice and effective participation of developing and transition countries in the work and decision making of the Bank and the Fund. As I have said before, there is no single approach to accomplish this, but rather action is required over time across a range of issues. Some progress has been made.

However, as to the most challenging issues of quotas, voting structure and composition of the Boards, it is recognized that these will require time and effort to arrive at the necessary political consensus. We are committed to continue our efforts on these matters. We have asked the Boards to provide us with a report regarding the feasibility of a number of options, so that we might address the necessary political decisions at our next meeting.