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INTRODUCTORY NOTE

The Fifty-Ninth Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C. on September 24–25, 2005, 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 2004; 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, 2005

Opening Address by the Chairman of the Boards of Governors and Governor of the Bank and the Fund for the Democratic Republic of the Congo

André-Phillipe Futa

President Wolfowitz, Managing Director de Rato, my fellow Governors, Excellencies, ladies, and gentlemen: I would like to welcome you all to the 2005 Annual Meetings of the World Bank Group and the International Monetary Fund. It is a great honor for my country and me personally to be chairing these meetings.

From the outset, please allow me to extend our deepest condolences to those who have suffered as a consequence of latest natural disasters—famine in Niger, hurricane Katrina in the U.S. and Tsunami in the East Asia region. In memory of those who lost their lives during these tragic disasters let us observe one minute of silence. In the present complex international environment, often characterized by uncertainty, wars and acts of terrorism, natural calamities of that magnitude once again confirm the urgent need for better international cooperation at all levels. Poverty and desperation often are breeding grounds for disaffection and violence. We live in an interdependent world, and what happens in one region will affect all of us. I would like to extend a warm welcome to the new President of the World Bank, Mr. Paul Wolfowitz. We look forward to his leadership of the Bank. We also welcome the continued strong leadership of the IMF by Mr. Rodrigo de Rato. Let me also express our profound appreciation to former President James Wolfensohn, for the energy and focus which he had brought to the work of the World Bank Group throughout the ten years of his exceptional stewardship.

Global Macroeconomic Issues

I am pleased to note that the global economy has continued to expand strongly, with inflationary tendencies remaining subdued. Nonetheless, despite the favorable economic conditions, growth divergences remain, and global imbalances continue to increase. At the same time, oil prices have continued to rise, and while the increases appear to have had a limited impact thus far on the global economy, the situation needs to be continuously monitored.

More than ever, the roles of the Bank and the Fund in enhancing the coherence and consistency of the international monetary, financial, and trading systems are crucial. Bank assistance and IMF surveillance provide the foundation for international cooperation to address economic risks and threats.

Assistance to LICs and the Millennium Development Goals

Earlier this month, at the UN Summit in New York, world leaders and development partners took stock of progress toward achieving their vision for development. They reaffirmed their commitment to the goals set by a UN Millennium Summit in 2000 to half poverty by 2015. At the same time, they have voiced concerns that without bold actions the Millennium Development Goals (MDGs) will not be reached.

I am pleased to note that the World Bank and the IMF remain fully engaged in efforts to help countries foster growth and reduce poverty through the attainment of the MDGs. The two institutions need to continue their efforts in assisting low-income member countries to maintain macroeconomic and financial stability, build institutions, and provide important policy advice. In this regard, I welcome the recognition of the need to adapt to new challenges and changing needs of the member countries in the IMF's medium-term strategy. Providing more fiscal space for investment in key areas such as infrastructure is now long overdue.

The second Global Monitoring Report, published jointly by the Bank and the Fund, set out an agenda of actions that can help build the momentum needed to attain the MDGs. The report specifically called for special attention to be given to accelerating progress in Sub-Saharan Africa, the region farthest from attaining the goals.

As I invite your attention to the issues pertaining to developments in Africa and the important lessons that can be learned from African and specific country experience, please allow me from now on to continue my speech in French.

Focus on Africa

Assistance to Africa was one of the major topics on the agenda of UN Summit in New York and the G-8 summit at Gleneagles. Their outcomes represented not just a commitment by the Heads of State and Government to increased assistance but also to increased performance by the countries in Africa

Why focus on Africa? It is the only region where people are poorer today than they were 30 years ago. Poverty is being exacerbated by the spread of HIV/AIDS, malaria, and other diseases, lack of basic services and infrastructure, corruption and poor governance, violence and a technology deficit. Yet, Africa is changing. There are more elected governments and fewer civil wars. A number of countries have enviable growth rates. African governments, through the African Union and New Partnership for Africa's Development (NEPAD), are showing the leadership necessary to take this progress further.

Some key outcomes of the UN and G-8 summits captured this momentum very well. It was recognized that positive change is taking place in Africa. The international community made some unprecedented commitments, the most significant of which is the doubling of aid to Africa—from $25 billion to $50 billion by 2010. Strong impetus was given to debt reduction with the proposal by the G-8 to cancel the debts to the IDA, the Fund, and the African Development Bank of many countries, the majority of which are in Africa. The importance of investing in infrastructure was also emphasized, and indeed should be the focus of the Bank and the Fund.

Trade

While the recent commitments made by donor countries indicate a great step forward, the developed world can do more than reduce debt and increase financial aid, particularly when it comes to liberalizing trade, especially in agricultural products. There are many artificial barriers in developed countries against imports from poor countries, while developing countries need equitable market access. These policies are mandating continuing poverty around the globe.

Phasing out agricultural subsidies in rich nations would be an important part of tackling poverty in the world's poorest ones. African countries are anxious to receive a positive response to a call made four years ago by a group of Sahel countries for a “Compensation Fund” to redress damage caused to cotton producing economies by the OECD subsidies.

While we acknowledge the important role of Bretton Woods Institutions, results will always take place at the country level and the countries themselves have to take the lead in advancing the reform agenda.

Lessons from DRC

When you elevated me to this Chair last year, you not only honored me personally, but you also honored my country, the Democratic Republic of the Congo. I would like to take this opportunity to share with you a lesson or two from my experience in managing a strong partnership that my country has built with the Bretton Woods Institutions in the last few years.

For a decade, my country was affected by armed conflicts and natural disasters, which led to millions of fatalities and enormous collateral damage. As was to be anticipated, political divisions and disastrous economic consequences ensued. In spite of these difficult conditions, the Government decided to adopt, with the IMF's technical assistance, followed by the Bank's financial support, a staff monitored program (SMP) aimed at breaking the long standing hyper-inflation cycle and introducing rigorous monetary and budgetary policies along with a set of first generation structural reforms.

The outcome was outstanding. The budget's deficit, which varied between -3 and -7 percent of GDP during the 90s, turned into a surplus of 0.6 percent of GDP by 2001. Inflation dropped from 600 percent per annum through the 90s down to 135 percent in 2001 and to 16 percent in 2002. Real GDP growth reached 3 percent, turning positive for the first time in 10 years.

In June 2002 based on the success of the SMP, the country adopted a three-year economic growth and poverty reduction program. A year and a half later, DRC reached a Decision Point under the Heavily Indebted Poor Countries (HIPC) Initiative. As we speak today, the country is striving to finalize the Poverty Reduction Strategy Paper (PRSP) and is determined to move to the Completion Point by 2006.

In this regard, I just want to draw one or two lessons from my country's experience. First, conflict affected countries are faced with a double challenge: the population lives in great misery and the state is almost nonexistent. The first order of business must therefore be the restoration of peace, within and outside the borders. This can only be achieved with the help of and under the leadership of the international community. A second lesson concerns the magnitude of aid and the quickness with which aid is delivered. The faster and the deeper aid is delivered the faster one can stop the deterioration in economic indicators and ultimately the faster poverty reduction can be achieved.

Third and last lesson, no program can be accomplished successfully in the absence of ownership of the program by the leadership and if certain norms of good governance and transparency are not met.

Conclusion

Those are the few thoughts I wanted to share with you on several important issues we are going to discuss, among others, in the course of our meetings—the global macroeconomic situation, trade, assistance to low-income countries, with special focus on Africa and lessons to be learned from specific country experience, as well the achievement of the Millennium Development Goals.

The international community set the stage by the endorsement of the Millennium Development Goals that pledged to substantially reduce poverty in the developing world by 2015. The leaders of developing countries have responded with an impressive commitment to pursue economic and political reforms. While bold statements have been made on both sides, the world is now expecting bold action.

Let us now turn to the work at hand. I hereby declare the 2005 Annual Meetings of the World Bank Group and the International Monetary Fund open.

OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP

Paul D. Wolfowitz

I. Call for Action

Mr. Chairman, Governors, and Distinguished Guests, I am very pleased to welcome you to Washington for the Annual Meetings of the World Bank Group and the International Monetary Fund. It is an honor to address you, for the first time, as President of the World Bank Group.

And it is also with an enormous sense of responsibility that I assume this leadership role in an institution that stands at the heart of global efforts to give the poorest people of the world the opportunity for a better future.

And I would like to express my gratitude to my colleague Rodrigo de Rato at the International Monetary Fund, and to my own Board of Directors—they have provided close and valuable support during the last few months.

I would especially like to thank Jim Wolfensohn who could not be here today. I know we all wish him well and a speedy recovery. His leadership over the last 10 years did so much to build the morale and the image of this institution and to focus us on our central mission of poverty reduction. Jim also brought crucial issues—such as corruption and the role of civil society—to the forefront of the development agenda. The World Bank Group is much stronger today thanks to his leadership.

We meet today at an extraordinary moment in history. There has never been a more urgent need for results in the fight against poverty. And there has never been a stronger call for action from the global community.

The night before the G-8 Summit in Gleneagles, I joined 50,000 young people gathered on a soccer field in Edinburgh for the last of the Live 8 Concerts. The weather was gloomy, but the rain did not dampen the enthusiasm of the crowd.

All eyes were riveted on the man who appeared on the giant video screen—the father of South Africa's freedom. And the crowd roared with approval when Nelson Mandela summoned us to a new struggle—the calling of our time—to "make poverty history."

Anyone who faces the facts agrees that there is an urgent need for action.

Every day, thousands of people living in extreme poverty, many of them children, die from preventable diseases.

The scale of death and deprivation in Africa is particularly alarming. Since 1981, the number of Africans living on less than $1 a day has nearly doubled from 164 million to 314 million.

But much can be done to help people escape from poverty, to save lives and to create hope. The call to end poverty reaches across generations, continents, and nationalities. It spans religions, gender, and politics. From concert stadiums to street demonstrations to high profile summits—citizens and leaders—from rich and poor countries alike—have been moved by the suffering. They demand action.

At Gleneagles this July, a landmark agreement was reached. The G-8 leaders pledged to double aid to Africa and to cancel the debt of the poorest countries. So we are at a turning point and there are grounds for hope. The last few decades, in fact, have witnessed dramatic improvements in conditions of the world's poorest people.

In the last twenty-five years, the number of people living on less than $1-a-day decreased by some 400 million—the largest drop in centuries.

People in developing countries are living longer—on average nearly fifteen years longer—than they did forty years ago.

Thirty years ago, 50 percent of the population in developing countries was illiterate. Today, that proportion has been cut in half.

Much progress has been made—and more is possible. The achievements we have seen in large parts of Asia and Latin America can transform other parts of the world.

A few weeks ago, I met with a poor Pakistani woman from the village of Dhok Tabarak who was participating in a rural development project sponsored by the Pakistan Poverty Alleviation Fund with help from the World Bank.

I asked her whether the success of her project could be reproduced elsewhere in Pakistan. With passionate conviction she said, "Why not? The Japanese have done it. The Chinese have done it. Why can't Pakistan do it?"

What a difference forty years makes. I recall reading pessimistic analyses in the mid-1960s that said South Korea was doomed to failure because it lacked the ingredients deemed necessary for successful development. Yet in the span of a few decades, Korea and East Asia have experienced the greatest increase in wealth for the largest number of people in the shortest time in the history of humanity.

If we can liberate the energies of the African people and unleash the potential of the private sector to create jobs, Africa will not only become a continent of hope, but a continent of accomplishment.

When Africa's challenges seem overwhelming and the statistics staggering, let us remember—for every Afro-pessimist today, there was an Oriental fatalist forty years ago.

II. Evolution of Development Thinking

We have also come a long way in the last 40 years in our understanding of how development works. We know it can be a complex and—in some ways—mysterious process.

Forty years ago, scholars sought to explain economic growth primarily in terms of inputs of labor and capital. When a third variable—technology—was introduced, that was considered a remarkable innovation. Today, we have a much broader and better understanding of what drives development and growth.

We know that sustained economic growth is essential for development and reducing poverty. And, we also know that many of the drivers are not measurable in numerical terms. Because they are harder to measure, harder to predict and often harder to influence, there is a tendency to discount these factors as "soft."

That would be a mistake—because sustainable development depends as much on leadership and accountability, on civil society and women, on the private sector and on the rule of law, as it does on labor or capital.

Let me speak briefly about each of these four factors

Leadership and Accountability

Perhaps the most important determinant for reducing poverty is leadership.

But, development is a team sport, so the leadership we are talking about is not a matter of individual performance; it must stand on a bedrock of trust, respect, and teamwork. As Nelson Mandela told me—real leadership requires understanding, that you are not acting as an individual, that—in his words—you are representing the collective.

Or, as he also put it plainly many years ago, “There’s no limit to what you can achieve as long as you don’t give a damn who gets the credit.”

Effective leaders also recognize that they are accountable to their people. Effective leaders listen. Institutions of accountability like civil society and a free press can help leaders listen, help hold them accountable for results and expose corruption.

Corruption drains resources and discourages investments. It benefits the privileged and deprives the poor. It threatens their hope for a better quality of life and a more promising future.

Accountable and sound governance, on the other hand, nurtures the soil in which a robust civil society and an energetic private sector can flourish.

Civil Society and Women

A second key factor is civil society, and particularly its role with respect to women.

Civil society organizations (CSOs) contribute to accountability by providing an important bridge between citizens and their governments. But, they are more than that. CSOs are engines of growth and instruments of opportunity. In every country I have visited, they offered a wealth of experience in learning, adapting, sharing knowledge, and contributing to growth in their local communities.

And civil society organizations are particularly important for empowering women, who are a key factor for successful growth. As one poor woman told me in Pakistan, “Development is like a cart with two wheels—one man and one woman. If one of the wheels isn’t moving, the cart won’t go very far. ”

Millions of women have benefited from vigorous CSOs like the Bangladesh Rural Advancement Committee and the Grameen Bank that provide small loans to help them start businesses. The profits from these businesses are being used to send children, and especially daughters, to school.

A third important factor is the private sector. A vibrant private sector is the most important engine of growth and job creation.

One of the biggest obstacles to the growth of small and medium businesses is lack of credit. The Bank Group has provided sound policy advice to support micro-lending, but we need to explore innovative ways to expand access to financial services, including both local and regional needs and approaches.

MIGA and the IFC offer vital resources and advice to address risk, credit, and equity needs. One of the IFC’s and the Bank’s most important contributions to fostering an investment-friendly climate is the Doing Business Report which evaluates conditions in 155 countries.

That report points out that in many African countries, the costs to register a business are so prohibitive, that most entrepreneurs are forced to operate outside the formal economy.

The report is a critical tool for developing countries to determine where more reforms are needed.

Rule of Law

And finally, we cannot make headway in the fight against poverty without supporting equality before the law and the legal empowerment of the poor. These are essential components to unleash the social and economic energy of poor communities.

Knowing that laws can be upheld—that rights are protected—that contracts will be enforced—encourages people to invest in their future.

And a sound legal framework also needs to be complemented by a regulatory environment that is consistent, coherent and applied with fairness.

As one African businessman said to me, “Bribery isn’t the issue. I just wish there was less room for bureaucrats to interpret the rules. ”

III. Focus on Making a Difference

As we continue to work closely with our partners in 184 countries, we in the World Bank Group must recognize that we cannot be all things to all people. Just as our partners have unique concerns, the Bank Group has unique capabilities. If we try to be experts at everything, we risk being successful at nothing.

To learn—to develop expertise, we need to listen to our partners. As a Governor of a State in Nigeria said to me, “I don’t need one more PhD coming here to tell me what my problems are. I need help with solutions.”

To find those solutions, we need to strengthen our knowledge and expertise in such areas as education, health, infrastructure, energy, and agriculture.

Education

One of the encouraging signs I saw on my trip to South Asia is the premium Pakistan and India are now placing on girls’ education. It seems that Pakistani men increasingly agree that their daughters need to be educated as well. Through the Education for All Fast Track Initiative, the Bank plans to join other donors to double the enrollment of girls in 60 countries over the next five years. We have a plan. Now we need the resources. We will need to raise at least $2.5 billion per year to fulfill the dreams of thousands of school children eager for a brighter future.

Health

And like education, the health problems of the poorest people pose a human tragedy, impedes growth, and obstructs opportunity.

In the last five years, the Bank has invested nearly $2 billion to roll back the tide of HIV/AIDS and to restore hope and opportunity for victims. I pledge to remain deeply engaged in this fight for life and human dignity.

But it is also clear to me that the Bank needs to increase its commitment to fighting malaria. When nearly 2,000 African children die of malaria every day, we must act.

We must fight malaria with the same urgency as HIV/AIDS. And the experience of Vietnam proves that with focus, great results can be achieved. Facing a malaria epidemic in 1991 that affected a million people, the Government of Vietnam targeted its assistance at the village level, distributing bed-nets, drugs, and insecticides. Within five years, outbreaks ended and mortality dropped by 97 percent—97 percent.

In more than a dozen countries in Africa, the World Bank will commit $600 million over the next three years to a new "Booster Program" to control malaria. We have set clear targets for ourselves: we will make bed-nets available so that 60 percent of the populations will be covered; and so that within 24 hours of symptoms, 60 percent of the populations will have access to treatment.

Infrastructure

One of the most persistent messages I have heard during the past few months from people in developing countries, poor and rich, citizens and leaders alike, was the need to restore our role in infrastructure investment. Infrastructure is the lifeline to many other things: to health care, to education, to jobs, to trade.

We will not see an end to poverty when 90 percent of businesses in Nigeria rely on backyard generators for power. We will not see incomes grow when poor Latin American farmers have no roads to transport their produce to markets. And we will not see improvements in health as long as more than 2 billion people lack access to safe sanitation.

But in addressing these infrastructure challenges, we need to learn the right lessons from past mistakes. Intelligent management of a country's natural resources is essential to ensure that short term gains are not made at the expense of long term health of the poor and their environment.

Energy and Sustainable Development

So. intelligent management of resources and the environment contributes to growth. The international community as a whole needs to make a more concerted effort to mitigate and adapt to climate change, while meeting the energy needs of the developing world.

The mandate from Gleneagles gives us the opportunity to think outside the box. We are advancing the energy and development dialogue as we seek innovative ways to use new technologies. We will strengthen our cooperation with middle income partners like Brazil China, India, Mexico, and South Africa who face growing demand for energy. The goal is to achieve a new, more climate-friendly development path, that meets the energy needs of the developing world.

Agriculture

Forty years ago as a management intern at the U.S. Bureau of the Budget, I wrote a paper attempting to demonstrate why the U.S. should provide subsidized fertilizer to Pakistan rather than dumping wheat and destroying the local markets.

Forty years later, it seems we are still doing something similar in Africa—supporting emergency famine relief instead of improving agricultural production to prevent famine.

In Asia and Latin America, the Green Revolution of the 70s and 80s played a vital role in reducing poverty and hunger and fostering economic growth. Yet, total aid to that sector declined dramatically during the 1990s. We have begun to reverse the trend and it is producing important results.

Latin American and African researchers have collaborated to increase cassava productivity by more than 40 percent. And, there is hope that more research will lead to improvements in the nutritional value of basic crops.

But investments in agriculture alone will not improve farm incomes. Rich countries must end agricultural subsidies that distort prices and restrict market access for poor farmers. Successful liberalization of trade in the next Doha round is as important for enabling people to escape from poverty as are increases in aid or debt relief.

IV. Africa

So, what does this mean for Africa? Much of the hardest work ahead for the World Bank Group and other donors lies there, as the Chairman pointed out already. With staggering needs in education, nutrition, clean water and sanitation, healthcare and jobs—the challenges are daunting.

Nonetheless, I am hopeful. As Nigeria's President Obasanjo said to me in June, "Africa is a continent on the move." Africans are stepping up to their responsibilities and taking charge of their future. In Nigeria, senior officials have been jailed for corruption. In South Africa, a Deputy President was dismissed because his adviser took a bribe.

A new generation of African leaders is setting examples by stepping down when their terms of office end or when they are voted out.

But let us remember, the responsibility doesn't belong to the developing world alone. At Gleneagles, a partnership was forged between Africa and the G-8 countries—a partnership designed to deliver results. Those partners pledged performance for assistance.

The Millennium Development Goals are an important start in defining the terms for that new compact. They define a vision for lifting millions out of poverty by 2015.

But also, let us remember the MDGs cannot be achieved without growth.

We need to recognize the importance of shared growth and equity to achieve the MDGs. Without sustained growth, real poverty reduction is impossible. But growth alone is not enough. As the World Development Report points out this week, we need to create equality in opportunities for the poor, not only to improve their own lives, but to increase their ability to contribute.

To improve opportunity, accelerate shared growth, and help fulfill the MDGs, the Bank launched an Africa Action Plan earlier this month. That plan sets forth 25 initiatives to be led by African countries over three years, with measurable outcomes. This time next year, you can count on getting a progress report.

V. Implications for the World Bank

Whether investing in education, health, infrastructure, agriculture, or the environment, we in the World Bank must be sure that we deliver results.

And by results, let me be clear. I mean results that have a real impact on the daily lives of the poor. We stand accountable to them.

We cannot just count the number of schools, clinics, and businesses that are established. It is also about the quality of the curriculum, the quality of the health care delivery and the quality of the jobs created. We must address both the qualitative as well as the quantitative challenges that deny opportunities for the poor.

And we must remember we are but one player in this global effort—which must be guided and defined at the country level. We must remember that we are part of a team.

In Rwanda, I had the privilege of meeting Dr. Agnes Binagwaho who heads their National AIDS Council. She told me with great pride that if a man shows up alone at a clinic, he is sent home to bring his wife and children before he can receive care.

Dr. Binagwaho stands her ground firmly on another equally important point. She politely but firmly insists that Rwanda's donors support one integrated health plan—no more special interest spending, she tells them.

By asking us to better coordinate our assistance to improve results, she and her small medical team waste less time with donors and spend more time saving lives.

Expanding country coordination will demand greater participation from World Bank Group staff in the field. So we need to continue efforts to decentralize our team; moving more of the right people to the field to better serve our partners' development needs.

And our efforts to develop capacity must include our own staff, particularly women and staff from developing countries.

Finally, and importantly, we in the World Bank Group have our own responsibility to fight corruption. Fighting corruption is not just the obligation of developing countries. Think about it. For every bribe-taker, there is a bribe-giver who needs to be called to account.

We are well aware that our own projects can be targets of corruption, and we are taking action. Among other things, for two years the World Bank Group has been working on a new anti-corruption tool called the "Voluntary Disclosure Program."

In exchange for reduced sanctions and assurances of confidentiality, this program allows firms to volunteer information about their involvement with fraud or corruption on Bank-financed projects. The program promises to assure that spending is properly dedicated to the service of the poor and to set the highest standards in this key area.

VI. Beyond the Poorest Countries

Let me conclude with a reminder of the obvious—the world is changing, so we must be able to change also.

As we move forward with our mission to make poverty history, we must be prepared to grow as an institution. We must be ready to graduate with our partners and respond to new and emerging challenges.

Today, in Middle Income Countries, more than 1 billion people still live in poverty. We must not forget them. To help the middle income countries grow and prosper, we need to continue to tailor our knowledge and financing to their specific needs.

With time, and with results, the needs of those partners will evolve. Success will bring new challenges that will require new responses. So innovation and adaptation will be critical if the Bank is to remain relevant in this changing world. Sometimes, the problems of success are as daunting as the problems of challenges.

So let us work today to chart our course for the future—a future in which today's poor become tomorrow's entrepreneurs; a future in which today's disease leads to tomorrow's medical breakthrough; and a future in which today's child will be tomorrow's leader.

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

Rodrigo de Rato y Figaredo

Mr. Chairman, Governors, honored guests, it is a pleasure to welcome you to these meetings on behalf of the International Monetary Fund. I would like to extend a special welcome to my new colleague Paul Wolfowitz. Paul's qualifications are strong. His distinguished career as a diplomat and public servant were very well known. What was less well known in some circles when he took office was his deep commitment to development, which was again so evident in his excellent speech today. Welcome, Paul.

The past year has brought news that has saddened us. There have been disasters: the tragedy of the tsunami at the end of last year, severe food shortages in parts of Africa, barbaric acts of terrorism in London and elsewhere, the hurricane in the United States, and too many others.

There have also been troubling economic developments. The accumulation of payments imbalances and the steady drumbeat of rising oil prices continues, and while they have so far had only a muted effect on the confidence of consumers and on asset markets, they should occupy the thoughts of policy makers, that is, of *you*.

Yet there is also cause for hope and for confidence in the future. Global growth has opened up opportunities and improved prospects for people all over the world—and nowhere more so than in the developing world, where growth offers the best hope of liberation from poverty. And the year saw signs of progress in addressing long-standing problems: more exchange rate flexibility in some emerging market economies; growing acceptance of the need to increase saving in some industrial countries and for structural reform in others; and a renewed effort to lift the debt burden from low-income countries.

So there are opportunities for progress and change. But it is up to individuals and governments to grasp them. Can we work together to address the global imbalances which threaten our prosperity, or will we fall separately into recrimination and defensive policies? It is up to *us*. Can the international community work together to achieve the inspiring goals of the Millennium Declaration? It is up to *us*. Can we enhance the legitimacy and relevance of the International Monetary Fund as the central institution of global monetary cooperation, and improve the service it provides to its members? It is up to *us*. We who are gathered here have the opportunity and the obligation to do great good in the world. I'd like to share with you some ideas on what we should do to grasp this opportunity and meet this obligation, and on the contribution that the IMF can make in the year ahead. And in doing so I want to ask you for your *help* and for your *support*.

Current economic situation and outlook

In many ways, the world economy is strong. Growth last year was the highest in three decades, and the prospects for growth this year and next year are also good. Global headline inflation has picked up slightly owing to higher oil prices, but it remains at moderate levels. The global financial system is more robust now than for many years, with long-term interest rates unusually low and markets relatively stable. However, there are risks. These are in part due to continued global imbalances. The world needs to move away from a pattern of growth where investment in most of Asia is too *low*, and high consumption in the U.S. is financed by rapidly increasing *debt*, and where growth of domestic demand in Europe and Japan is too *weak*. New risks—and new imbalances—are caused by higher oil prices. What can be done about these risks?

Let me talk first about oil. Oil-producing countries need to continue with their investment programs to boost production. Oil-consuming countries need to act quickly to increase consumer awareness, strengthen energy conservation, and improve energy efficiency. They should also encourage the development of alternative energy sources and begin to expand refining capacity. Consumer and producer countries alike should consider tax reforms and, especially, reductions in subsidies on oil products. The social inequalities and economic distortions caused by high and indiscriminate subsidies at a time of high oil prices are profound. In many countries the effect is to give money to the people who least need it, often at great cost to the budget. And what is merely bad fiscal policy when oil costs $25 a barrel becomes ruinous fiscal policy when it costs $65 a barrel. The countries that do best will be those that adapt by reducing subsidies and replacing them with targeted social spending.

Global imbalances pose serious risks to prosperity. The question is not whether they will be reduced, but whether their reduction will happen in an orderly or a disorderly way. During the past year some progress has been made. Fiscal revenues in the U.S. have rebounded. The prospects for structural reform in Japan are brighter than for many years. And we have begun to see greater exchange rate flexibility in Asia. But these are just the first steps in a march that needs to speed up.

Many countries need to share the work of reducing global imbalances and sustaining growth.

- In Europe, there is a need to strengthen confidence. Governments need to articulate comprehensive, growth-oriented strategies that address both unemployment and aging, mainly through reducing the rigidities prevailing in labor, product, and service markets. They should also extend the Single Market to the provision of services, including financial services.
- In emerging Asia, there is scope for greater exchange rate flexibility and increased domestic demand. The recent moves in China and Malaysia are welcome, and I hope that the authorities will use the flexibility afforded by their new arrangements. I also hope that other countries in Asia which have been managing their exchange rates more flexibly will continue to do so. In addition, faster domestic demand growth in Asia through a continuation of structural reforms—including to encourage higher investment in some countries and better investment in others—has to be part of an orderly adjustment process.
- For their part, those oil producers whose fiscal and macroeconomic frameworks are strong can help reduce global imbalances by increasing productive spending in priority areas.

- As so often in the recent past, the United States economy has been one of the main engines driving global growth. But as the net external liabilities of the U.S. continue to increase, so the vulnerabilities of the U.S. economy continue to grow. Therefore, the U.S. part of the equation on global imbalances—reducing the fiscal and current account deficits—is particularly urgent. The administration's plan to reduce the fiscal deficit is welcome, but the unprecedented cuts in non-defense discretionary spending that it requires would have been difficult to achieve even before the devastation wrought by Hurricane Katrina. I believe that actions on the revenue side, preferably through reforms to broaden and simplify the tax base, will also be needed. And re-authorization of the Budget Enforcement Act—including pay-as-you-go provisions that cover revenue measures—would also support fiscal discipline.

We all have a pretty good idea what actions are needed to address the global imbalances of today, though knowing what needs to be done and actually doing it are two different things. But global imbalances and global challenges are going to change over time. The emergence of high oil prices as a significant challenge for the global economy in the past couple of years is a case in point. So we need not just solutions to the problems of today but also a *structure* to deal with the global imbalances and other economic problems of the future. The International Monetary Fund, as the institution of global monetary cooperation, *can* and *should* be the forum for collective action. I will come back to this later, but let me first talk about some other issues.

There are also opportunities arising from current benign conditions in international financial markets, and from upcoming discussions on trade. The current exceptionally favorable conditions in financial markets cannot be expected to last forever. So I would encourage emerging market countries to take advantage of them: maintaining sound macroeconomic policies, managing their debt prudently, and further developing domestic capital markets. On trade, we know what we need to do, and I would urge all of you not to squander the opportunity to achieve a substantive and favorable outcome to the Doha Round. The large economies carry a particular responsibility to work for a good agreement, and to head off pressures for protectionism, which would be enormously damaging to the world economy.

Poverty and the MDGs

Last week I attended the UN World Summit, where many world leaders underlined the need for greater momentum in pursuing the

Millennium Development Goals. Each member of the international community has a role to play. Donors need to provide more aid to low-income countries—and in this context the recent pledges of the G-8 countries and others are very welcome. Aid flows should also be more predictable and better aligned with countries' needs. For their part, low-income countries need to promote economic growth, which is the main engine that drives development. This requires policies that ensure economic and financial stability and that help the private sector to flourish.

Low-income countries can also help themselves by eliminating trade-distorting subsidies and reducing trade and administrative barriers. Administrative barriers can be big obstacles to trade. For example, if you take a truck from Lagos to Abidjan, a distance of a thousand kilometers, you need to go through 69 checkpoints. And if you take the same truck on to Burkina Faso, another thousand kilometers, the number rises to over 100.

The Fund can also help low-income countries meet the Millennium Development Goals. We are constantly working to refine and improve the advice we give and the programs we support, and we have developed a wide and flexible set of instruments to help low-income countries deal with problems ranging from the temporary costs of trade liberalization to long-term challenges of poverty reduction. This year we have developed new means to help countries suffering from shocks beyond their control—high oil prices, natural disasters, and others—and also to buttress stability and support reform in countries that do not want or need the Fund's financial assistance.

But we know we can do more. The growing consensus that aid must be increased and debt must be reduced gives us a great opportunity to make a difference to the lives of billions of people. To make the most of this opportunity, we need to improve the focus of the Fund's work on low-income countries. Part of this will involve a discussion over the coming months with our colleagues in the World Bank on the best allocation of work between the two institutions. But we also need to deepen the Fund's involvement in advising countries on how macroeconomic policies can complement higher aid, and counter any adverse effects on external competitiveness. Increased aid flows also should go hand-in-hand with incentives to develop the domestic revenue base and strengthen the tax system. And public expenditure management must be strengthened so that low-income countries can use resources more efficiently—for example for well-targeted spending on education and health. These are all areas where the Fund can make an important contribution, through policy advice and technical assistance.

The Fund's financial assistance will continue to be vital for our role in low-income countries. There is a strong consensus that the Poverty Reduction and Growth Facility should remain the primary vehicle for Fund support, and that the shocks facility will be an important additional instrument. We now also have the G-8's important proposal on debt relief. Let me repeat my personal support for the proposal. Of course, debt relief can be only one element of the Fund's support, and it must not be financed in a way that causes other poor countries to lose out, or that would cripple the Fund's ability to provide support to low-income countries that need our help in the future. The commitments already made by the G-8 are encouraging, and I hope that all of our members will show their support for the principle that the Fund's ability to help low-income countries must not be impaired, and do so, if necessary, by adding to the resources available to support them. I am confident that we will reach a favorable conclusion on this very soon.

Making the Fund More Effective

In my report on the strategic direction of the Fund I have suggested priorities and actions to improve the effectiveness of our institution. I do appreciate members' expressions of support for much of what I have proposed, and I look forward to continuing to hear Governors' views, both at these Meetings and as we carry implementation forward in the months ahead. I would also like to thank my Management colleagues, Anne Krueger, Agustin Carstens, and Takatoshi Kato, and the staff of the Fund for their contributions to the strategic review and also for their magnificent work throughout the year. This institution runs on the extraordinary quality and dedication of its staff. I *thank* them, and I *salute* them.

The review of the Fund's strategy builds on the work and accomplishments of recent years, and looks forward to the work we need to do over the next few years. Let me talk briefly about some of the highest priorities.

I believe that the Fund must intensify its focus on helping countries come to grips with globalization. It is not only emerging market economies that face challenges from the increasing integration of countries into the world economy. Advanced economies also face challenges in macroeconomic policy, challenges in financial sector policy, challenges of international economic integration and migration. Sometimes these problems are not recognized, and sometimes they are misjudged. The Fund needs to be able to advise *all* our members on dealing effectively with the consequences of increasing integration.

A prerequisite for giving good advice is that we understand all the issues fully ourselves. So I would also like the Fund to focus more on the effects of globalization in our research, and perhaps to distill that research into an annual report on macroeconomic and financial issues in globalization. To do this, we will need to reorganize our work, sharpening our understanding of financial sector issues and capital markets. We also need to enhance our monitoring of members' vulnerability to crises and consider again the possible role of Fund financing commitments in crisis prevention. And we need robust mechanisms in place to help countries deal with crises when they happen.

Another area where we need to act is on reform of IMF quotas and representation. The Fund's ability to persuade our members to adopt wise policies depends not only on the quality of our analysis but also on the Fund's perceived *legitimacy*. And our legitimacy suffers if we do not adequately represent countries of growing economic importance. This means, in particular, increases in voting power for some of the emerging-market economies, especially in Asia. We must also ensure that our members in Africa, where the Fund is very actively engaged, are adequately represented. It is usually taken as axiomatic that if some countries "win" from a re-allocation of quotas, others must "lose." I do not agree. This is not a zero-sum game. If there is broad acceptance of the IMF's legitimacy, the institution and *all* of its members will benefit.

Conclusion

We meet at a time of opportunity. There are many challenges—global imbalances, turbulent oil markets, the needs of low-income countries—but together we can meet these challenges. Some members of the Fund must act to reduce global imbalances, and all of you must act to promote growth and to preserve stability in their economies. And acting will be easier if we work together. We can work together in the Fund, which remains the central forum—the only *global* forum—for discussion and resolution of global economic problems. We can work together in the coming year. We can start *now*. I ask for your *support*, and I ask for your *action*, so that we can take the opportunities we have today, and meet the challenges of tomorrow. With these thoughts, I once again welcome you to the Annual Meetings.

Report to the Boards of Governors of the International Monetary Fund by the Chairman of the International Monetary and Financial Committee

Gordon Brown

Mr. Jon Cunliffe, Chairman of the IMFC Deputies, presented the following report on the activities of the IMFC on behalf of Governor Gordon Brown, Chairman of the IMFC.

Gordon Brown unfortunately cannot be here today and has asked me as Chairman of the Deputies to report on a successful meeting of the International Monetary and Financial Committee held yesterday. The agenda included the global economy and financial markets, the IMF's objectives and medium-term strategy, and strengthening the IMF's support for low-income countries, including through instruments, financing, and debt relief.

The Committee met at a time of greater risk for the world economy. The Committee was able to welcome the continued global expansion which it expects to continue. However, it acknowledged that downside risks have increased, in particular from oil prices, growing global imbalances, the emerging risk of protectionist pressure, and the possibility of tighter financial market conditions.

The Committee recognized that oil producers, oil consumers, and oil companies all have their part to play in working together to stabilize the oil market. The Committee agreed on a number of actions to deliver that enhanced stability.

- First, it welcomed the actions by members of the International Energy Agency and by oil producers to increase and to continue to increase supplies of oil to the market.
- Second, it called for further investment in the near and the long-term, particularly in refining capacity, and for action to create a favorable investment climate.
- Third, it stressed the importance of policies to promote energy conservation, efficiency, and sustainability, including through new technologies, alternative sources of energy and addressing subsidies for oil and oil products.

- Fourth, it encouraged a closer dialogue between oil producers and oil consumers and emphasized the importance of improving oil market data transparency.
- And fifth, it agreed that the IMF should stand ready to provide assistance to help members, especially poor countries, deal with oil price shocks.

The Committee discussed the Managing Director's report on the IMF's Medium-Term Strategy. It welcomed the report and supported the priorities therein. The Committee looked forward to specific proposals on the main tasks identified in the report and agreed that the IMF should continue to develop its strategy for responding to the long-term challenges of globalization. The Committee recognized the importance of the issues of voice and quota, which will be addressed in the 13th Quota Review.

In the Committee’s discussion of low-income countries, members renewed commitment to provide additional resources in return for developing countries putting in place policies for sustainable growth and poverty reduction in their countries. The Committee welcomed the progress had been made on new instruments, endorsing the Policy Support Instrument, which will allow the IMF to provide policy advice and support to members that do not need or want IMF financial assistance.

The Committee also strongly endorsed the creation of a new window in the PRGF to support low-income countries facing exogenous shocks and called on countries to contribute. The Committee gave its full support to the cancellation of up to $55 billion of multilateral debt for Heavily Indebted Poor Countries and welcomed the firm commitments that have been made by many countries on providing the additional finance to make this possible. This decision will provide significant additional resources necessary for countries' efforts to meet the Millennium Development Goals and to reinforce longer term debt sustainability.

The Committee reached agreement on all the elements, including on the approach to ensure that the IMF’s resources are used consistently with the principle of uniformity of treatment and on ensuring the IMF’s capacity to provide financing to low-income countries is maintained. The Managing Director informed the Committee that he will call the Executive Board together to complete its approval of the arrangements to deliver debt relief by the end of 2005.

The Committee held productive discussions with Pascal Lamy, the Director-General of the World Trade Organization. It agreed that a successful outcome of the Doha Development Round remains of critical importance, both for global growth and for poverty reduction. Serious challenges remain in reaching agreement at the WTO meeting in Hong Kong in December and the Committee called on all countries to ensure progress on an ambitious trade liberalization with the urgency that the timetable now demands.

The Committee emphasized this must include increasing market access, especially for developing countries, significantly reducing trade-distorting domestic support, eliminating all forms of export subsidies in agriculture, and making significant progress on services, including financial services and on intellectual property.

The Committee called for continued actions by all countries on anti-money laundering and on combating the financing of terrorism and noted the critical importance of the IMF's work in this area. And finally, the Committee paid tribute to Alan Greenspan at his last meeting of the IMFC, both for his unprecedented contribution to the Committee's work and for his outstanding leadership of the Federal Reserve.

REPORT TO THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND 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. Wolfowitz, 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 2005.

Progress on Millennium Development Goals

As in 2004, the main focus of our meetings has been implementation of the actions and partnerships agreed in Monterrey and Johannesburg to meet the Millennium Development Goals (MDGs). During this year, which marks the fifth anniversary of the adoption of the MDGs and which has been called the "Year of Development," this work has had a special significance.

At our Spring meeting we assessed progress that had been made over the five years since adoption of the MDGs, as an important input into meetings over the Summer, in particular the UN World Summit held in New York this month. We based our discussion on the analysis in the second annual Global Monitoring Report (GMR) prepared by the staff of the Bank and Fund in collaboration with others. We recognize the importance of the GMR as an important tool to monitor progress made on MDGs. While we welcomed progress made on actions by both developed and developing countries, we noted that overall progress had been less than envisaged. At our Fall meeting we have been able to welcome some important progress made over the summer in agreeing proposals for further debt relief and in commitments to more and more effective development assistance.

Despite this progress and the stronger policies put in place in many developing countries, we remain concerned that the MDGs will not be met in many countries, particularly in Sub-Saharan Africa. Further and stronger efforts are needed by all parties to the Monterrey agreement—developing countries, developed countries and the international institutions.

The Committee has discussed actions being taken by many developing countries to strengthen policies and institutions. We endorse the emphasis on country-led and owned development strategies linked to medium term budget frameworks, which should provide a way to operationalize the MDGs at the country level. Successful strategies need to include macroeconomic stability, stronger public financial management, good governance, promoting a strong private sector, and expanding infrastructure and service delivery in education and health. The Bank-Fund review of the poverty reduction strategy approach points to the need for further efforts to strengthen these strategies and their implementation in many countries. We have discussed and call for rapid implementation of the Education for All Fast Track Initiative, including closing the financing gap; and stepping up the fight against major diseases including HIV/AIDS and malaria. We have also considered and welcome the review of Bank conditionality and call for consistent application of the proposed good practice principles designed to strengthen country ownership and leadership.

Need to Increase Aid and Debt Relief

Stronger country policies must be matched with increased aid and debt relief. We have therefore welcomed agreement reached for a substantial replenishment of the International Development Association (IDA), and the commitments made by many donors this year to timetables for achieving the target of 0. 7 percent of GNP for ODA. We have also discussed proposals for innovative sources of development financing, and have asked the Bank to assist with implementation issues, as appropriate, to ensure that these initiatives are coherent with the overall performance- and country-based aid architecture. We have also noted ongoing work on blending arrangements and advance market commitments for vaccines.

Further, we have discussed and welcomed the G-8 proposal for 100 percent cancellation of debt owed by eligible heavily indebted poor countries to IDA, the African Development Fund (AfDF), and the International Monetary Fund, as providing a valuable opportunity to reduce debt and increase resources for achieving the MDGs. We are agreed on the need for an "*interdependent package*" with dollar for dollar compensation for IDA that is truly additional to existing commitments and that maintains the financial integrity and capacity of IDA to assist poor countries in the future. Donor countries must ensure financing to fully compensate IDA for forgone reflows resulting from debt relief in order to reach a final agreement on the proposal.

As important as mobilizing more aid is, we recognize that there is an urgent need to improve the quality of aid. The Committee has discussed issues relating to aid financing and aid effectiveness at both its Spring and Fall meetings. We welcome progress toward establishing tangible indicators and targets for commitments made in the Paris Declaration on Aid Effectiveness. We stress the importance of *Mutual Accountability* between donors and recipient countries in order to realize the aid effectiveness agenda. We have asked the Bank to work closely with the OECD Development Assistance Committee and other partners to support the delivery and improve the quality of increased assistance, through systematic monitoring and follow-up on aid commitments, and through vigorous implementation of the agreed agenda on managing for results, harmonization, and alignment.

Action Plan for Africa

A special focus of our discussions has been the development challenges in sub-Saharan Africa, the region farthest from achieving the MDGs. In this context we have welcomed the World Bank Group's ambitious Africa Action Plan, which will support African countries in their efforts to increase growth and tackle poverty. We commend its comprehensive approach toward developing an African private sector, creating jobs, enhancing exports, expanding infrastructure, raising agricultural productivity, strengthening human development, building capacity (including in conflict-affected and fragile states), and increasing regional integration. The Committee expects to see timely and vigorous implementation of the Plan, which correctly focuses on building state capacity and improving governance, strengthening the drivers of growth, and promoting broad participation in growth and sharing its benefits. The Committee has asked for regular reporting on progress in implementation of the Plan.

Doha and Aid for Trade

The Committee supports stronger country policies and more and more effective aid must be complemented with ambitious moves to increase openness and market access and to ensure that trade benefits the poor. Without a timely and ambitious outcome for the Doha Development Agenda, developing countries will not achieve the economic growth needed to meet the MDGs. Progress at the December Hong Kong Ministerial meeting will be critical to a successful conclusion of the Doha Round in 2006. Now is the time for action by all WTO members to move the negotiations forward, and we have called upon developed countries to show leadership. We have stressed the importance for the global economy and for meeting the MDGs of achieving an outcome that includes: (i) a major reform of agricultural trade policies to expand market access and eliminate trade-distorting subsidies; (ii) action to open markets in manufactures and services; and (iii) increased aid for trade to address supply-side constraints and enhance the capacity of developing countries to take advantage of expanded trade opportunities. We have endorsed the proposal for an enhanced Integrated Framework for Trade-related Technical Assistance, and supported a strengthened framework for assessing adjustment needs so that IFI and donor assistance mechanisms can be better utilized. We have also asked the Bank and the Fund to continue their global advocacy role on trade and development.

Infrastructure Action Plan

Increased investment in infrastructure, alongside strong programs for education and health, is key to faster growth and progress in reducing poverty. We therefore welcome the progress made by the Bank Group in implementing its Infrastructure Action Plan and strengthening public-private partnerships to leverage investment and maximize impact. We hope the Bank will now continue deepening and scaling up of support for infrastructure service delivery, to respond to needs in both low- and middle-income countries.

Climate Change

We have also discussed the importance of countries integrating climate concerns into their policy formulation, and support the World Bank's efforts, including through the Global Environment Facility, to assist member countries in measures to mitigate and adapt to the impact of climate change and improve energy efficiency and access to renewable and cost-effective energy. We welcome efforts to follow up on the Gleneagles plan of action with early consultations with partner countries and institutions to identify pragmatic investment and financing policy options.

Voice and Participation

Enhancing the voice of developing and transition countries in our institutions is of vital importance. The Committee intends to continue its discussions of this issue with a view to building the necessary political consensus to make progress, taking into account also progress made in the context of the IMF quota review.

New Bank President

Our Spring Meeting was the last meeting of the Development Committee attended by Jim Wolfensohn in his capacity as President of the World Bank, and we expressed our deep appreciation for his talented leadership at the Bank. At our Fall meeting we welcomed the new President of the World Bank, Paul Wolfowitz. We wish him a successful tenure.

End of Tenure

This will be my last report to you as Chairman of the Development Committee, and I would like to take the opportunity to thank all members for their support for the work of the Committee during my term of office, and to wish every success to my successor, Mr. Alberto Carrasquilla, Minister of Finance and Public Credit of Colombia.