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THE WORLD BANK GROUP

2007 ANNUAL MEETINGS
OF THE
BOARDS OF GOVERNORS

Summary Proceedings

Washington D.C.
October 21–22, 2007

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SUMMARY PROCEEDINGS

WASHINGTON D.C.
OCTOBER 21–22, 2007

INTRODUCTORY NOTE

The 2007 Annual Meetings of the Boards of Governors of the World Bank Group, which consists of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID), held jointly with that of the International Monetary Fund, took place on October 21–22, 2007 in Washington, D.C. The Honorable Karim Djoudi, Governor of the Bank and the Fund for Algeria, served as the Chairman.

The Summary Proceedings record, in alphabetical order by member countries, the texts of statements by Governors, the resolutions and reports adopted by the Boards of Governors of the World Bank Group. The texts of statements concerning the IMF are published separately by the Fund.

Kiyoshi Kodera
Acting Corporate Secretary
THE WORLD BANK GROUP

Washington, D.C.
February, 2008

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**OPENING ADDRESS BY THE CHAIRMAN
THE HONORABLE KARIM DJOUDI
GOVERNOR OF THE BANK AND THE FUND
FOR ALGERIA**

I would like to welcome you all to the 2007 Annual Meetings of the World Bank Group and the International Monetary Fund. It is a great honor for my country, Algeria, to chair these meetings.

This year marks a transition at both the World Bank Group, with the arrival of the new President, Mr. Robert Zoellick, and at the Fund, with the departure of its Managing Director, Mr. Rodrigo de Rato. Let me first extend a warm welcome to Mr. Zoellick who became President of the World Bank last June, and to convey our optimism over the leadership that he brings to the World Bank Group. Let me also express our deep appreciation to Mr. Rodrigo de Rato, whose unfaltering efforts have steered the Fund into a new course of reform. I welcome as well his successor, Mr. Dominique Strauss-Kahn, and wish him every success in his new position. We trust that under his leadership, and that of Mr. Zoellick, the collaboration between the two institutions will be enhanced. Let me also extend my congratulations to Mr. Padoa-Schioppa for his selection as Chairman of the IMFC, and to Mr. Carstens as Chairman of the Development Committee.

Even as I deliver these remarks, the Bretton Woods Institutions are at a crossroads. The ongoing changes in the global economic environment are posing new challenges for them, to which they must adapt in order to remain credible and effective. In turn, credibility and effectiveness rest on restoring the legitimacy of the Bretton Woods Institutions. We must therefore strongly reaffirm our support for the reform processes underway in both institutions and reiterate our expectations for outcomes that are adequate to meet the challenges at hand.

Global Economic Outlook, Risks, and Challenges

Since the last Spring Meeting of the World Bank and the IMF, global growth has remained strong. However, recent disruptions in the financial markets have once again demonstrated the potential for rapid and destabilizing spillovers among markets and countries and raised the prospect of a more challenging environment to come. Adverse credit conditions, the possibility of negative consequences of further adjustments originating from the U.S. housing market, and the rapid appreciation of some currencies are some of the key risks going forward.

Policy makers now face new challenges, even as some already existing ones, such as the risk of a disorderly unwinding of global imbalances, remain with us still. Notwithstanding the sound fundamentals in the global economy and robust growth in developing economies, all countries must be ever vigilant.

Regional Developments

I take this opportunity to point to the strong economic performance of recent years in the Middle East and North Africa (MENA) region, mainly as a result of the implementation of sound policies and key structural reforms. Pursuing these efforts, with enhanced and well-focused assistance from the World Bank and the IMF, is crucial to sustaining high, private-sector-led growth and job creation. In this regard, allow me to thank President Zoellick for identifying the MENA region as one of the Bank's strategic priorities.

I would also like to underscore the remarkable economic performance in an increasing number of African countries. However, considerable challenges still lie ahead to achieve tangible progress toward the Millennium Development Goals by 2015. It is therefore paramount that the international community, including the World Bank and the IMF, support efforts to implement domestic policies, as well as pro-growth and pro-poor reforms by substantially increasing financial aid and providing enhanced and coordinated assistance.

In keeping with the trends in the region as a whole, Algeria's economic and social situation has improved significantly in recent years, with robust growth, low inflation, strengthened fiscal and external positions, and pre-payment of almost all external debt. The efforts to further integrate the country into the world economy will contribute to sustaining strong growth. In this context, substantial progress is being made toward WTO accession and regional integration, and I wish in particular to thank Mr. de Rato for his personal efforts toward encouraging economic integration among the Maghreb countries. As a member of the African Union and a founding member of the NEPAD initiative, Algeria is playing an active role in promoting regional development in Africa. Algeria values its cooperation with the Bretton Woods Institutions and looks forward to enhanced and sustained advice and assistance to further the country's efforts to achieve its development goals.

Refocusing the Fund's Action

The emergence of new dynamic economies, the globalization of financial markets, and the exceptional volume of capital flows, would

suggest a need for the Fund to refocus its efforts to promote financial cooperation and stability. Hence, we welcome the recent Decision on Bilateral Surveillance over Members' Policies, aimed at sharpening the focus of bilateral surveillance, strengthening its implementation, and providing greater integration of bilateral with multilateral surveillance. A stronger surveillance framework—including greater consideration of financial sector issues—will reaffirm the Fund's primary role of analyzing economic and financial vulnerabilities and anticipating crises.

While we all hope that crises will be avoided, their occurrence cannot be ruled out. This being so, the IMF must stand ready to provide support. Accordingly, it must have ready the broadest and most effective possible range of instruments. We encourage continued discussions to quickly achieve the establishment of a new liquidity instrument that will ensure the availability of substantial financing for member countries that have solid fundamentals and are pursuing sound policies.

The Strategic Directions of the World Bank Group

We should all be devoting attention to the challenges facing the more vulnerable member countries of the World Bank Group. Indeed, despite recent progress, a third of the world's population will still be living in poverty in 2015, and many countries will not meet many of the Millennium Development Goals (MDGs). No stronger case could be made to show that the World Bank Group should continue promoting the formulation and implementation of pro-growth and poverty-reducing policies and strategies, and mobilizing additional resources needed to achieve those objectives.

A few months ago, the World Bank undertook to define strategic directions aimed at putting inclusive and sustainable globalization at the core of its work. Among the priorities are Africa, states affected by conflicts, middle-income countries, and regional and global public goods. We are pleased that such a promising initiative has been taken.

Moreover, the President and the Board of Executive Directors of the World Bank Group have recently reviewed the new challenges posed by recent aid trends and the role of IDA in the global aid architecture. We encourage the World Bank Group, as the world's leading development partner, to continue its efforts to adapt to the ongoing evolution of global aid architecture and the increasing fragmentation that characterizes the provision of aid. We encourage the World Bank Group to help developing countries strengthen their aid coordination capacity in order to improve aid efficiency, and to insure that donor support is integrated coherently into national development strategies. The Bank should also move decisively to increase the use of country systems in all client countries. I also encourage other international organizations

and donors to make greater efforts to improve aid alignment and harmonization in keeping with the principles set forth in the Paris Declaration. Such a dynamic could only be sustained if additional resources are provided. We therefore welcome the Bank Group's recent pledge of \$3.5 billion to IDA-15. Following the example of the Bank, I call on other donors to increase their contributions to a level that meets the challenges.

This is all the more important because our countries are facing new challenges resulting from globalization. Indeed, many global externalities are affecting our economies and having an impact on the development processes. Good governance and financial stability frameworks, cohesive agreements on trade and aid, effective measures to address the challenge of knowledge transfer and climate change are some of the global public goods on which sustained and coordinated action is required from us. This must be done in a manner consistent with the principles of common but differentiated responsibilities adopted by the international community in the context of the United Nations Framework Convention on Climate Change.

In this regard, I am pleased to say that Algeria has been addressing the challenge of climate change through important legal measures and initiatives. These include the promotion of clean fuels, the reduction of the volume of flaring gases by 70 percent, and the launching of a groundbreaking project for carbon capture and sequestration. I am confident that the Bretton Woods Institutions can help recipient countries better manage global public goods. However, given the highly diversified and multi-dimensional aspects of such goods, I encourage the World Bank and the IMF to be selective, cost-effective, and to focus their action in core areas of their competency.

Quotas and Voice

As you know, there cannot be any satisfactory foundation for coordinated action in response to global developments unless the global institutions are legitimate. This means that the representation of members in such institutions has to be fair, and that each country must have an adequate voice.

Over the past year, the IMF Executive Board has been examining the key issues relating to the second round of reforms—including elements of a new quota formula, the size of a second round of ad hoc quota increases, and the size of an increase in basic votes. To this end, I encourage the Managing Director and Executive Board of the IMF to continue their efforts in favor of implementing a comprehensive set of reforms acceptable to all members, in keeping with the objectives set

forth in Singapore. The World Bank has also been working actively on the voice agenda, covering all the options, including aspects that distinguish it from the Fund. We encourage the Bank to continue these discussions in order to build the necessary political consensus, taking into account development outcomes at the Fund.

Most of all, we need to summon the political will to bring this important set of issues to a fruitful conclusion. This assumes mutual understanding and a genuine desire to change, for any failure in this key area would undermine the legitimacy and effectiveness of our institutions.

We should acknowledge that, day after day, a more complex world confronts the World Bank and the IMF. The often unforeseeable nature of the new challenges, which we face, obliges us to ensure that the multilateral system is preserved and strengthened. I hope that you will entrust our institutions with the much-needed legitimacy and instruments to succeed in this endeavor. I have every confidence that the World Bank and the IMF will be able to take the action needed to respond to the challenges ahead.

Thank you for your attention today. I now declare the 2007 Annual Meetings of the World Bank Group and International Monetary Fund open.

OPENING ADDRESS BY ROBERT B. ZOELICK THE PRESIDENT OF THE WORLD BANK GROUP

Catalyzing the Future—An Inclusive and Sustainable Globalization

I am pleased to welcome you to our Annual Meetings. I would like to express my special appreciation to our Chairman, Karim Djoudi, for these meetings and to Augustín Carstens, for his leadership of the Development Committee, as well as for his fine counsel as I assumed this new post.

I would also like to thank my friend and colleague Rodrigo de Rato for fostering a strong partnership between our two institutions. I have known Rodrigo from the time we worked together in our respective governments on trade and economic issues, and I have always deeply appreciated his insight, decency, and dry wit. I wish him the very best for the future.

I look forward to continuing this partnership with Dominique Strauss-Kahn. We first met through my good friend, Pascal Lamy, now Director General of the WTO. It seems to be my lot to be paired with extraordinarily capable French Socialists!

I would also like to thank the many people who have offered me encouragement and support. I sense that people around the world recognize both the need for and potential of this unique creation. The World Bank Group is one of the great multilateral institutions established after World War II. Sixty years later, it must adapt to vastly different circumstances in a new era of globalization. I think its best years are those still to come.

The staff of the World Bank Group has helped me learn, shown me our vital work in the field, and offered fresh ideas as we set a course for the future. The Board is offering experienced guidance as we strive to turn good intentions into productive actions.

The Face of the World Bank Group

Behind each project we support, there's a story of a person trying to build a better life.

During my visit to Cambodia in August, I met Leap Roth, an energetic man who lost a leg during the 1980s. Five years ago, Leap started a small workshop with his wife, selling rice threshers, trucks, and farming tools. He borrowed money from the ACLEDA Bank to help his business grow. ACLEDA was once just a small NGO, but with the help of the IFC, our private arm, it grew into one of Cambodia's largest commercial banks. Today, with 166 branches across the country, it is the only bank in Cambodia that caters to the poor.

In Mali, the World Bank helped a small cotton-growing town to build a solar-energy power plant. The plant brings 10 hours of electricity each day to more than 150 residents and will eventually reach more. Kalifa Goïta, the town's mayor, is counting on electricity to attract local investors and bring the world to his doorstep. He says, "With the phone, we know what happens in the world. With electricity, we will see what happens through television."

In Afghanistan, our IDA funding supported the Government's efforts to build schools, train teachers, and develop a new curriculum for secondary schools. Speaking at the Bank earlier this month, Afghanistan's Education Minister, Haneef Atmar, told us that "Five and a half years ago, there wasn't a single girl in school in Afghanistan; today, there are more than 2 million. Five and a half years ago, we had no women teachers; today, we have more than 40,000."

These are the human faces of the World Bank Group. They may be far away from our capitals and conferences halls, but they are at the heart of our mission to offer dignity and hope.

Given the opportunity, people everywhere want to build a better life for themselves and their children. That impulse, if given a chance, can contribute to a healthy and prosperous global society.

An Inclusive and Sustainable Globalization

Globalization has become the defining mark of our time. It has lifted barriers and boundaries, and unleashed movements of ideas, goods, capital, and people. It has created opportunities where there was none.

Yet globalization has not embraced all. Many remain on the fringes, and some are falling further behind. Exclusion, grinding poverty, and environmental damage create dangers. The ones that suffer most are those who have the least to start with—indigenous peoples, women in developing countries, the rural poor, Africans, and their children.

It is the vision of the World Bank Group to contribute to an inclusive and sustainable globalization—to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope.

In 2000, the countries of the United Nations established eight Millennium Development Goals—ambitious targets to halve poverty, fight hunger and disease, and deliver basic services to the poor by 2015. These goals, our goals, are posted by the main entrance of our headquarters building, reminding us every day of what we come to work to accomplish.

These aims of sound social development need to be combined with the requirements for sustainable growth, driven by the private sector, within a supportive framework of public policies.

The Role of the World Bank Group

Meeting these needs is not, of course, just a question of money. Nor is it the role of the World Bank Group to solve these problems by itself.

It is the purpose of the Bank Group to assist countries to help themselves by catalyzing the capital and policies through a mix of ideas and experience, development of private market opportunities, and support for good governance and anti-corruption—spurred by our financial resources.

It is the purpose of the Bank Group to advance ideas about international projects and agreements on trade, finance, health, poverty, education, and climate change so that they can benefit all, especially the poor.

We should be expanding the frontiers of thinking about policy and markets, pioneering new possibilities, not just recycling the passably proven with a modest financial advantage.

First Steps

We are taking steps to leverage the strengths and synergies among the four principal entities that make up the World Bank Group—IBRD, IDA, IFC, and MIGA. We must work as *one* World Bank Group for our clients.

First, our Board recently agreed that the World Bank Group should lead the way to a successful IDA 15 replenishment with a record contribution of \$3.5 billion from its own resources. This is more than double the \$1.5 billion pledged to IDA 14. Our IDA contribution depends, of course, on the annual income of the IBRD and IFC, as distributed by their Boards each year, but we believe this stretch goal is possible. We urge others to stretch too.

The generosity of donors is fundamental to the success of IDA 15, which is our principal financing tool for the poorest countries, and for Africa in particular. We have been encouraged by donors' support for an ambitious result. South Africa has joined us with a pledge of a 30 percent increase in its contribution. Now we need the G-8 and other developed countries to translate their words from summit communiqués into serious numbers, too.

Second, we are committed to a stronger growth strategy for IFC, our private sector arm. IFC has been growing over the last few years. It has also focused more on the development impact of its work. Last year, IFC provided \$3.6 billion, or 37 percent of its investments, in IDA countries.

Third, we will deepen the cooperation between IDA and IFC to boost the private sector in poorer economies. IFC is launching new infrastructure and microequity funds for IDA countries. IDA and IFC

can co-invest to support public-private partnerships in infrastructure projects, especially in the energy, transportation, water, agricultural, and microfinancing sectors. These projects can support the integration of regional markets, which is especially vital for smaller and land-locked states in Africa.

Fourth, we have announced a major price simplification and reduction for loans from IBRD, our public finance arm. Loan prices are now back to pre-Asian crisis levels. This step is part of a broader effort to improve and expand our services to clients.

Our IBRD clients have been asking us to help them meet their diverse needs. Therefore, the IBRD should be growing, not contracting. Our mix of knowledge and lending services is especially important to help countries with their social development and the expansion of energy and infrastructure in an environmentally sound fashion. Of course, our services to middle income countries must continue to expand far beyond lending. We must also address the non-financial costs of doing business. We aim to be faster, better *and* cheaper.

These first steps point the way towards an expanding horizon.

An Inclusive and Sustainable Globalization: A Multilateral Approach

Nearly one billion people live on just \$1 a day. Globalization must not leave this “bottom billion” behind. Poverty breeds instability, disease, devastation of common resources and the environment. Poverty can lead to broken societies that can become breeding grounds for those bent on destruction and for migrations that risk lives.

Globalization has brought uneven benefits to the billions in middle income countries who have started to climb the ladder of development since the end of the Cold War. In many lands, social tensions are weakening political cohesion. These middle income countries need to continue to grow, to offer inclusive development, and to adopt environmental policies for sustainable prosperity.

The greater influence of developing countries presents another question: What will their place be in this evolving global system? This is not only a question of how large developing countries will interact with developed countries, but also with the poorest and smaller states of the world. It would be ironic indeed for the Bank Group to withdraw from work with middle income countries at a time that governments are recognizing the need to integrate these countries more effectively in diplomacy and political-security institutions. Why not integrate them as partners in the institutions of the multilateral economy, too?

Two years ago, I suggested that China build on its success by becoming a “responsible stakeholder” in the international system. This is, of

course, a challenge for others, too, if we are to achieve an inclusive and sustainable globalization. And with responsibility, there should be greater voice and representation. We need to advance the agenda to strengthen the participation of developing countries throughout the Bank Group's work and workforce. I am particularly pleased that Dr. Ngozi Okonjo-Iweala, the former Finance Minister of Nigeria, has agreed to return to the Bank, where she worked for 21 years, to serve at the top rank as a Managing Director.

Developed countries are also facing the opportunities and strains of globalization. The common sense of publics in developed countries leads them to recognize there is no successful recourse to isolation. Common decency—as well as self-interest—drives them to recognize the interdependence, even as they debate how best to pursue it.

In comparison to the scale of these global challenges, the World Bank Group is a modest institution. Yet along with its multilateral partners—the United Nations and its specialized agencies, the IMF, the WTO, and regional development banks—the World Bank Group needs to play an important role in advancing an inclusive and sustainable globalization. The multilateral institutions have been buffeted and battered. They need to combine deliberations with effective results. They must overcome internal weaknesses and build on their strengths. Together, we must show that multilateralism can work much more effectively—not just in conference halls and communiqués—but also in villages and teeming cities, for those most in need.

Six Strategic Themes

What, then, should be the strategic directions the World Bank Group should pursue?

First, the World Bank Group faces the challenge of helping to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa. IDA is our core financing instrument for the 81 poorest countries.

In these countries, we need to focus intensively with our partners on achieving the Millennium Development Goals. These basic needs will set the foundation for the future.

Yet the message I received when I traveled to Africa in June and to Asia in August was that social development objectives are necessary but not sufficient. The good news is that 17 African countries, home to 36 percent of the population, achieved average annual growth of 5.5 percent from 1995 to 2005. These countries want assistance to build infrastructure for higher growth—especially energy and physical facilities that can support regional integration. They also want us to help

develop local financial markets, including for microfinance, that can mobilize African savings for Africa's growth.

African leaders see great potential to expand agriculture, increasingly through productivity growth. The World Bank Group's recent World Development Report highlights that GDP growth from agriculture benefits the poorest four times more than growth in other sectors. We need a 21st Century Green Revolution designed for the special and diverse needs of Africa. We need greater investments in technological research and dissemination, sustainable land management, agricultural supply chains, irrigation, rural microcredit, and policies that strengthen market opportunities, while assisting with rural vulnerabilities and insecurities. More countries need to open their markets to farm exports, too.

Another eight African countries, home to some 29 percent of the population, have averaged growth of 7.4 percent from 1995 to 2005 due to their oil resources. For these states and some IDA countries in other regions, the priority development challenge is encouraging good governance and anti-corruption policies, along with an expansion of local public sector capacity, to ensure that resource revenues build a sustainable future for all citizens.

We also have the opportunity to build new partnerships to assist the poorest. The Bank Group is now working with Russia, China, Brazil, and India to support the needs of poorer states.

Second, we need to address the special problems of states coming out of conflict or seeking to avoid the breakdown of the state.

When the visionaries at Bretton Woods conceived of the IBRD over 60 years ago, the "R" stood for the reconstruction of Europe and Japan. Today, the "R" points us toward the challenge of reconstruction in states harmed by modern conflicts.

Sadly, these conflicts not only lead to extraordinary suffering for the people directly involved, but the spillover effects drag down their neighbors too.

Frankly, our understanding of how to deal with these devastating cases, is modest at best. I suspect we will need a more integrated approach involving security, political frameworks, rebuilding local capacity with quick support, reintegration of refugees, and more flexible development assistance. The Bank Group's constructive work in Bosnia, Rwanda, and Mozambique shows what is possible. IDA's adaptability and quick disbursements have proven vital in post-conflict environments, and we are working with other development partners to increase our effectiveness.

Today, we are at work in Southern Sudan, Liberia, Sierra Leone, Democratic Republic of Congo, Burundi, Côte D'Ivoire, Angola, Timor Leste, Papua New Guinea, Pacific island states, Afghanistan, and

Haiti, among others. If there were an effective peace accord in Darfur, backed by a strong UN-African Union security force, the World Bank Group would want to help.

Third, the World Bank Group needs a more differentiated business model for the middle income countries. Today, about 70 percent of the poor live in India, China and the middle-income countries served by IBRD. In many cases, rapid economic growth has failed to provide opportunities for the poor. Social services remain underfunded. Environmental and energy problems are acute. And there remains a continuing potential for volatility in the flow of capital to these countries—like those we witnessed through the 1980s and 1990s.

Recognizing these challenges, our middle income members want the World Bank Group to remain engaged with them through a diversified menu of “development solutions.” But this engagement needs to reflect major improvements in their financial position and institutional capacity over the past decade. They want IBRD to provide much more flexible and better-priced banking services, with less red tape and shorter turn-around times. They want customized, just-in-time knowledge and advisory services. They are looking to IFC to help develop private sector solutions for undeveloped markets and even social needs. And they are holding us to ever-higher standards of quality, consistency, and cost-effectiveness in our advisory services. In short, they want performance, and that is what we intend to give them.

For some middle income countries, our services will be increasingly in the areas of risk management and applying global know-how to local needs. We can offer credit enhancements, hedging, and neutral expertise that will help build the capacity for asset management. We can encourage local securities markets by helping construct local currency bond funds and indices. We can finance in local currencies to help combine our lending with the management of currency risk. To encourage inclusive growth within countries, we can work with subnational authorities. We are now developing contingent financial instruments to assist with emergency liquidity needs during financial shocks, as well as insurance and capital market facilities to broaden availability and lower the cost of coverage for natural catastrophes, such as hurricanes and earthquakes. Some of these activities will lead us to explore how best to provide services and knowledge for fees, offering our client countries a choice of delivery with or without financing.

Fourth, the World Bank Group will need to play a more active role in fostering regional and global public goods that transcend national boundaries. It is our calling to ensure that this agenda is linked to the aims of development. Our work on regional and global public goods will require close cooperation with other agencies that have specialized expertise, such as WHO, UNEP, UNODC, and the WTO.

The World Bank Group has already demonstrated its potential to assist in countering communicable diseases through our work on HIV/AIDS, malaria, avian influenza, and vaccine development. We are in the midst of reexamining ways to strengthen the nexus between aid and trade.

We are working with our Board to significantly step up our assistance to the international efforts to address climate change. At the UN Climate Change Conference in Bali this December, I hope to outline a portfolio of ways the World Bank Group can help integrate the needs of development and low carbon growth. We need to focus particularly on the interests and needs of developing countries, so that we can meet the challenge of climate change without slowing the growth that will help overcome poverty.

Our main objective will be to help countries “mainstream” adaptation and mitigation actions within their growth strategies, including plans for energy development, agriculture, and land use. The Bank Group can also offer innovative and concessional financing mechanisms—such as our new Forest Carbon Partnership Facility—to assist with mitigation, adaptation, and the rapid penetration of technological innovation. As with carbon trading, we can help pioneer and advance new market mechanisms—in ways that assist developing countries. With the help of IFC, we can also promote the creation of public policy and business environments that will tap the private capital necessary to address this challenge.

Poor countries and poor people are most at risk from the effects of climate change, and least protected. The World Bank Group can support increased resilience to climate risks. We can promote technology advances and adoption, especially in the developing world. For example, new capabilities to permit efficient carbon sequestration are critical. To strengthen developing countries’ ability to determine their own low-carbon growth and adaptation strategies, we can support applied research and knowledge development on climate change economics in developing countries.

Based on this portfolio of supportive activities and the knowledge we develop, the World Bank Group would also be available to help inform international policy discussion on possible regimes for climate change.

But this must not be a trade-off between growth and caring for the environment. Developing countries—and Africans in particular—are concerned that resources for climate change will come at the expense of financing for other key development needs. This is another reason why developed countries need to match rhetoric with resource contributions to IDA 15.

Fifth, one of the most notable challenges of our time is how to support those seeking to advance development and opportunities in the

Arab World. In the past, these lands have been at the center of trade and learning, suggesting the potential if they can move beyond strife and barriers to growth and social development. Without broad-based growth, these countries will struggle with social tensions and a large number of young people who cannot find jobs. The UN's Arab Human Development Report offers powerful self-assessments.

When I served as the U.S. Trade Representative, I worked closely with leaders from the Maghreb to the Gulf who were opening economies and societies. Some had plenty of energy resources and capital but little economic diversity and ability to create jobs. Others were seeking to improve schools, strengthen the adoption of technology, and expand employment through business deregulation and trade. A number were deepening productive ties with Asia, through cross-investments, trade, and the growth of service centers.

Our recent "Doing Business 2008" report shows progress is possible. Egypt tops the list of economies reforming regulations to make it easier to do business. Saudi Arabia eliminated layers of bureaucracy that had made it one of the toughest places to start a business and also did away with minimum capital requirements.

These are encouraging developments, but there is much more that can be done. An inclusive globalization must deliver benefits for all the people in these states. As Arab governments seek to provide social services effectively to all their peoples, we can offer comparative experience. We can assist in creating hospitable environments for business. For some, we may be able to finance development projects, operate donor trust funds, or spur the expansion of private sector services through the IFC. In the Palestinian territories today, we are helping provide basic social services and support for good governance and private sector growth, which could provide the economic foundation for hope if the parties choose the path of peace.

Finally, while the World Bank Group has some of the attributes of a financial and development business, its calling is much broader. It is a unique and special institution of knowledge and learning. Yet this is not a university—rather it is a "brain trust" of applied experience that will help us to address the five other strategic themes. Delivering, expanding, and testing this learning—in tandem with financing or separately—is the most important part of our work.

We also must keep challenging ourselves by asking: what does it take to achieve inclusive and sustained development and growth?

This challenge requires humility—and intellectual honesty. Many development schemes and dreams have failed. This is not a reason to quit trying. It *is* cause to focus continually and rigorously on results and on the assessment of effectiveness.

These six strategic themes offer a direction—to be discussed, refined, and improved. We welcome the counsel and guidance of our shareholders. There is a great need—and a compelling opportunity—for the World Bank Group at this point in history.

Internal Challenges: Good Governance and Anti-Corruption

To be successful, the World Bank Group must also squarely face its own internal challenges. We need to use our capital more effectively and focus more on client service. We need to incorporate women's empowerment throughout our agenda. We should strengthen our ties with civil society organizations and NGOs so we can learn from them. Reflecting the new “architecture of aid,” we need to work more effectively with national aid programs, funds focused on particular projects such as diseases, foundations, NGOs in the field, and private businesses interested in development challenges. And we need greater voice and representation on our Board and diversity in our workforce.

As a recent report of a panel led by former Federal Reserve Board Chairman Paul Volcker underscored, we also have work to do in strengthening our approach to dealing with governance and corruption. The panel gave us an extensive set of recommendations to consider. We are following up promptly, welcoming the views of others, discussing ideas with our Board, and moving toward operational improvements.

My experience has been that the people at the World Bank Group recognize how critical the Governance and Anti-Corruption agenda is. They are proud of the development mission they serve, want to uphold the integrity of their institution, and know corruption steals most from the poor and powerless. We will do better together.

The World Bank Group can also offer leadership by integrating good governance and rule of law policies in the development agenda. Just last month, we joined with the UN to launch a Stolen Assets Recovery—or StAR—Initiative to get developed and developing countries to work together to recover the financial plunder of corruption. A number of countries have already approached us for help.

There is much the World Bank Group can do to be a catalyst for inclusive and sustainable globalization, but we cannot do it alone. I am grateful to our European colleagues for the creative initiatives they have proposed since I started. Yet there is also a critical need for developing countries to integrate multiple aid efforts into coherent plans. IDA unites fragmented aid into a coherent development platform, focused on results, effectiveness, and national ownership. I know that Finance Ministers are powerful players on budgets: we need you to use your power for the poor by boosting your IDA contributions. The

World Bank Group's pledge of \$3.5 billion puts our "money where our mouth is"—will you?

Mr. Chairman, it would be a concrete sign of multilateral commitment to global prosperity if members of the G-8 and other developed countries fulfill their Gleneagles promise to scale up aid to Africa and the poorest.

It would be a concrete sign of multilateral commitment to global prosperity if members of the WTO could achieve a breakthrough on the Doha Development Agenda. This weekend, WTO Director-General Pascal Lamy said that a deal is possible, and this is probably our last chance to succeed. I agree with him. The World Bank Group will do all it can to help developing countries seize the gains from more open markets and drastically reduced subsidies.

People know instinctively there is no recourse to isolation. They know we are part of something larger than we are. Whether we are representatives of governments or multilateral institutions, let us show that we have the foresight, the commitment and the follow-through to make globalization work for all.

REPORT BY AGUSTÍN CARSTENS CHAIRMAN OF THE DEVELOPMENT COMMITTEE

Thank you for this opportunity to share some highlights of yesterday's Development Committee Meeting. A more comprehensive account is available in our published Communiqué.

As you know, President Zoellick has started in recent speeches to lay out some of his own thinking about key strategic challenges confronting the member countries, and the choices that the World Bank Group needs to make on its own role in addressing those challenges. So this helped provide the context for our own discussions, and I want to emphasize to you that the Committee members responded very supportively to the President's initiative.

We recognized the potential of “inclusive and sustainable globalization”—a concept that President Zoellick has introduced—to guide the Bank mission. We welcomed the President's commitment to develop and refine the Bank Group strategic framework in a consultative manner under the guidance of the Board. We emphasized the importance of strengthening synergy among the Bank Group institutions.

We also discussed the six specific areas that the President has proposed as elements in the Bank Group's strategic future direction. We agreed that strengthened support for the inclusion and empowerment of the poorest in development, especially in Sub-Saharan Africa, and for active Bank engagement in fragile and conflict-affected states, must be key elements in the strategic framework.

We agreed, too, that the Bank Group must ensure its continued relevance to its Middle Income Country members. In this context, we welcomed the recent simplification and reduction in IBRD pricing, and urged the Bank to make further progress in reducing the non-financial cost of doing business.

We agreed on the importance of the Bank responding to key global challenges—what are often referred to as Global Public Goods. But we also stressed the need for such engagement to be selective, and undertaken in close cooperation with other international institutions.

A number of our members from the Arab world gave encouragement to President Zoellick on his proposal to strengthen the Bank's focus on that set of countries.

We encouraged the Bank to further intensify its important work as a knowledge-broker on development policy. We also emphasized the importance of successful implementation of the Bank's governance and anti-corruption strategy. We also noted the importance of gender equality and women's rights.

Turning to the Bank Group's lower-income members, especially the IDA borrowers, we noted that many countries have enhanced their capacity to absorb larger amounts of aid productively.

In this context, we called on donors to meet their respective commitments to scale up aid for development, improve aid predictability and address financing gaps for meeting the MDGs.

We discussed the fact that, in a world with an increasing number of donors, and an increasingly complicated set of relationships between so-called vertical donors, horizontal donors, and the countries themselves; the World Bank Group's concessional window, IDA, plays a unique role of helping countries develop their own country-led and country-owned programs to serve as a platform for integrating all of these different efforts.

And so, taking account of the need to strengthen the unique role performed by IDA, we underlined the need for a strong IDA replenishment. And in this connection, we welcomed the recent very substantial contribution to IDA out of the earnings of IBRD and IFC.

Now, let me turn to the related challenges of supporting adoption of Clean Energy and helping countries address the challenge of Climate Change. We asked the Bank Group to increase its support for access to modern, cost-effective, clean energy, especially among the poorest and in Sub-Saharan Africa. We also called for expanded work on energy efficiency and renewable energy, and facilitation of the development and dissemination of related knowledge and technology.

Bearing in mind the scale of the challenge of addressing the causes and impacts of Climate Change, we called on the Bank to develop a strategic framework for Bank Group engagement, including support for developing countries' efforts to adapt to climate change and to achieve low-carbon growth while reducing poverty. We urged the Bank Group to help catalyze substantial additional resources from both public and private sources, including concessional finance as appropriate.

We also discussed the issue of debt. We noted progress in implementing the HIPC Initiative and the Multilateral Debt Relief Initiative. We stressed the need for all creditors to participate in these efforts on an equitable basis. In spite of improvements in debt indicators, the risk of debt distress in many HIPCs remains a challenge. And so, we emphasized the importance of sound lending and borrowing decisions guided by the Bank-Fund Joint Debt Sustainability Framework (DSF), and of strengthening public debt management.

We also talked about trade. We reiterated our strong support for intensified efforts to agree on an ambitious pro-development Doha Round. And we stressed the need for both developing countries and donors to pay attention to issues of trade and competitiveness in formulating their strategies, including the need for a stepping up of so-called Aid-for-Trade.

Let me turn, finally, to three matters relating to the governance and operation of the World Bank Group. First, we welcomed the Options Paper on Voice and Participation, while recognizing that further consultations among shareholders will be necessary to reach a political consensus on a comprehensive package. Secondly, we expressed our encouragement that the World Bank Board, together with management, is reviewing and reforming key aspects of the Bank's governance. And finally, we took note of the Joint Management Action Plan, which has been prepared recently by the World Bank and Fund managements together, with the objective of strengthening the collaboration between the two institutions.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS

AFGHANISTAN: ANWAR UL-HAQ AHADY

Governor of the Bank

It is a pleasure to address this forum again. As you know, since 2002, President Karzai's administration has been trying to establish a democratic polity, a pluralist society, and a market-based economy. With great help from the international community, we have made impressive progress in all three areas; however, in the interest of time, I will briefly report on our achievements in economic matters in this past year and will express my government's views on some issues that require decisions from the Bretton Woods financial institutions and that effect Afghanistan as well.

I am pleased to report that economic growth remained strong at about 13 percent, and inflation was contained at a relatively low level of 5.4 percent. As we have made significant progress in rebuilding our infrastructure, and as we are rather confident that international assistance will continue at the current level for the next few years, I expect that we will continue to benefit from high growth for the next few years. Similarly, last year we increased government's domestic revenues by over 30 percent and expect an additional increase of about 30 percent this year. In close cooperation with the IMF, the World Bank, the Asian Development Bank, and bilateral donors, we are restructuring our economy. In June 2006, we launched our IMF program—the Poverty Reduction and Growth Facility—and I am pleased to report that thus far we have met the benchmarks specified by the program.

Under the auspices of the Paris Club, we have had very successful negotiations with our major bilateral creditors. I would like to thank our Paris Club creditors—namely the Russian Federation, the United States, and Germany—for agreeing to write off about \$10.4 billion of our debt, and for promising this past June to forgive 100 percent of our remaining debt upon our completion of the Heavily Indebted Poor Countries (HIPC) program. We expect to successfully complete our HIPC program in 2009. We have also made significant progress in preparing our Poverty Reduction Strategy Paper (PRSP). We expect to complete and submit our PRSP by March 2008.

However, our polity, society, and economy suffer from corruption and narcotics. We have asked the World Bank to prepare a comprehensive analysis of the causes of corruption and to prepare recommendations for fighting corruption in Afghanistan. We have already

implemented recommendations from the World Bank for fighting corruption in the management of public finances, and we are now confident in the transparency of our public financial management—a position with which I believe the International Financial Institutions (IFIs) agree.

Our people suffer the most from corruption in delivery of public services. We are waiting for the World Bank's recommendations in this regard, and I can assure you that my government will fully implement those recommendations.

Similarly, we consider fighting narcotics as a joint task for my government and the international community. In collaboration with some of our donors, soon we will be developing a counter narcotics strategy encompassing not only eradication and interdiction efforts, but also a focus on better development of alternative livelihoods for rural residents.

However, despite these challenges and recent deteriorations in security, we are confident that with continued international support, we can build and strengthen the institutions and policies that will facilitate the functioning of a market-based economy.

Let me turn to some issues that require World Bank and IMF decisions and which affect us too.

First, we agree with the conclusions drawn in the Development Committee paper on "Scaling Up Aid," that predictability of aid is crucial to its effectiveness, and we share the concern that the average level of aid predictability remains very low. Afghanistan is a good case for the argument that more predictable aid is better aid—particularly when aid volumes are such a large percentage of the overall budget, sensible budgetary planning can only occur when donors and the Government are well coordinated, and aid flows are communicated in advance.

Second, on the issue of IDA's evolving role, Afghanistan is in a particularly good position to witness the benefits of IDA's support through its "platform role." We hope that the IDA-15 negotiations will result in much higher financing so that IDA achieves the "critical mass" necessary to achieve its many goals and continue to help guide other donors.

Third, we support the aid-for-trade initiative, particularly the proposal to undertake regional initiatives. With some of the lowest tariffs in the region, and membership in regional economic and trade groups, and given its location, Afghanistan is eager to become the bridge between Central Asia, South Asia, and the Middle East, and help the expansion of trade in the region.

And, finally, we are supportive of the recommendations of the HIPC Implementation Report. We hope that the Bank and Fund will continue to encourage other multilateral institutions to participate in the HIPC initiative. And we hope that non-Paris Club creditors will also increase their participation in the HIPC initiative. Along these lines, we agree

that a public “scorecard” identifying the debt relief granted by each bilateral creditor would be a productive endeavor.

In conclusion, Afghanistan has made significant progress in the past year, but we need your support to continue our reconstruction efforts and to address the challenges of security, corruption, and the “growing pains” of moving towards a market economy. Despite these challenges, and with the support of the international community, we are confident that we will be able to build a democratic polity, a pluralist society, and a market-based economy in Afghanistan.

ANTIGUA AND BARBUDA: ERROL CORT

*Governor of the Fund
(on behalf of Caricom)*

I have the distinct honor of addressing this Joint meeting on behalf of the member states of the Caribbean Community (CARICOM), namely Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Our delegations wish to express our profound appreciation to the management and staff of the Fund and the Bank together with our host, the Government and People of the United States of America, for the excellent arrangements afforded us.

The Caribbean Community wishes to warmly congratulate Mr. Zoellick on his recent appointment as President of the World Bank and expresses full confidence in his leadership of the Bank at this critical juncture in the Bank’s history. We are supportive of current efforts to develop a long-term strategy for the Bank Group and encourage the President to finalize and quickly implement this strategy.

Similarly, we welcome the preparation of The World Bank Group Strategy for the Caribbean, especially on private sector development. We wish to see a clear results-based framework for timely implementation and mutual accountability. The region also places on record its gratitude for the role and support of the Bank for the Conference on the Caribbean held in Washington DC in June this year.

The Community also wishes to express its appreciation to Mr. de Rato for his leadership, especially on some key reforms in the Fund and his demonstrated interest in facilitating a more mature dialogue with the Caribbean. We wish him well in his future endeavors and look forward to a good working relationship with his successor, Mr. Strauss-Khan.

Mr. Chairman, these Meetings come against the backdrop of continued robust growth in the global economy but with some turbulence in the financial markets. Many countries, including the Caribbean, are vul-

nerable to this turbulence in the financial markets given the downside risks for global economic growth.

The role of the international financial institutions in assisting the Caribbean to reposition itself to thrive in the global economy is critical. We welcome the Caribbean-wide research and outreach activities being undertaken by the Fund and the Bank, especially in support of the full establishment of the Caribbean Single Market and Economy (CSME).

As the region implements reforms and builds its resilience, the support of the Caribbean Regional Technical Assistance Center (CARTAC) remains invaluable. Accordingly, we urge donors to provide funding for Phase III of CARTAC.

We are concerned that notwithstanding higher growth and fewer conflicts in low-income countries, far too many are still not on track to achieve the Millennium Development Goals. We encourage the development community to use the opportunity of the IDA 15 replenishment to demonstrate its resolve to keep its commitment to double aid to Africa by 2010. We also urge donors to make their contributions to the HIPC Trust Fund to permit certain creditors to meet relief commitments under the Multilateral Debt Relief Initiative.

We applaud President Zoellick on his recent announcement that the Bank Group will contribute \$3.5 billion to IDA over the next 3 years (more than double its previous pledge of \$1.5 billion). However, we call on the Bank and the Fund to demonstrate a greater awareness of and sensitivity to the significant debt challenges facing many Caribbean countries, primarily precipitated by the vulnerabilities associated with small island economies. In this regard, we encourage the Bank to be more creative in developing instruments to specifically assist middle-income countries that do not qualify for IDA funding, but continue to experience significant development challenges as a result of their high debt overhang. We also commend the management and staff of the IFC for the Corporation's phenomenal financial results in fiscal year 2007 and good prospects in fiscal year 2008/2009 that have made this decision possible.

On this occasion, the Caribbean Community wishes to focus on two issues of monumental importance to our region but with wider significance for all developing countries. These issues are climate change, crime and violence.

Climate Change

The 2006 Stern Review: Economics of Climate Change asserts and I quote, "the impacts of climate change are not evenly distributed—the poorest countries and people will suffer earliest and most" (end of quote). For many developing countries, this is already a harsh reality!

In the Caribbean, we are already experiencing some of the impacts of climate change. Higher atmospheric temperatures are already negatively impacting the region's economy and environment through the need for increased use of energy derived from imported fossil fuels; increased loss of water through higher evaporation rates; higher use of limited water resources for agriculture irrigation; salt-water intrusion into coastal aquifers and increased prevalence of vector-borne diseases.

In addition, as a result of warmer sea temperatures, the Caribbean has experienced extensive social, economic, and environmental impacts of intensive storms and hurricanes. Climate change will affect all sectors within the region but most critically tourism, agriculture, fisheries, human habitat and physical infrastructure, all of which impact the region's prospects for sustainable development.

Many developing countries (large and small) have taken steps to integrate adaptation into their national development strategies but financial support is desperately needed for implementation especially with infrastructure. The international community has a moral obligation to provide financing for adaptation and mitigation efforts in developing countries including small island developing states. As the Stern Review notes, "without such support there is a serious risk that development progress will be undermined." In this regard, the Caribbean Community strongly supports the Alliance for Small Island States in urging the operationalization of the UNFCCC Adaptation Fund.

This brings me to a more general point about the need for the Bank Group to work with its 45 Small States to develop a clear results-based framework to systematically address these countries' requirements. This imperative was recognized by the Development Committee in April 2000 when it declared that "the circumstances of Small States should be taken into account in the policies and programs of the multi-lateral trade, finance, and development organizations."

In June of this year, the Bank in collaboration with 18 Caribbean countries and territories and some key development partners launched the Caribbean Catastrophe Risk Insurance, the first ever multi-island climate insurance facility. This is an example of the type of innovation the Bank can create in partnership with small states and should serve as a model for replication in other regions.

Though pleased with this innovative Facility, we must register our disappointment that notwithstanding combined damages of approximately US\$500 million in Jamaica, Dominica, St. Lucia, and Belize following the passage of Hurricanes Dean and Felix, policies were not triggered because recorded wind speeds were not strong enough. We urge the Bank to work with us to incorporate recent lessons learned and make the Facility more responsive to our needs. In short, the parametric indicators must better reflect the structure of our economies, many

of which are agriculture-based and payout must be more closely aligned with the damages on the ground. We would also reiterate our previous appeal that the Facility should provide flood coverage.

Crime and Violence

The 2007 UN-World Bank study on Crime and Violence in the Caribbean issues a clarion call for crime and violence to be regarded as a development issue, given its direct implications for human welfare and its short and long run effects on economic growth and social development.

The study highlights that one of the major reasons for the high level of crime and violence is narcotics trafficking. The Caribbean is a transshipment point for the producing south to the consuming north. So how is our region responding to this scourge, which is not of its own making? Already, the Caribbean Community has adopted a regional plan and each country is diverting scarce resources from health and education to fight this scourge. In particular, Trinidad and Tobago and Barbados are spearheading investments in interdiction technology. It is quite evident that we have taken the responsibility for fighting this menace into our own hands. That said, we couldn't fight it alone. The Caribbean Community urges the Bank to rethink its approach to crime and violence and to recognize it as an urgent development issue. As a first step, the Bank could convene all the development partners to review the findings of the study and identify areas of partnership on the regional security plan.

We are encouraged by the improvement in the peace and stability of Haiti. The Caribbean Community is currently engaged in various technical assistance programs to improve Haiti's ownership and absorptive capacity of externally financed development projects. We urge donors to remain supportive given the window of opportunity that now exists for an irreversible break with the past.

We take this opportunity to warmly thank and bid farewell to Ms. Caroline Anstey, Country Director of the Caribbean for the past four years. We found her to be a good friend of the Caribbean. She listened to our needs and always tried to be responsive. Under her leadership, the Caribbean Management Unit has made a positive difference to the quality of life in the Caribbean. We wish Caroline well in her new position.

In conclusion, we reaffirm our support for the vital work of the Bretton Woods institutions. We urge them to pursue the requisite reforms that will furnish them with the legitimacy required to more effectively deliver their mandates for global financial stability and poverty reduction.

BANGLADESH: A. B. MIRZA MD. AZIZUL ISLAM

Governor of the Bank and the Fund

It is an honor for me to address the 2007 Annual Meetings of the IMF and the World Bank. Let me join my fellow Governors in extending warmest felicitations to Mr. Zoellick on his assumption of the leadership of the Bank. Let me also congratulate Mr. Strauss-Kahn on his selection as the Managing Director of the IMF. On behalf of my government and my own behalf, I wish them success in their challenging new assignments.

Since the Millennium Declaration, some countries have made dramatic progress to reduce poverty. However, with considerable variation among countries, the end of poverty is not imminent. According to one World Bank estimate, the number of people in extreme poverty will decline by a quarter, and not by half, by 2015. Limited progress will be made by many countries including middle-income ones toward non-income MDGs.

While private capital flows have, of late become the most dominant source of external finance for some prosperous developing countries, IDA recipient low-income countries remain and will continue to remain for quite some time to come, heavily dependent on ODA. But the progress in raising quantity and quality of aid by development partners even for countries with the requisite capacity to absorb increased aid has been slow and uneven. Net official development assistance from DAC countries declined by about 5 percent in real terms in 2006. The average level of predictability of aid remains low. Moreover, the evolving aid architecture characterized by proliferation of aid channels, fragmentation of aid flows and increasing earmarking of aid are posing new challenges to aid effectiveness.

I need not belabor the point that MDGs will remain mostly unrealized in many countries unless ODA reaches the target of 0.7 percent of gross national income of donor countries by 2015 and is disbursed on a predictable basis. The increased volume should be reinforced by greater effectiveness of aid through strengthened country ownership of development strategies, use of country system and effective implementation of harmonization agenda. Market access of developing countries to the developed world must also be ensured through successful completion of the Doha Round. Aid cannot be a substitute for fair trade.

The increased pace of globalization has given rise to many concerns for developing countries. The most important one relates to the implications of climate change. Adaptation to climate change should be guided by the UNFCCC principle of “common but differentiated responsibilities and respective capacities” and should be consistent with developing countries’ basic objectives of accelerating and sustaining

economic growth and reducing poverty. Additional concessional financing would be essential to help low-income countries adapt to climate change through their own development strategies without sacrificing these objectives. We are encouraged to see the efforts for development of a Long-Term Strategy by the World Bank Group to address these emerging challenges.

An important element of the Monetary Consensus is to enhance the voice and participation of developing countries in the decision making process of the World Bank Group. The work done so far on this issue is far from adequate. We urge fellow Governors to strengthen the international dialogue to resolve this issue in order to ensure the credibility and legitimacy of the Bretton Woods Institutions.

Let me now turn briefly to the developments in my country. The present Government assumed office at the beginning of this year when the whole country was in a chaotic situation arising from confrontational politics, prolonged general strikes and frequent street battles among political adversaries. The Government has successfully restored law and order and is determined to hold a free and fair election by the end of 2008 to establish a democratic government free from political corruption. The reconstituted Election Commission has initiated significant reforms in the election process in line with international best practice. The Government has established a truly independent Anti Corruption Commission, separated the judiciary from the executive, and is in the process of implementation of wide ranging reforms in governance institutions and practices. The Anti Corruption Commission has already achieved notable progress to bring to justice corrupt people through due process of law.

On the economic front, notwithstanding several external and internal shocks, overall economic situation will continue to remain stable. We are on track to achieve most of the MDGs including reduction of income poverty. The present government has stepped up implementation of much needed structural reforms in almost all sectors to firmly establish an enabling environment for private sector led economic growth.

In conclusion, allow me to remind ourselves that it is the mutual responsibility of all of us to fulfill the hope we gave to the world's poor and the underprivileged through the Millennium Declaration. We must sincerely put our acts together to transform that hope into reality.

BELARUS: ANDREI V. KOPYAKOV

Governor of the Bank

I would like to welcome you all at this largest international economic forum and express my sincere gratitude to the Washington

authorities for their hospitality and to the management and staff of the International Monetary Fund and the World Bank for excellent organization of this event.

On the whole, the year that has elapsed since the last Meeting was a year of difficult trials and a rigorous test for endurance and stability for the current system of international relations. Rather ambiguous ongoing globalization and integration processes have further increased the unevenness of countries' economic development. These trends have also had a significant impact on the development of our country.

How can we assess the past year for Belarus? Despite a number of objective difficulties that faced the country in late 2006/early 2007, including a drastic price growth for energy resources imported from the Russian Federation, the Belarus Government managed to maintain economic stability.

Today, Belarus is enjoying a sustainable and dynamic development. Our country continues to strengthen its economic, social and political positions in the global community remaining a nation with steadily growing GDP and industrial and agricultural output.

One cannot help acknowledging that, in addition to internal factors, economic growth in Belarus was facilitated by external circumstances such as affordable energy prices and favorable foreign trade conditions. However, it is internal factors that primarily explain a steady growth and sustainable socioeconomic conditions in the Belarus Republic.

Over the last decade, our GDP has more than doubled, industrial output has increased 2.7 times, retail trade more than 4.5 times, and real household cash income more than 3.5 times.

High economic growth continues this year: GDP growth in January-September 2007 compared to the respective period in 2006 was 8.4%. The highest value added growth rates have been observed in construction (120.2%), trade (111.5%), and catering (106.8%).

Industry remains the most significant source of economic growth in Belarus accounting, on the average, for about 38% of GDP growth over the last 5 years. The service sector places second: its contribution to GDP growth over the last 5 years was about 26%, on the average.

Positive outcomes in the real sector promoted a rapid growth of real household cash income and wages: they have increased by 16.2% and 10.2%, respectively, over the first 8 months of 2007. A higher real purchasing power of Belarus households has stimulated household consumption, which is a major factor of domestic demand growth.

The last few years have been characterized by a noticeable increase in investment in the national economy. Total investment in fixed assets has more than tripled over the last decade. Investment growth has far exceeded GDP growth over the last four years: about 123% per year vs. 109.4% per year, on the average. As a result, the share of fixed asset

accumulation in GDP increased from 22.1% in 2002 to 28.7% in 2006. Such investment activity reflects economy orientation to accelerated refurbishment, and forms the basis for further improvement of economy efficiency and competitiveness.

Creating favorable macroeconomic conditions for production and investment activity—primarily due to inflation rate reduction and a competent fiscal policy—is an important factor of sustainable economic growth and macroeconomic sustainability in the Belarus Republic.

Implementation of certain monetary and pricing policy measures has helped stabilize inflation processes. As a result, the inflation rate has been going down steadily since 2000, and we have now reached a low level under the two-digit range. The year 2006 was characterized by the lowest consumer price growth rate over the last 15 years: 7% or 0.5% per month, on the average. In September 2007, CPI amounted to 107.6%, which is within the 2007 forecast range.

The country's foreign currency market also remains stable. The official Belarus ruble to US dollar exchange rate was 2,149:1 as of October 1, 2007 going down by 0.4% relative to the year beginning. In 2001–2006, the Belarus ruble to US dollar exchange rate varied from devaluation by 33.9% in 2001 to appreciation by 0.5% in 2006. Such dynamics supported price competitiveness of Belarus products in the international market and promoted export growth.

The national fiscal policy in 2007 has been oriented to the creation of macroeconomic conditions that encourage economic growth, simplification of the tax system, rationalization of the tax burden, and provision of finance in support of priority public expenditure. In the context of tax burden reduction, the public expenditure policy focuses on expenditure efficiency improvement, concentration of budget resources on the implementation of the top priority governmental programs and activities scheduled for 2007, as well as expenditure optimization and streamlining.

Such macroeconomic policy makes it possible to maintain internal sustainability of the Belarus economy both today and in future.

Pursuant to the IMF/Bank recommendations, Belarus has implemented a number of activities and reforms to improve its business environment, promote privatization and attract more foreign investment. I would like to note the well-known report *Doing Business 2008* which places Belarus among ten countries with the largest improvements in business registration procedures.

Therefore, positive year-over-year results of Belarus socioeconomic development confirm that the Government has been going the right way. We managed not only to restore the pre-crisis GDP level by 2001 ahead of all other CIS countries but also to make a rapid progress afterwards.

Due to our powerful and efficient authorities that work for the benefit of our people and prevent anarchy or ethnic and political conflicts, the Republic retains its focus on a strong social policy, first and foremost, with a view to welfare gains, which is fully consistent with the Bank/IMF mandate.

Naturally, Belarus, like any other transition economy, faces a number of socioeconomic development issues.

One cannot help acknowledging that more than a double growth of natural gas prices had a negative impact on the Belarus economy. Such growth resulted in higher import costs and a negative balance of trade. It also reduced the cost effectiveness of sold goods, works and services compared to the same period of 2006.

However, I would like to emphasize that the general foreign trade situation is gradually stabilizing. The gap between the growth rates of exports and imports of goods is decreasing: it went down from 29.7 percentage points in January 2007 through 14.6 percentage points in January–March to 7.4 percentage points in January–July.

Despite the fact that our energy-related difficulties caused a certain growth rate reduction compared to 2006, the country continues to strengthen its economic, social and political positions in the global community remaining a dynamic economy with steadily growing GDP and industrial and agricultural output, and a relatively high level of domestic investment in the national export capacity.

Both the International Monetary Fund and the World Bank often express serious concerns about payment discipline and growth of arrears in Belarus, as well as generation of losses by a number of our enterprises.

We acknowledge the existence of such difficulties and reiterate that financial rehabilitation of the real sector is a top priority for our Government. To that end, we have developed and are implementing sector-specific and regional programs, and create conditions to address financial rehabilitation challenges on a systemic basis.

The number of loss-generating entities reduced considerably over the first 6 months of 2007. There is an ongoing process of property reform. Most entities have been reorganized into open joint stock companies within the framework of public property privatization.

The goal of the Belarus Socioeconomic Development Program for 2006–2010 is to provide for further improvement of people's living standard and quality of life based on an efficient use of human resources potential, as well as refurbishment and structural development of the economy and strengthening of economic competitiveness.

The aforementioned facts confirm that Belarus has chosen the right development path, which provides for our sustainable positions in the economic and social sphere. It is true that the country has certain

socioeconomic problems and difficulties. However, the Government is making every effort to accelerate the country's integration in the global community and strengthen its global economic relations with due regard for the fact that Belarus is an economy in transit.

The last year demonstrated significant positive shifts in the development of our relations with the IMF and the World Bank, which has a favorable impact on the investment attractiveness, reliability and predictability of the socioeconomic environment in the Belarus Republic.

Over the last few years, Belarus and the World Bank Group signed a number of important documents that establish a framework for our cooperation: Memorandums of Understanding (1994 and 1997), the Country Assistance Strategies (1999 and 2002), and specific Loan Agreements.

Belarus attaches great importance to cooperation with the World Bank and highly appreciates assistance provided by the Bank over the last few years in addressing urgent issues of socioeconomic development, energy efficiency, environmental protection, and mitigation of Chernobyl accident consequences.

There has been a noticeable progress in our relations with the Bank of late. In particular, the Bank's experts, together with the staff of Belarus ministries and agencies, have drafted the Bank's Country Assistance Strategy for Belarus for 2008–2011 fiscal years.

In view of the need to achieve a balance of payment equilibrium, Belarus is very much interested in the Bank's proposals to intensify efforts in new areas such as strengthening the country's competitiveness in international markets, using the Kyoto Protocol opportunities, improving the national finance management, etc.

It is also noteworthy that the Bank's senior management is interested in studying opportunities for preparing an operation in the short term that would address a set of issues to improve energy efficiency and enhance energy independence of the Belarus economy.

CAS for Belarus includes, among other priorities, support of small and medium-sized businesses. Taking into account the Government's priorities relating to SMB development and the Bank's vast experience in that sphere, I would like to confirm our interest in such cooperation.

In that context, special reference shall be made to successful work by the International Finance Corporation that helps Belarus improve its investment climate and finance investment projects. Belarus is strongly interested in expanding cooperation with IFC. At the same time, we find it advisable to develop a more reliable scheme to finance IFC activities from the IFC/World Bank budget whereby donor funds could be used as an additional rather than the principal financial source.

It should be emphasized that experience of our cooperation with IFC generated over the last few years demonstrates positive shifts in

our dialogue with this reputable international organization and significant positive trends in our collaboration.

Besides, I would like to express our gratitude to IMF and Bank staff for their efforts to reform these IFIs, and we wish them to achieve sustainable results. In that context, I would like to reiterate our country's position: we need to improve the transparency and efficiency of developing and transition economy participation in IFI reform processes, as well as in decision-making on their key activities.

The quality of materials, especially projections prepared by IMF staff, is another topical issue. In that regard, I would like to recommend to the IMF senior management to improve the Fund's forecast methodology applied to transition economies with a high share of the public sector in the national economy.

Technical assistance provided by the World Bank and the International Monetary Fund enables Belarus to address a number of essential issues. The IMF's work in that area made it possible to obtain specific results, improve the collection, compilation and dissemination of statistical data, and develop activities to combat terrorism financing and money laundering. Besides, the Belarus Government uses the IMF's recommendations when developing its economic policies. Over the last few years, these recommendations have helped tighten the monetary policy, unify the national currency exchange rate, reduce restrictions in foreign trade, make progress in privatization, and prepare new cooperation programs.

In May 2007, Belarus received a mission under Article IV of the IMF's Articles of Agreement. I would like to express our satisfaction with the fact that, compared with the earlier Aide Memoirs, the Aide Memoir of the last mission gives a rather objective picture of the positive changes in the country's socioeconomic development. It contains more balanced conclusions of the IMF staff, and welcomes a number of the Government's structural reforms.

The Fund devotes much attention to sustainability of macroeconomic conditions in Belarus, taking into account growing expenditure on imported energy resources. The sustainability is related, first and foremost, to exchange rate flexibility, balance of payment deficit, external debt growth, and financial system stability in the context of increased external borrowings.

I would like to note once again that Belarus has a significant economic potential. Sustainability and stability of the Belarus economy is reflected, in particular, in the conclusion by Moody's Investors Service that "even worst-case stress scenarios do not result in a very heavy debt service burden in the medium term."

We hope that further dialog designed to overcome remaining differences in determining the country's development rates and areas would bring our relations with the Fund to a qualitatively new level and help improve the country's investment attractiveness to foreign investors.

We still have to resolve an important issue of timing of next round of macroeconomic consultations with the IMF Executive Board. Holding the consultations in the second half of 2008 does not seem efficient: the Belarus budget and development forecast for 2009 would have been drafted by that time, and the Fund's recommendations based on 2007 outcomes will become irrelevant. Therefore, we find it necessary to consider retaining the consultation schedule used in the preceding years, i.e. the beginning or first half of the calendar year.

I would like to thank the Fund's senior management for continued technical assistance and emphasize a high value of the IMF's technical missions to the Belarus Republic. The Government takes into account recommendations of the Fund's technical missions when implementing structural reforms and determining socioeconomic development prospects.

In the near term, we will continue our cooperation with the Fund across a wide range of technical assistance issues. We wish the IMF could better acknowledge positive results achieved by Belarus in the process of economic policy implementation so that we could use their opinion as a basis for creating a favorable database required to attract foreign investors. We also hope that the International Monetary Fund would take into account peculiarities of socioeconomic development in Belarus and our desire to continue close cooperation. We want to believe that as positive economic trends become stronger and our interaction with the Fund intensifies, we would create conditions for the implementation of an official program of cooperation between Belarus and the IMF.

In conclusion I would like to reiterate that the Belarus Republic has its own economic strategy developed by the top national authorities and well tested by many years of experience. We have achieved significant positive results. Naturally some things are not going smoothly but it is always more difficult to ascend than to slide down. However, cooperation with the leading IFIs encourages Belarus to look for means that would help it overcome difficulties.

I would like to finish my address by reiterating my appreciation of the Washington authorities, management and staff of the International Monetary Fund and the World Bank, as well as the security service for excellent organization of the Annual Meetings.

BELGIUM: GUY QUADEN
Governor of the Fund

First of all, I wish to thank Rodrigo de Rato for his inspired leadership. I would also like to welcome Robert Zoellick as President of the World Bank and Dominique Strauss-Kahn as Managing Director of the Fund.

The IMF faces a number of important challenges. I will talk about three of those challenges:

The first challenge is no doubt the most delicate one. The Fund has to find a way to connect with the new realities of a changed global environment. All members have a right to a fair and adequate representation in the IMF. I recognize that the current distribution of quotas and voting rights does not reflect the shifts in the global economy that have taken place over the last decades; therefore the calls for change are justified. Discussions over the past 13 months have shown that it is not easy to find a comprehensive solution. The often complicated technical details of the issue should not obscure the ultimate objective: a shift of actual quota shares to dynamic economies, while preserving and preferably enhancing the voting power of low income countries. For those who might have doubts: I am fully committed to this objective. Although a compromise has not yet been reached, I feel a lot of progress has been made and a solution is within reach.

Developing a new income and expenditure model is the second major challenge the IMF is facing. The Fund cannot continue to rely solely on the revenue generated by its lending activities. The report of the Committee of eminent persons represents an excellent basis for developing a new income model, broadening the Fund's income base in correspondence with the multiple tasks of the Fund.

We should however not limit this exercise to the income side, but also look at the Fund's expenditures, based on an analysis of what we view as the Fund's strategic priorities. The Fund must establish a costing framework, enabling it to calculate precisely the cost of the different elements of its mission. This will allow us, shareholders, to clearly indicate in what areas expenditures should be reduced.

The third challenge I want to mention here, is the need for the Fund to enhance the effectiveness of its surveillance. A candid but even-handed exercise of surveillance is crucial for the relevance and legitimacy of the Fund. With its recent decisions, the Executive Board has created the framework for a more focused and effective bilateral surveillance. The Fund should also design a similar framework to govern its multilateral surveillance.

Like the IMF, the World Bank Group is facing important challenges, particularly in defining the strategic directions for the coming years. In

my view fair governance and anti-corruption principles must maintain a central place in the work of the World Bank Group. I share President Zoellick's vision on the Bank's objectives to work towards an inclusive and sustainable globalization.

Tackling poverty remains the major strategic objective. Sub-Saharan Africa remains the region with the biggest needs and the most challenging environment to reduce poverty. In this context I would like to emphasize the important role of IDA as the premier development agency. Belgium supports a substantial IDA15 replenishment, which is crucial for our effort to reach the MDGs, re-emphasizing IDA's prominent role within the complex aid architecture.

The World Bank Group will also need to redefine its role in middle income countries, taking into account their specific needs. The World Bank Group's institutions need to formulate and implement joint strategies to assist this group of countries in realizing inclusive and sustainable growth with a particular emphasis on the poorest segments of society.

The Bank's active role regarding further integrating the regional and global public goods should be reinforced with the objective of demonstrating to individual countries that investments in these areas are in their own interest.

The triple objective of the Bank's energy policy remains more than ever important: providing low income countries with sufficient energy for growth, the transition to a low carbon environment and adapting to climate change.

The Bank's current business model is well adapted to face all those challenges. I can assure you my full cooperation in your important mission.

CAMBODIA: AUN PORN MONIROTH AND CHEA CHANTO

*Joint Statement by the Governor of the Bank
and the Governor of the Fund*

We are very pleased to be here to represent the Royal Government of Cambodia at this 2007 Annual Meeting of the IMF and World Bank. First of all, we would like to take this opportunity to congratulate H E Robert B. Zoellick on his appointment as the President of the Bank and to welcome him to his first Annual Meeting in his new position. We would also like to record the appreciation and thanks of the Royal Government of Cambodia for his groundbreaking visit as President of the Bank to Cambodia on August 4–5, 2007. His visit marks a welcome departure from the recent past and demonstrates and reinforces his commitment to uplift the poor of the world, especially in the developing member countries like Cambodia, through an inclusive, non-confrontational, and collaborative relations.

We would also acknowledge once again our sincere thanks to H. E. Rodrigo de Rato y Figaredo, the Managing Director of IMF for his recent visit to Cambodia this year. We would also like to specially thank him for his role in supporting the inclusion of Cambodia in the group of countries qualified for the MDRI program, which has provided an excellent opportunity for the Governments of these developing countries to reach their respective MDGs. The Royal Government has already begun the implementation of the a rural irrigation project in the Eastern region of the country and is preparing three more projects for rural water supply, rural roads and agricultural extension services under the Royal Government's Financing Schemes. We acknowledge and value the key development partnership role that IMF has played in contributing to the development of Cambodia.

Economies in East Asia and the Pacific continued to grow at a steady pace—an aggregate of 9.2 percent—while exports from the region have almost doubled over the last three years. This growth has lifted 50 million people out of poverty each year for the past five years and in much of the region, substantial gains in poverty reduction are expected to forge ahead. This progress notwithstanding, poverty reduction remains a challenge for the developing countries. Therefore, global financial institutions like World Bank will need to continue to play their leadership and partnership role in the foreseeable future if we are to achieve the global vision of a world free of poor. The Royal Government of Cambodia seeks the continued and strong support of the Bank and IMF in its effort to reduce poverty in Cambodia within the framework of the Rectangular Strategy of growth, employment, equity, and efficiency.

The RGC has affirmed the central role of good governance by making it the Cornerstone of its Rectangular Strategy for ensuring the economic development with sustainability, equity, and social justice. Therefore, we principally welcome the role of the Bank to be involved in these related areas of reform as well as some other areas where the Bank believes that it has strong comparative advantage.

The Bank, however, besides this role, should not forget its main and original role as the development Bank in order to realize the ambitious objective of poverty reduction. We must recognize, as many studies have shown, that while good governance and anti-corruption are critical issues, economic growth is a prerequisite for achieving any sustainable level of poverty reduction. We must therefore ensure that policies and strategies have a clear and central focus on economic growth while giving due emphasis on other crosscutting issues which are also critical for uplifting the poor out of poverty. These must be complementary to each other but I regret to note that recent trends show an imbalanced approach with much greater emphasis on crosscutting issues at the expense of economic growth.

Cambodia has achieved remarkable progress in economic growth and meeting the MDGs despite great political challenges faced in the recent past. However, I urge the Bank to be mindful of the recent history of my nation. The institutional capacity, infrastructure, and very fabric of the Cambodian society were all but destroyed by the disastrous periods in the past when Cambodia lost most of its state institutions and human capital at a scale unknown in the modern world.

Without taking this factor into consideration such an historical background, as well as the current political context, where Cambodia is making every effort to deepen and strengthen democracy and human rights, Cambodia is being penalized by the current formula of the PBA system.

Therefore, with the smaller amount of IDA allocation, Cambodia has to make its own further effort to overcome two challenges: implementing the various reform programs; and promoting growth and reducing poverty.

To ensure the effectiveness and efficiency as well as to maintain the Bank integrity, and given the limited capacity of financing, to be involved in the reform programs as well as in the development process, the Bank activity, especially the Bank's leading role should be selective on the areas where it has strong comparative advantage and meet the country's needs and priorities.

On the other hand, at the operation side, RGC would like to reiterate that we have always committed to be responsible and accountable to the Bank funds. Therefore, RGC would like to welcome all measure to prevent any possible leakage. However, we would like to strongly urge the Bank to be more efficient in addressing these issues as it may cause more burdens to the recipient countries. Excessive or inefficient measures tend to be needlessly time consuming as well as to place heavy demand on limited resources.

After sharing some ideas within the context of our relationship with the Bank, I would like to briefly outline some major achievements in Cambodia in the recent past in terms of socio-economic development.

Overall, between 1994 and 2006, Cambodia has achieved average economic growth rate of over 8 percent per annum. Particularly, since 1999 after the entire country achieved full peace, the average economic growth gained was over 9 percent annually. At the same time, inflation has been kept below 5 percent between 1994 and 2006. Country's international reserve has increased almost by 15 fold from 100 million USD in 1994 to over 1.5 billion USD in September 2007. Export has risen by eight-fold from 463 million USD in 1994 to more than 3.6 billion USD in 2006. The international reserves are at a comfortable level and can cover 3 months of imports.

The RGS remains committed to the maintenance of price stability as the principle objective of its monetary policy. Given the high degree of

dollarization and the still underdeveloped structure of the domestic financial sector, the current monetary policy framework, which relies on a well-defined monetary program and eventual intervention in the foreign exchange market, has been deemed broadly appropriate in achieving the determined policy objective. Despite the important role of exchange rate stability in maintaining price stability, the monetary authority is determined not to implement an exchange rate targeting framework, but only to limit volatility in the dollar exchange rate and by doing so not resist adjustments that reflect shifts in underlying fundamentals, thereby achieving a realistic exchange rate for the Riel.

The banking sector is gaining strength on the back of the banking sector reforms outlined in the government's Financial Sector Development Strategy 2001–2010, which has recently been updated and extended through 2015. On the basis of capital adequacy, asset quality, earnings performance and liquidity, the overall financial condition and performance of the banking industry during the year has been satisfactory. The basic BIS principles for banking supervision have been achieved. This achievement has not occurred all of a sudden, but is the outcome of a deliberate and carefully designed program of structural reforms undertaken over the last several years, some of them still ongoing? In this context, the prudential standards set for the banking system will continue to rise as we seek perfect alignment with international standards.

Another issue that we wish to highlight during these important gatherings is that even as we have strived to forge an efficient and modern financial system, increasing the access of the poor to the financial system has been our constant special priority. And indeed, the success of microfinance so far has been the pride of the authorities. We will further encourage market linked banking, which involves commercial banks entering into arrangements with microfinance institutions to extend some form of banking services to outlying areas. We feel that linked banking provides an opportunity to improve the intermediation role that banks play in an economy.

While we are happy with the remarkable progress in the last decade both in the economic and political arenas, the Royal Government is mindful of the challenges and obstacles, both large and small, that lie ahead in the path of sustainable development of Cambodia. The Royal Government will actively face the challenges to ensure the continuity and sustainability of the economic and social conditions that have been created in the last decade and are necessary for sustained development and for rapid poverty reduction.

In terms of good governance and anti-corruption, the key priority has been to encourage and speed up the fight against corruption through judicial and legal reform, accelerating the implementation of

the public financial management reform, moving speedily ahead in public administration reform, and further strengthening the de-concentration and decentralization measures. Enforcement of a code of ethics is being pursued. The draft Anti Corruption law is undergoing extensive and in depth review before it is referred to the National Assembly and the Senate. An Inter-Ministerial Task Force has been established to investigate and strengthen the enforcement of laws and regulations to ensure allegations of fraud or corrupt practices are addressed promptly.

Significant progress was made in many key sectors such as the management of government revenues and expenditures, the management of natural resources, land management, education, and health.

Nevertheless, heavy work remains at the top of the government's agenda to achieve the country Millennium Development Goals. As has always been the case in the past, Cambodia hopes the continuous support of the international community, notably the IMF and World Bank, will help in meeting these challenging objectives.

In conclusion, we would like to express our deep appreciation to the Board, management and staff of the Bank and the Fund for their hard work. Despite recent hiccups in our relations with the Bank, they are ready in responding to the needs and challenges of the region and individual member countries, and especially for the support and assistance in the rehabilitation and development in Cambodia. We look forward to continued strong partnership with the Bank.

CANADA: JAMES MICHAEL FLAHERTY

Governor of the Bank and the Fund

I would like to extend my appreciation to Managing Director de Rato at this, his last Annual Meeting and welcome the appointment of Mr. Dominique Strauss-Kahn as the new Managing Director. Mr. Strauss-Kahn brings to the IMF a wealth of experience and a strong vision for the Fund. I would also like to take this opportunity to welcome Robert Zoellick as the new President of the World Bank. I am confident that the experience and knowledge that Mr. Zoellick brings to the job will ensure that the Bank can effectively deliver on its development mandate.

Global and Canadian Prospects

Since our last meeting, the global economy has been slightly weaker than anticipated and the outlook has further clouded as a result of the turmoil in financial markets. This heightened uncertainty is putting the resilience of the global financial system and effectiveness of our institutions to the test. The challenge facing policymakers is to carefully

examine the root causes of the current financial volatility and draw the appropriate lessons for policy responses at the national and international levels.

The losses in the relatively small US sub-prime mortgage market quickly disseminated to global markets via the market for asset-backed securities and, although quick action on the part of the Bank of Canada and other major central banks helped sustain market liquidity, certain market segments remain stressed. Nevertheless, the fundamentals of the global economy remain sound and the IMF continues to project growth of around 5 percent in 2007 and 2008.

The slowdown in the US economy and the depreciation of the US dollar should help moderate the US current account deficit and help unwind global imbalances. However, global imbalances remain significant and continued progress is needed on implementing the recommendations that emerged from the multilateral consultations.

Canada's economy continues to operate at a high level of activity, owing to robust domestic demand. However, the tightening of credit conditions, the appreciation of the Canadian dollar to parity with its US counterpart, and the weakness in the US housing market are expected to reduce Canadian exports and negatively affect growth. As a result, the IMF expects Canadian growth to ease to the 2.5 percent range in 2007 and 2008. Total consumer price inflation in Canada has been volatile over the last year, largely due to energy prices. However, well-anchored expectations have helped keep core consumer price inflation relatively stable and near the Bank of Canada's 2 percent inflation target.

Canada's fiscal situation remains solid. On a total government basis, Canada again posted a surplus in 2006 and will likely be the only G7 country in surplus in 2007 and 2008. Total government net debt, as a percentage of GDP, has also declined steadily from a peak of nearly 71 percent in 1995 to about 27 percent in 2006.

IMF Surveillance

Significant progress has been made on the Medium-Term Strategy since our meetings in the spring. I welcome the decision by the Executive Board to adopt the 2007 Decision on Bilateral Surveillance, replacing the 30-year old 1977 Decision. The 2007 Decision puts more emphasis on members' domestic policies as well as giving the Fund the ability to better identify domestic macroeconomic and exchange rate policies that lead to external instability. It also reinforces the principle that surveillance should be applied to all members in a uniform and even-handed fashion that promotes open, two-way dialogue.

A second area of progress took place in August, when the Executive Board came to consensus on the desirability of a triennial Statement of Surveillance Priorities. The Statement of Surveillance Priorities will work in conjunction with the Fund's triennial surveillance reviews to ensure that the right issues are focused on in a frank, fair, and flexible manner in support of global economic and financial stability.

Quotas and Voice Reforms

Progress at better aligning IMF governance arrangements with developments in a rapidly changing global economy, is essential to strengthening the legitimacy of the IMF. As a result, agreement on a package of reforms to the structure of IMF quota and voting power is a key priority for Canada.

Important progress has indeed been made in recent months. We all agree on the overall objectives of quota reform, which are to increase the voting share of developing countries (particularly dynamic economies) and to increase the voting share of PRGF countries. We also agree on some elements of the quota formula. However, divisions remain on key issues and we will need to redouble our efforts if an agreement is to be reached by the spring meetings. Progress will require flexibility on the part of all members of the IMF.

Securing a Stable Source of Financing for the IMF

As we know, the Fund's traditional means of financing its operations has become increasingly unsustainable. We need to consider the income options presented by the Committee of Eminent Persons on the Sustainable Financing of the Fund (the Crockett Committee) and I look forward to further analysis from staff. I also encourage ongoing efforts to identify efficiency-enhancing measures at the Fund, improve the link between inputs and outputs in the budgeting process, and slow the growth in nominal administrative expenses. I would encourage members to continue to keep all options on the table, as a package of measures will likely be required to successfully address the current financing challenge.

The IMF's Role in Low Income Countries

The Fund's low-income members face particular challenges in establishing macroeconomic stability, building efficient financial sectors, developing sound legal and business frameworks and investing in infrastructure. Those that have been the recipients of the Enhanced HIPC

Initiative and MDRI debt relief should use the fiscal space created by debt relief to accelerate economic growth and reduce poverty. This requires a commitment to restrain excessive external borrowing to avoid another run-up of unsustainable debt.

In their efforts, these authorities will require the well-coordinated assistance of the Fund, the Bank and the rest of the international community. I therefore welcome the recently approved Joint Management Action Plan to improve coordination and communication between the staffs of the Fund and the Bank and the more focused role for the Fund in the Poverty Reduction Strategy process and low-income countries more generally. I also encourage all borrowers and lenders to participate fully in the HIPC debt relief process, and to respect the Low-Income Country Debt Sustainability Framework.

A Strategic Direction for the World Bank

Much of the focus of our discussion this weekend was on defining the future role of the World Bank. We welcome President Zoellick's articulation of key priorities for the Bank going forward. The challenge now is to translate these broad priorities into an appropriately focused role for the World Bank Group.

In Canada's view, four criteria must guide the long-term strategic direction of the Bank. First, the strategy must be implemented in such a way that it has relevance at the country level, but also allows the Bank to focus its support in areas where it has a comparative advantage. Second, the Bank needs to continue to work on building partnerships with other donors and strengthening the relationship between the different institutions that make up the World Bank Group. Third, innovative ways to mobilize and leverage private sector investment to achieve development goals, such as Advance Market Commitments, must be given greater attention. Finally, delivering results is paramount, and represents an even greater challenge in the context of global public goods.

We would also like to take this opportunity to highlight two areas where Canada's priorities intersect with important aspects of the World Bank's strategic direction.

First, the Bank's work in fragile states, including Afghanistan, Haiti, and Sudan reinforces our efforts in these countries. Canada is a major supporter of the Afghanistan Reconstruction Trust Fund (ARTF) and we believe it is a model of "best practice" for structuring and managing trust funds in post-conflict situations. Canada also welcomes the Bank's recent participation at NATO meetings regarding Afghanistan. This is a positive first step. We would encourage continued efforts to strengthen coordination between international organizations actively engaged in Afghanistan.

Second, Canada strongly supports the Bank's work in the poorest countries. The International Development Association plays a unique role in creating a platform that supports the successful delivery of other bilateral and vertical programs. We welcome the Bank's recent commitment to transfer US\$3.5 billion to IDA15. We look forward to a successful IDA15 replenishment.

In Canada's view, as we move forward in our discussions on the strategic direction of the World Bank it will be necessary to ensure that the Bank's governance structure evolves with changes in the international economy. Canada has been a strong supporter of reform efforts at the Fund and views voice and representation issues as no less important at the Bank. However, discussions on World Bank reform must take into account differences in the ownership structures, as well as the differing roles played by these two institutions in the global community.

World Bank governance reforms require a multifaceted approach that goes beyond voting power. As an example, Canada is open to exploring ways to ensure that clear demonstrations of members' strong and consistent support to the Bank, such as through IDA contributions and other ODA spending related to the Bank, are more fully recognized in the institution. In this respect, we encourage developing countries to take up their full subscriptions to IDA.

More generally, there are a few basic principles that guide our discussions on World Bank governance reform. Firstly, we must ensure that all developing members can benefit from governance reforms. Secondly, we must ensure that any adjustments to shareholdings continue to be primarily based on each member's weight in the global economy. Lastly, we must preserve the IBRD's ability to borrow at the lowest interest rate spreads from international capital markets.

Underlying all of our efforts is the need for solid financial stewardship. The Bank's business model must evolve continuing to meet the demands of its members and providing services that effectively address a spectrum of development needs. To this end, we would urge consideration of a full review of the Bank's longer-term financial situation. This should be with a view to finding significant efficiencies, as well as a better understanding of the growing demands on net income and the potential to leverage Bank resources to meet development needs.

CHINA: LI YONG

Alternate Governor of the Bank

The first half of 2007 witnessed a continued buoyant growth of global economy. The growth in the emerging markets and the developing countries was particularly robust, making them the main engine for the global economy. However, the growth in some major developed

countries has slowed down since the second quarter, reflecting in a significant downside risk in the global economy. At the same time, there is a widening gap between the North and the South, unbalanced global economic development, resurge in trade protectionism, high oil price, unstable exchange rates of the world major currencies and increasing pressure of expected high inflation. All this has added to the uncertainty in both regional and global economic growth. In addition, the unjust international economic order and the shortage of the external financial assistance still impede severely the development of the developing countries whose overall unfavorable position is yet to be fundamentally improved and whose challenges in poverty-reduction and development remain daunting.

The World Bank and the International Monetary Fund continue to play a constructive role in enhancing international coordination and cooperation, promoting global economic growth and reducing poverty. We appreciate their role and hope that they will continue to play an important role in global economic governance. For this purpose, we propose the following:

The Bretton Woods Institutions (BWIs) should continue to improve their own governance and ensure the rights of the developing countries to effectively participate in the decision-making of the institutions.

We believe that the increasing share of the developing countries in world GDP and their significant contribution to world growth should be duly reflected in the voice and representation in the decision-making of the BWIs. The developing countries can no longer be excluded from major decisions or remain severely underrepresented in international institutions such as the BWIs. Further, we support working towards a transparent process in the selection of the heads of the BWIs, as unanimously resolved by the G-20 meeting in Melbourne in November 2006. We also hope that the recent consensus on IMFC chairmanship will be honored.

Therefore, the BWIs should actively reform their own governance, reflect the improvement of the economic positions of the developing countries, and demonstrate in a balanced manner the interests of the different members to design policies in the interest of the developing countries and long-term global development.

On the Fund's Quota and Voice Reform

After several rounds of discussion, preliminary agreement has been reached on some aspects of the Fund's quota and voice reform. Nevertheless, it should be noted that a number of important issues have yet to be resolved.

According to the Resolution adopted in Singapore, one of the objectives of the Fund's quota and voice reform is to realign quota distribution with members' relative position in the world economy, which means the reform should aim at significantly raising the overall quota shares of developing countries, particularly emerging market economies. To achieve this, the size of the second round ad hoc quota increase must be sufficiently large. We believe an overall increase of at least 12.5 percent is appropriate. The overall size of the increase should not be restricted by conventional considerations regarding whether the Fund has ample liquidity.

The first round ad hoc quota increase agreed at the Singapore Meeting is broadly welcome by the international community. Its positive role should be recognized. We need to build further reform on this achievement rather than returning to the pre-Singapore quota level to start the reform again. It should be noted that the first round ad hoc quota increase has only partly addressed the significant under-representation of China, Korea, Mexico, and Turkey. These four countries remain markedly under-represented even after the ad hoc quota increase. Therefore, we believe it is appropriate to adjust their quota or voting power based on the post-Singapore quota level.

The quota formula is the focus of the reform at this stage. We agree that the new formula should be simple, transparent and easy to implement, and should include four variables, namely, GDP, openness, variability and reserves. We are in favor of giving GDP the greatest weight, using a blended GDP variable and giving the PPP GDP a weight of at least 25 percent. At the same time, we support a slightly lower weight for openness and a higher weight for variability, which we believe will better reflect members' potential demand for financial resources from the Fund. We suggest that the staff continue to thoroughly examine issues related to the definition, scope, and weight of these two variables. More importantly, the Fund should enforce a mechanism to periodically assess members' quota and make necessary adjustments to respond to changes in the world economy.

Based on these principles, it is our sincere desire to push forward the process of quota and voice reform. We are always of the view that the inclusion of PPP GDP in the quota formula is the most effective way to increase the quota of developing countries as a whole. It is also the simplest and most transparent way to achieve this objective. Nevertheless, to facilitate the Fund's reform process, we are also open to the Troika Proposal of a PPP GDP filter approach based on the proposal put forward by Australia. However, if MER GDP plus a PPP GDP filter is to be adopted, we oppose the use of any compression factor in the formula.

Another important objective of quota and voice reform is to preserve the voting power of low-income countries. In this regard, we call for a substantial increase in basic votes, and support efforts to increase the resources and capacity of the African Executive Directors' offices.

In order to complete the reform agenda within the timeframe set in the Singapore Resolution, we urge relevant countries to take a flexible and pragmatic approach to push ahead with the reform. In particular, we call on the developed nations to demonstrate their political commitment to facilitate the smooth implementation of the quota and voice reform.

Reform of the World Bank Governance

Enhancing the Voice and Participation of developing and transition countries (DTC) in the decision-making at the World Bank Group is a fundamental requirement for the Bank as a multi-lateral development agency, an important safeguard for fulfilling the Bank's mandates of poverty reduction and development and a major measure in promoting democratic global economic governance. We are of the view that overall enhancing the voting power of the DTC is the basic principle of reform, which should ultimately realize the allocation of 50 percent of the capital shares to DTC. We do not advocate the Selective Capital Increase if it only reallocates the shares among the developing countries.

We support other ways of enhancing the participation of the developing countries in decision-making process. We encourage the Bank to review the selection process for the head of the Bank and increase the transparency of the selection process to include DTC nationals. We support the increase of additional chair for the African constituencies in the Board. We also support a higher representation of DTC nationals in senior management positions.

It is necessary to reform the developed donors-led decision-making process of IDA. Given the fact that the IBRD and IFC have significant amount of net income transfers to IDA, the developing members have become the de facto contributors to IDA. Therefore, it is necessary to fully reflect this fact by ensuring the full participation of the developing countries in the policy-making of IDA.

The BWIs should make use of their comparative advantages as global multilateral financial institutions and guide the economic globalization to the right direction.

Through multilateral coordination and technical assistance, the BWIs should promote participation of the developing countries in the setting of the international economic rules, facilitate the balanced and orderly flows of capital, technology, and labor, and monitor the global

economic development in a balanced manner. They should promote the reform of the international monetary and financial regimes, promote South-South cooperation and regional cooperation, as well as maintain stable global economic environment.

The World Bank Group and other multilateral development agencies should take transfer of development resources as their core mission.

First, it is necessary for the World Bank and other multilateral development agencies to continue to strengthen their capital strength. The pressing task is to realize a 20 percent growth of IDA15 over IDA14 through concrete actions by the developed countries. Second, it is necessary to further reduce financial and operational costs, improve and scale-up country-based model, and increase relevance and flexibility for the client countries. Third, it is necessary to continue to explore new development financing mechanism and actively promote the gradual test and improvement of some specific initiatives. Fourth, it is necessary to enhance supervision on developed countries for their fulfillment of the commitments to ODA, and particularly at this time, to ensure a successful IDA15 replenishment.

The World Bank Group and other multilateral development agencies should adapt to the new global development trends and adequately make strategic realignment.

We support the Bank's principle framework for long-term development strategy. We hope the Bank's new long-term strategy will play a leading role in reforming, and building a global aid architecture based on the development need of the developing countries. We believe that the Bank should always adhere to the following principles in the course of developing its new strategy:

- i) maintain and strengthen the Bank's global nature and ensure that it provide capital and knowledge for developing members at different development stages and play a constructive role in the course of providing public goods for global common development;
- ii) respect developing countries' country-specifics and ownership of development;
- iii) add a third pillar of "creating a favorable external environment for development" to the Bank's current "twin pillar" strategy in order to reflect more comprehensively the new situation and the new needs of the global development;
- iv) promote overall innovation in development thinking, business scope, products and instruments, and establish a new type of development partnership with the developing countries based on equality and demand orientation.

Based on the above-mentioned principles, we support the Bank's priority areas, including Sub-Sahara Africa, fragile states, middle-income countries and global public goods, learning and knowledge agenda.

The Fund should enhance its surveillance over countries issuing major reserve currencies to play an effective role in promoting financial stability and economic prosperity.

We regret that the Fund adopted in June the Decision on Bilateral Surveillance over Members' Policies (the 2007 Decision) in the absence of consensus among its members. The Fund should adhere to its consensus-based approach in the adoption of major resolutions. We note that the application of the 2007 Decision over the past months has given rise to some controversy due to certain less clearly defined core concepts. This has had an adverse impact on the effective implementation of surveillance.

We believe that the Fund's exchange rate surveillance should focus on whether a member country's exchange rate regime is consistent with its medium term macroeconomic policies, rather than on the level of the exchange rate. Given the apparent weakness in the concept and measurement of the equilibrium exchange rate, its calculation can serve only as a reference but not as the basis for assessing members' policies.

We hope that the Fund will objectively recognize the diversity of member countries' situations as well as the role of exchange rates in economic performance and the limitations of the tools used for exchange rate analysis. We also hope that the Fund will respect the autonomy of its members in choosing their own exchange rate regimes. Moreover, the Fund should appropriately determine the priorities in its exchange rate surveillance, and enhance its surveillance of countries issuing major reserve currencies. The Fund should also take concrete steps to address problems related to the 2007 Decision and its application. The aim of these efforts is to enable the Fund to conduct surveillance in a prudent, fair and effective manner and based on clear consensus so that, through its surveillance, the Fund will contribute significantly to financial stability and economic prosperity.

In view of the new opportunities and challenges, China will continue to stick to people-centered, comprehensively balanced and sustainable road of development. It will continue to be innovative in mode of development and institutional mechanisms, and maintain stable and rapid economic growth. It will accelerate the economic restructuring and transform the way that economy grows. It will adhere to "five balanced aspects" and realize harmonious development. It will do more to save energy, reduce emission, and develop circle economy to construct resource-efficient and environment-friendly society. It will uphold equity and justice and improve people's livelihood. It will resolutely push forward reform and opening up and realize sound and rapid economic and social development.

In the course of national development, China has always linked its development with the common progress of the human beings. While persisting in its own development, China attaches great importance to international development cooperation in an effort to seek balanced and equitable global development. China cannot develop in isolation from the rest of the world, nor can the world enjoy prosperity and stability without China. The Chinese people will continue to work unswervingly with the people of other countries to bring about a better future for humanity.

COSTA RICA: GUILLERMO ZÚÑIGA

Governor of the Bank

Costa Rica is a country with a long-standing civilian tradition. It set a stellar example for the world on December 1, 1948 when it abolished its army. In the aftermath of a civil war, José Figueres Ferrer emerged as the victor and decided to abolish the army. As a result, the country stopped spending money on weapons and war and redirected its scant resources toward the promotion of economic and social development.

I am appearing before you today to promote the Costa Rica Consensus, an initiative unveiled by the President of Costa Rica and recipient of the Nobel Peace Prize, Dr. Oscar Arias Sánchez, at the United Nations General Assembly on September 20, 2006. Once again, Costa Rica would like to bring this initiative to the attention of the international community and to lobby for its decisive support.

A few days ago, on October 10, the President of the World Bank, Mr. Zoellick, in delivering his address to the National Press Club here in Washington, D.C. on Inclusive and Sustainable Globalization, identified a number of needs that are clearly apparent around the world. He mentioned combating malaria, which strikes some 500 million people; the pressing need for developing countries to produce their own electricity or to seek alternative sources of energy; the need for access to water by 1.5 billion persons; the social improvements needed by more than 2 billion persons; as well as the issues surrounding gender. He also addressed infrastructure and access to education. I should point out that the United Nations Millennium Development Goals are ambitious and call for the contribution of aid resources by industrialized countries, some of which have already attained the level of 0.7 percent of GDP. Indeed, all development efforts that we are discussing call for money. The problem is that humankind continues to squander money on weapons and war, instead of using those resources to better our lives. Our spending decisions continue to be misguided.

Available figures on military spending worldwide, while not totally reliable, are truly alarming. It is estimated that approximately 3.4 percent of global GDP goes toward military spending, with significant variations from one region to another, however. Furthermore, well-founded suspicion exists regarding the possibility that assistance received by countries for other purposes may very well end up being diverted directly toward bankrolling wars or that funds are being siphoned off from government budgets for purposes of killing each other. A recent study by Collier puts this figure at approximately 11 percent of aid received. What is most disconcerting is that the weapons buildup by neighbors prompts countries to seek ways to defend themselves, while these actions in no way imply an improvement in general security conditions worldwide.

Hence, the initiative known to us as the Costa Rica Consensus seeks to incorporate moral criteria for public expenditure into official development assistance programs and loans from donor countries and international financial institutions. As President Arias stated, “with this initiative, we hope to establish mechanisms for debt forgiveness and financial support for developing countries that are investing more in public health, education, and housing programs, and reducing their spending on arms and armies. It is time for the international community to recognize not only those countries that use resources prudently but also those that use them morally.”

To this end, the Costa Rica Consensus calls on the donor countries to incorporate into their official development assistance programs a selective system of incentives to reward developing countries that, in a verifiable and sustainable manner, make genuine efforts to increase social investment, thereby meeting the most pressing social needs and reducing military expenditure. Costa Rica is appealing for the incorporation of the moral criteria of the Costa Rica Consensus into official development assistance programs. It is also appealing for facilitation of the reduction of external debt, non-reimbursable assistance, and loans with subsidized interest rates with a view to rewarding and encouraging the peace dividends generated by those developing countries that engage in this type of moral spending.

The Costa Rica Consensus seeks to supplement existing development assistance programs; it does not seek to reduce current aid for low-income or middle-income countries, which would therefore eliminate competition for the scant development resources. We are, however, calling on the donor countries and the multilateral financial organizations to ensure that a portion of the additional aid resources be used to reward developing countries engaged in moral spending. All developing countries have the potential to achieve this objective—it is merely a question of political will.

The Millennium Development Goals are in the offing and we can shift resources that are currently being spent on weapons toward the pursuit of peace and the welfare of the people. We are faced with an important task that we must assume.

CROATIA: IVAN SUKER

Governor of the Bank

It is my pleasure and privilege to address the 2007 Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund here in Washington. I would like to express my warm appreciation to Mr. de Rato for his dedicated work in the Fund and to wish him all the best in future work. Also, I would like to greet the new president of the World Bank, Mr. Robert B. Zoellick and to wish him much success and wisdom in steering the institution in years to come.

In my statement, allow me first to outline the major economic developments related to the Republic of Croatia. Croatian economy is performing well. In the first half of 2007 we were experiencing highest growth rates in last couple of years and all the other macroeconomic indicators speak in favor of well performance of the economy. The economy is expected to grow by 6.0 percent this year. Inflation continues to remain low and stable at 2.5 percent in 2007. What remains as a challenge are external imbalances, namely the current account deficit which is likely to reach around 8.1 percent of GDP and the external debt which is expected to account for roughly 86.1 percent of GDP at end-2007, mainly as a result of stronger enterprise sector's direct borrowing from abroad.

In this context, I would like to emphasize the fact that the Government recognized the risk of external imbalances and has put a great deal of efforts in addressing them. In 2004 we started with a strong fiscal consolidation, which was characterised by, among other measures, improvements in budget planning and process, introduction of single Treasury account, which gave impetus for better control of public expenditures and liquidity of the system and better collection of revenues. Fiscal consolidation is best seen in the budget results. In only three years, we halved our consolidated general government deficit. This year we continued with the reduction of the fiscal deficit. When it became clear that our first target for fiscal deficit of 2.8 percent of GDP we'll be met, in revised budget from July we set ourselves more ambitious target of 2.6 percent of GDP for 2007. Medium term perspective sees budgetary central government balanced by 2010. This policy of fiscal adjustment and the reduction of fiscal deficit led to the decrease of general government debt which fell from 43.7 percent of GDP in 2005 to 40.7 percent of GDP in 2006. Moreover, it gave an important contribution to addressing the external balances and so the government

reduced its share in total external debt from 33.0 percent at the end of 2003 to 22.0 percent in June 2007.

In the context of the curbing credit growth, and alongside the existing measures—marginal reserve requirement, special reserve requirement and prudential measures—the Croatian National Bank implemented a new credit control measure in 2007, which puts strong disincentive to commercial banks' credit growth in excess of 12 percent per annum. This additional measure represents further effort of the central bank to slow down the pace of credit growth, as well as a contribution to overall incentives focused on reducing external imbalances.

Turning to my second point—Croatia's relations with the Fund and the Bank—I want to stress first that Croatia continues to have an open and fruitful discussions with the Fund/Bank staff. In this context, besides cooperation with the Fund through Article IV Consultation, Croatia will again participate in a Financial Sector Assessment Program initially conducted and concluded in 2002. The FSAP update is planned for the end of October 2007 and is set to cover three main fields e.g. the: Basel Core Principles, insurance and securities. The plan is also to make a technical overview on non-banking supervision, cross-country cooperation in supervision, credit growth and related measures and Basel II.

Fulfilment of the EU accession criteria and successful EU integration have been calling for intensive structural and institutional reforms especially over the last couple of years, and the Bank's Programmatic Adjustment Loans (PALs) have been supporting Croatia in that effort. The main aim of the PALs is to support Croatia in improving its investment climate and reducing the size as well as improving the efficiency of its public sector. In addition, Croatia has still been benefiting from the Bank's investment lending focused primarily towards the improvement of social welfare, enhancement of economic competitiveness, protection of the environment, improvement of trade and transport infrastructure, and advancement of Croatia's knowledge-based economy. Besides program arrangements, Croatia has been participating in a number of the Fund/Bank initiatives aimed at strengthening the architecture of the international financial system. Therefore, I wish to thank both the Fund and the Bank for providing us with expertise technical assistance, which is very much appreciated.

Let me also touch on a couple of policy issues relevant for the Fund/Bank business. First, regarding the quota reform, I have to say that we support the general idea of making quota formula simple and transparent, but at the same time the new formula should aim at striking a right balance between the size of countries and their openness. Also, we do see merit in using a compression factor for GDP in the formula, as this helps alleviate a problem of getting too large disproportions in quota shares between advanced and other economies. In addition, care ought

to be taken about voice and participation of low income countries. First step in achieving this goal should be at least doubling of basic votes at the time of second ad hoc quota increase, while further steps down the road should include introducing a mechanism to safeguard the share of basic votes in total voting power, and increasing the number of Alternate Executive Directors of especially large constituencies.

Second, I recognize the need for the Fund to develop a new income model that will be more robust and sustainable in the long run, and to achieve better alignment of the Fund's income with its diverse activities. I welcome the key recommendations made by the Committee of Eminent Persons; however, to achieve a success, the expenditure side measures should also be taken into account in the context of a comprehensive framework.

Finally, I would also take the opportunity to comment on the globalization issues which brings free trade and prosperity to the countries around the world. We are aware, however, that universal sense of global economy working for all is not entirely there yet. Moreover, we are witnessing these days rising protectionism in some of the countries previously known to promote globalization. In addition to that we observe continued existence of global imbalances which remain a key risk factor for the world economy. These lead us to a simple conclusion—promoting international economic cooperation remains a challenging task.

Allow me in concluding to thank our hosts for their warm hospitality and outstanding organization of these meetings. I wish the Fund and the Bank well in their future undertakings and I would like to thank them for the help provided to my country.

CYPRUS: MICHAEL SARRIS

Governor of the Bank

This statement comments on global economic and financial issues, from the perspective of Cyprus as a small open economy in the European Union, which will adopt the euro on January 1, 2008.

Economic Situation

Against the background of buoyant global trade and economic activity in the first part of 2007, the Cyprus economy performed well recording real GDP growth of around 4 percent and meeting all of the Maastricht convergence criteria. This good performance contributed to the positive decision for Cyprus to enter the euro area on January 1, 2008.

The recent turmoil in financial markets does not appear to have any significant adverse effects to date on the real economy of Cyprus. What is of more concern is the sharp rise in prices of certain internationally

traded commodities particularly oil and cereal products, which are imparting considerable inflationary pressures on Cyprus and other, open economies. Also, with evidence that certain major exporters of manufactured products are experiencing increased domestic inflationary pressures the global economy may be entering a stage where some slowdown in economic growth will be accompanied by higher inflation.

This conjuncture of prospective economic developments adds to the challenges of an economy like Cyprus as it enters the euro-zone. The authorities must not only intensify policies to ensure nominal convergence in the EU and to secure macroeconomic stability, but must implement structural reforms with greater vigor to maintain competitiveness and raise potential growth. In this respect, the government deficit is expected to decline from 1.4 percent GDP in 2006 to 1.0 percent in 2007, will be further reduced to around 0.5 percent in 2008 and attain balance in 2009. Reflecting the fiscal developments government debt is now on a distinct downward path and is estimated to reach under 53 percent of GDP by end-2008. It is noteworthy also that public expenditure management reforms, including the introduction of a medium-term budgetary framework, with the help of valuable technical assistance from the IMF will enable the better control of government expenditures as well as their more efficient allocation and targeting to growth-enhancing activities.

As to relations between the larger economies, we note that recent cyclical developments have contributed to some unwinding of global imbalances. However, we trust that the further reduction of such imbalances will be accompanied by orderly movements in exchange rates of major currencies and be in line with competitiveness positions and hope that the euro/US dollar exchange rate does not have to continue to bear the brunt of the adjustment. Indeed, it would be preferable if demand management policies as well as structural reforms can play a greater role in rebalancing global economic growth and thereby phasing out large current account deficits.

Quotas and Voice Reforms in the IMF

Cyprus along with fellow EU members is willing to reach timely agreement on a satisfactory outcome on the reform on quotas and voice aimed at ensuring fair and adequate representation for all members of the IMF. Cyprus supports a shift of actual quota shares of advanced economies to emerging market economies, and that the voting power of low-income countries should be enhanced. The details of proposals for quota and voice reforms in the IMF, which Cyprus supports, were outlined in the statement of the EU Presidency to the IMFC meeting. And in this connection, Cyprus strongly endorses the objective of enhancing

the voice and participation of low income and transition countries in the Fund and supports significantly increasing basic votes.

Other Governance Issues

Cyprus welcomes the appointment of Mr. Dominique Strauss-Kahn as Managing Director of the IMF and looks forward to his leadership. As for the IMFC chair, Cyprus along with other EU member states supports a time-limited chairmanship and the principle of geographic diversity, and welcomes the recent appointment of Mr. Tommaso Padoa-Schioppa for a three-year term.

Low Income Countries

Cyprus backs the continuing role of the Fund and the Bank under existing facilities, in supporting low-income countries according to their mandates. We consider that the IMF should give priority to enhancing the effectiveness and efficiency of its work in low-income countries by focusing on macroeconomic stability and sustainable growth that support the achievement of the MDG's.

We welcome the initiatives of new World Bank President Robert Zoellick in developing a strategy and pragmatic approach to enable the Bank to better help low income members and countries emerging from major conflicts. In particular, we welcome efforts to bring about a more client-focused approach, to find better ways of integrating aid with national programs, and to improve governance and the fight against corruption. In this connection, we trust that the donors of IDA, through the 15th replenishment can show a high degree of confidence in the course being charted by the new World Bank President.

Combating Money Laundering and Financing of Terrorism

Cyprus backs strongly the international fight against money laundering and against the financing of terrorism. It also calls action by all countries to implement programs according to the 40 Recommendations and the 9 Special Recommendations of the Financial Action Task Force (FATF) and together with other EU members calls on the IMF and the World Bank to closely cooperate with the FATF. EU countries are committed to the effective and timely implementation of UN Resolutions 1540, 1718, 1737, 1747 and have taken action to that effect; we call on other countries to do likewise. Cyprus supports the recent decisions of the FATF concerning the financing of proliferation of weapons of mass destruction.

DENMARK: NILS BERNSTEIN

Governor of the Fund

(on behalf of the Nordic-Baltic countries)

I am honored to address the 2007 Joint Annual Meetings on behalf of the Nordic-Baltic constituency consisting of Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden, and Denmark. Let me begin by welcoming Montenegro as a new member of the Fund.

Financial Markets and the Global Economy Are Being Challenged

The global economy continues to expand, powered increasingly by major emerging market countries. Projections for global growth have been moderately reduced in the face of the turbulence in financial markets. But risks are firmly on the downside. Indeed, we have been witnessing the worst credit and liquidity squeeze in world financial markets in a decade. However, economic fundamentals seem to be strong in many parts of the world supported by generally sound policies and skilful liquidity management during the period of turmoil. Reappraisal of risks following periods of very vibrant credit markets is overall sound and good for financial stability.

The turbulence in financial markets represents the first real test of structured finance and the related credit derivative markets. With financial globalization, markets are increasingly intertwined, with the effect that external events can have an immediate impact on local markets and institutions. This underscores the importance of strong regional and multilateral surveillance, taking into account spillovers between countries as well as between financial and macroeconomic developments.

With its global membership and unique expertise on financial and capital markets, the IMF must take stock, draw lessons from recent developments, and integrate them into IMF surveillance. The IMF should be a key player in advocating policies in a timely manner. This will enable its members to harvest the significant benefits of financial innovation and globalization, while the risks can be minimized. Sound macroeconomic policies and developed financial sectors are fundamental elements. Transparency and well-regulated financial markets to support confidence deserve emphasis.

Reform of IMF Governance Is a Pressing Issue and Viable Solutions Call for Broadly Based Support

One of the political commitments made in Monterrey is solely in the hands of the IMF, namely to enhance the participation of developing

countries and transition countries in the decision-making of the IMF. Here, the Fund can set an example that multilateralism is working.

In Singapore, we agreed on a two-year reform of Quotas and Voice to ensure a fair and adequate representation of all members of the Fund. The Fund's legitimacy and credibility rest on meeting the timetable and respecting the spirit of the Singapore Resolution. The voice and representation of dynamic economies and low-income countries must be improved.

Prior to the 2008 Spring Meeting, we must agree on a new quota formula. It must be simpler, more transparent and based on economically sound principles in order to stand the test of time. We strongly support a compression factor in the quota formula to achieve a balanced and rules-based distribution of quotas. GDP and openness should be the main variables in the formula.

No later than by the 2008 Annual Meetings, we must agree to a second round of ad hoc quota increases based on the new formula. It should benefit a broader range of the most underrepresented countries in relative terms. It should also be distributed in a manner that anchors expectations about the nature and direction of future quota increases. At the same time, we strongly support a tripling of the basic votes and a mechanism in the Articles of Agreement to safeguard the share of basic votes in total voting power. We have to enhance the participation of low-income countries.

Reform of the Fund's Role in Low-Income Countries Is Called for

Many low-income countries are now achieving much higher growth than in the past. The success mirrors global growth but also that more low-income countries have adopted sound macroeconomic policies and reform.

The economic progress currently reduces the need for the Fund's traditional balance-of-payments financing. Against this backdrop, it is time for the Fund to review its role. The Fund's work in helping countries absorb the expected increase in aid should receive increased priority in the years to come in close cooperation with other development partners. Also, it will be important to ensure that the countries that have benefited from debt relief do not rebuild unsustainable debt.

We continue to believe that the Fund must concentrate its work—also in low-income countries—on its core areas of responsibility and expertise. That is, macroeconomic and financial stability advice and help building institutions central to these areas. But this is often closely linked to; inter alia, structural reforms, improved quality of public spending and good governance. Thus, the economic challenges in

low-income countries call for a clear division of responsibilities and close cooperation between the IMF and the World Bank and other relevant partners in order to attain the Millennium Development Goals.

Reform of the Fund's Finances Is Necessary in View of the Changing Role

The IMF must clarify its role as set out in the Medium-Term Strategy and in line with the fundamental changes in the global economy. Focusing on core areas of expertise will support the Fund's relevance and the resource envelope must be set correspondingly. We must stay firm on the essential need for the Fund to curb expenditures. We expect preparations for taking decisions on proposals, including different compositions and substantial reduction of expenditure. The Fund must practice what it preaches.

The current financing of the IMF's activities has a number of shortcomings. It relies heavily on credit intermediation, it is complicated as well as unpredictable, and it draws excessively on a small group of debtors. We welcome the work to find a long-term sustainable financing model for the Fund undertaken by the Committee of Eminent Persons and IMF staff. We endorse the idea that the cost of an individual loan is not set by the Funds overall need for revenue.

We believe that a package of measures to better align Fund income with its activities provides a sound basis for discussing a balanced solution. A limited sale of the Fund's gold would provide a good starting point. Naturally, the sale must be ring-fenced and take place in accordance with existing central bank agreements as suggested by the Committee. At the same time, we support prudently enlarging the investment mandate and look forward to study specific proposals. We encourage further analysis of the implications, technicalities and income-generating potential of the proposal to invest the IMF's quota based resources.

Reforms Are Essential to the Fund's Legitimacy

For the Fund to be effective and credible, its members must be adequately represented as stipulated in Singapore one year ago. We must clarify the role of the IMF in the 21st century globalization and find a sustainable solution to Fund finances. It seems increasingly pressing to instigate organizational reforms to sharpen the Fund's work and responsibilities—we look forward to discussing the strengthening of governance when the IEO presents its report. A rapidly changing world means challenging times also for the IMF. Being responsive to change is

the key to success. We welcome Mr. Strauss-Kahn as the Managing Director and wish him success in this demanding position.

We are willing to engage in a reform of the criteria and procedure for the selection process for leading positions in all International Financial Institutions. There is a clear scope to improve openness and transparency of the selection process.

The IMF now has 185 members, almost all sovereign countries. This carries with it an extraordinary responsibility to reflect the world and to provide foundation for global solutions. One area in urgent need of global solutions is the deadlocked Doha negotiations. Let us not forget that the IMF originally was set up to promote international trade by securing a stable and reliable international monetary system. In this spirit, let me use this occasion to urge all countries to bring the negotiations to a successful conclusion.

FIJI: MAHENDRA PAL CHAUDHRY

Governor of the Bank

It is indeed an honor for me to address this distinguished forum on behalf of the delegation of the Republic of the Fiji Islands. I take this opportunity to offer my congratulations to you on your appointment as Chairman of this meeting.

May I also congratulate President Robert Zoellick on his appointment as head of the Bank, and welcome his statement on his appointment that globalization must be founded upon inclusive growth, opportunity, and respect for personal dignity.

I would also like to warmly welcome the new Managing Director Mr. Dominique Strauss-Kahn, who will take over the helm of the Fund next month. I remain confident that he will continue his known commitment to all nations, both great and small.

It would be remiss of me not to acknowledge the significant contribution of the outgoing Managing Director of the Fund, Mr. Rodrigo de Rato. I pay tribute to his exemplary leadership and dynamism in steering the Fund during a period of significant global challenges.

Let me now turn to the agenda of the World Bank Group and the IMF. While many middle-income countries (MICs) have made progress, for the majority, significant challenges still remain. The need for accelerated action on these challenges is, therefore, obvious. The Bank and Fund's extensive experience, knowledge pool, and financial resources can help these countries address difficult issues and take full advantage of the opportunities arising from globalization. Accordingly, we are pleased with the inclusion of middle-income countries agenda, as part of the World Bank's strategic direction.

On this note, we welcome the Bank's commitment to develop a competitive menu of "development solutions" that is responsive to the diverse needs of middle-income countries. In devising these development solutions, we call on the Bank to include in its strategic focus the plight of small island states, like Fiji, that are unable to access the Bank's concessional and grant financing, but continue to face many of the challenges confronting low-income countries.

We, therefore, encourage the Bank to include instruments for capacity building, particularly for small and lower income MICs, as part of its package of solutions. In the meantime, we welcome the Bank's recent approval to simplify and reduce the pricing of IBRD loans. Addressing the non-financial costs associated with borrowing from IBRD remains a fundamental part of IBRD's loan pricing and competitiveness.

We would also like to commend the work of the Fund in the successful completion of its first multilateral consultation aimed at reducing imbalances in the global economy, while maintaining robust world growth.

Let me now brief you on the developments in Fiji. On the political front, the Interim Government is in effective control of the country. Peace and stability has been maintained. Law and order is intact. The Interim Government is pursuing roadmaps to democracy and economic recovery. There is determination to rebuild and move the country forward. We are deeply committed to combating corruption and promoting good governance.

I would like to assure the Bank and Fund that necessary steps are being taken to enable general elections to be held. We appeal, therefore, to the international community and our development partners to understand our situation. We are grateful to all those who have engaged with us and are assisting us with our plans for economic recovery and return to constitutional rule.

We have suffered costly setbacks in two of our major export sectors in the recent years. The termination of preferential quota access to the US market has resulted in a substantial scaling down of our garment industry, at a cost of several thousand jobs.

Likewise, the difficulties experienced with our agricultural land tenure system over the last decade have seen a significant reduction in our sugar exports. However, this sector is now poised for recovery and growth under a reform and restructure program being pursued jointly by Government with stakeholders in the industry. Receipts from sugar exports will be at reduced levels. This is as a consequence of price reductions initiated by the sugar sector reforms in the European Union.

Over the last four years Fiji's external position worsened critically as a result of declining export earnings and rising cost of imports—largely due to the escalation in oil prices and burgeoning budget deficits.

Despite these setbacks and challenges, we are determined to maintain financial stability through prudent economic management. Monetary policy has been tightened and the Ministry of Finance has consolidated its fiscal policy. The Interim Government announced a revised 2007 budget containing the overall fiscal deficit to 2 percent of GDP and it intends to take further measures to reduce the level of future fiscal deficits.

I am pleased to advise that our policies have proved successful thus far. More importantly, the Ministry of Finance has been able to keep the fiscal deficit in check, in spite of shortfalls in revenue collections.

However, we are not out of the woods yet. Whilst our foreign reserves position has stabilized as a result of the policy measures in place, the challenge going forward is to sustain a healthy balance of payments position.

The valuable contribution and support of our development partners and multilateral institutions is critical to our development and in overcoming the challenges that we face. In this regard, we look forward to assistance and support of the Fund and the Bank through policy advice, financial resources, and technical assistance. In this respect, I wish to thank the IMF for the two staff visits this year in the lead up to the upcoming Article IV Mission towards the end of November.

May I also state here, that Fiji was amongst the first of the small island nations in the Pacific region to undertake the Financial Sector Assessment Program (FSAP). However, there is need for prompt follow up of Technical Assistance to implement the recommendations and we look forward to this being facilitated by the Fund and the Bank. Fiji would welcome IMF assistance in improving statistics and policy guidance, which is essential not only for assessment of the exchange rate during surveillance but also avoidance of dogmatic solutions.

We support the process of reform to update the representation of members and modernize the governance of the Fund. Furthermore, we agree with the proposed increase in basic votes in order to ensure that low-income countries have a greater opportunity to participate in the Fund's governance. We wish to express our support for increasing the resources in the Executive Directors' office and the proposal to have two Alternative Executive Directors for the larger constituencies.

We welcome discussion on the Reserve Augmentation Line, which will be particularly useful to emerging market economies. Fiji is in an interesting position of being subject to all the vulnerabilities of a small island state, yet not classified as a low-income country. We have been waiting for a framework to be developed for emerging market economies with strong macroeconomic fundamentals and effective development programs—these countries however, may need contingent financing at reasonable cost to help prevent crises or reduce the costs of

crises. We recognize that there are design challenges in developing such an instrument but we call on the IMF to accelerate its work in this area as the need for such an instrument is sorely felt in an environment of heightened and growing capital and financial flows.

Developing and low-income countries, therefore, need all the assistance they can get from development partners and the multilateral community to integrate into the world economy. In this context, we fully support the Bank's Aid for Trade agenda, to develop assistance programs in support of developing countries' trade reforms. We acknowledge the continued involvement of the Bank and Fund in assisting countries to mainstream trade into country strategies and we encourage further support in areas of capacity building, technical assistance, advisory and analytical work as well as investment in infrastructure. We call on development partners to scale-up their assistance in these key areas.

Climate change is a global challenge that has tangible impact on economic growth. Overexploitation of resources and unsustainable management practices has increased the vulnerability of water resources, agriculture, health, and major infrastructure to climate change. In fact, many vulnerable states have begun to experience the adverse effects of this phenomenon on their daily lives. Fiji is no exception. We therefore, welcome and support the Bank's commitment to scale-up resources devoted to combating climate change. We also appreciate the Bank's close cooperation with the Global Environment Fund (GEF) and other partners to advance the implementation of the Clean Energy for Development Investment Framework.

Fiji has been fortunate to benefit from a regional GEF funded project aimed at financing renewable energy (electricity) supply to rural communities. Through the Fiji Electricity Authority, we have also embarked on a comprehensive investment program aimed at full renewable energy supply by 2011. Given the Bank's technical expertise and experience, Fiji has sought its assistance in the implementation of this investment program.

We commend the Fund and the Bank for their support towards the Pacific Financial Technical Assistance Centre in Fiji. The centre has the potential to play a useful role in assisting the Pacific Island nations in their capacity building programs. We therefore, request that the centre be adequately resourced and welcome the Bank's proposed contribution to its operations.

Finally, I would also like to express our appreciation to the management and staff of the Fund and Bank, as well as, the host government for the excellent arrangements made for these meetings. Fiji is grateful for the assistance provided by the Bank and Fund and we look forward to deepening our country's engagement with both institutions.

FRANCE: CHRISTIAN NOYER
Alternate Governor of the Fund

The year 2007 is a pivotal year for the Bretton Woods institutions. It is a pivotal year, of course, because of the election of Robert Zoellick as head of the World Bank, the departure of Rodrigo de Rato—to whom I would like to pay tribute here and thank for the reforms launched during his mandate—and the arrival of Dominique Strauss-Kahn. However, it is also a pivotal year owing to the fresh impetus that must be given to enable the International Monetary Fund and the World Bank to remain, jointly, the guarantors of growth, international financial stability, and poverty reduction.

The Fund and the Bank are in fact faced with three demands: for leadership, legitimacy, and efficiency.

The demand for leadership requires the IMF and the World Bank to mobilize their shareholders in favor of reform.

At the IMF, considerable progress has been made since 2005, such as the radical reform of surveillance. I hope that the future Managing Director benefits to the full from the choices already made, that he continues the efforts made in each area in which reforms have been initiated, and that he implements the priorities adopted. I am convinced that he will be able to modernize and adapt the institution to allow it to respond to the criticisms leveled at it.

At the World Bank, the election of President Zoellick has made it possible to overcome a very difficult period for the institution. That is now behind us. The Bank is now in full working order, ready to complete the negotiations on the IDA 15 replenishment and to conduct the strategic review that has been launched in the Development Committee. Encouraging signals have already been given in an especially important area of work. I am referring to the transfer of earnings from the World Bank and the IFC to IDA. However, there is still a long way to go, and the personal commitment of the President will certainly be a determining factor in the success of the reforms that the institution needs.

The demand for legitimacy implies continuing to adapt the governance of the Bretton Woods institutions to world economic reality.

Enhancing the legitimacy and governance of the IMF requires quota reform. An important first step was taken in Singapore last year. It

defined the framework for the current negotiations. The IMFC and Board discussions have highlighted the basis for compromise.

There is consensus on the principle of a single, simple, and transparent formula. The objective is to increase the share of dynamic economies, many of which are emerging countries, without marginalizing the developing countries. The clock is ticking toward September 2008.

Europe and France, for their part, have entered into these negotiations in an open manner. We have consistently recalled that this reform should not disregard the principles that underlie the IMF's mission and the role of its quotas; but we have also shown flexibility by agreeing, in a spirit of compromise, to drop some of our demands, in the context of an overall compromise. All of the elements are interrelated. Among the options suggested by IMF staff, the filter approach is the best suited to achieved the objectives of this reform.

I would like to add that, in any event, the reform would succeed only if the poorest countries also gain from it. That is why France supports the option to triple the basic votes. This is a matter of justice, and thus of legitimacy.

The Bank's shareholders cannot disregard the reforms that they are undertaking at the IMF. What is appropriate for the IMF is not necessarily appropriate for the Bank, because the two institutions have their own cultures and carry out distinct missions. However, there is no need to wait for the reform of the IMF to be completed before undertaking a reform of the Bank.

The demand for efficiency requires that the instruments of the IMF and the World Bank be strengthened.

Surveillance is a core mission of the IMF. Indeed, the Fund should be a contributor to crisis resolution only after it has first exercised its preventive role by identifying economic and financial vulnerabilities nationally, regionally, and internationally.

The positive international economic and financial context should not lead us to conclude that balance of payments crises have been permanently consigned to the past. For this reason, France is promoting the development of an insurance instrument, and wishes therefore that discussions regarding its implementation move forward quickly.

The efficiency of the IMF also presupposes a reform of its financing. The current model has reached its limits. The IMF's income should be diversified so as to make it less dependent on economic cycles. The Crockett Report has laid the foundation for a thorough reform, and France supports the underlying principles. Rapid progress must now be made on these issues.

Efforts to streamline the IMF's budget, which necessarily entail more efficient expenditure, are also required. However, the institution's operational capacity must be maintained. All member countries, including the poorest, must continue to benefit from the advice and support—including financial support—of the IMF.

At the World Bank, the strategic review launched in the Development Committee should redefine the institution's priorities and enhance the effectiveness of its actions and instruments.

Negotiations regarding the IDA replenishment have already allowed this work to begin and the initial results are encouraging, with greater priority placed on support for fragile states, support for regional integration, and greater responsibilities relating to the fight against climate change.

Moreover, the Bank's competitive environment has changed greatly in recent years. We must draw the consequences from this. The Bank must be more selective in its operations and coordinate more closely with the other donors and lenders. It must listen more closely to its clients, be more flexible in defining its country strategies, and more responsive in preparing its projects.

Finally, as at the IMF, the strategic review of the Bank should also examine its financing model. Recent efforts regarding loan fees are one part of the answer. However, more must be done. This will involve innovation and internal reform efforts and strengthening certain synergies among the different institutions in the group.

Now more than ever, therefore, the IMF and the World Bank have an urgent responsibility to reform. To move forward together, thanks to the impetus that their new leaders will bring, is now an opportunity that the Fund and the Bank must seize, for the aim of the two reform efforts is to strengthen both institutions and to sustain the political process that is necessary for reaching compromise and formulating new ideas.

GERMANY: AXEL A. WEBER

Governor of the Fund

At the outset, I would like to join previous speakers in welcoming Robert Zoellick as the new President of the World Bank. I also would like to thank Rodrigo de Rato for his excellent work as the IMF's Managing Director. We look forward to working with his successor, Dominique Strauss-Kahn.

The global economy continues to grow strongly, despite the problems in the US housing and mortgage markets and the related recent financial market turbulence. However, the downside risks have increased.

For Germany, while the international financial market turbulence has increased uncertainty and has required some corrections to our economic forecasts, our expectations for economic growth next year remain positive. Not only the continued robust global growth but also strong industrial activity in Germany and the improving German labor market—which should also stimulate private consumption—contribute to this positive assessment.

Regarding global financial stability, it will now be important to jointly search, in particular, for ways to make the securitisation process more transparent. We welcome the contribution by the IMF and the World Bank to the development of local bond markets in emerging market economies and developing countries.

Moreover, economic policy should continue to support the orderly unwinding of global imbalances without losing sight of the challenges of demographic change and global warming.

Trade liberalisation on a non-discriminatory basis is one of the most important elements in ensuring sustainable growth. I therefore urge all member countries to continue and redouble their efforts to achieve a successful and development-friendly conclusion of Doha Round negotiations.

Ongoing IMF reform should contribute to strengthening the IMF's position as a global forum for international monetary cooperation:

- Adapting quotas and voting rights to reflect the new economic realities will be an essential element in strengthening the IMF's legitimacy. It should create appropriate incentives for countries to pursue sound policies, promote openness and global integration while taking into account the Fund's role and its contribution to global financial stability as well as to growth and development. I hope that consensus on a new quota formula can be found soon. The key to this central element of the reform lies in finding a sustainable solution which is consistent with the IMF's core principles of uniformity of treatment and fair burden sharing among members. Safeguarding the voice of low-income countries will also be essential. Germany remains committed to reaching an agreement on the reform within the timeframe provided by the Singapore resolution. All parties need to show flexibility and act in a spirit of compromise.
- Surveillance is the Fund's most important task. To make it stronger, surveillance should be focused, in future, more on aspects of global financial stability, exchange rate analysis, and the impact of national and unified supranational economic and monetary policies on other countries and regions. It is of critical importance for the Fund to apply the New Decision on Bilateral Surveillance over Members' Policies consistently and to ensure that for members of the European Monetary Union "the principles for the guidance of members' exchange

rate policies and the associated indicators . . . are only applied at the level of the currency union” as a whole.

As regards the financing of the Fund, I explicitly welcome the Crockett report as an excellent basis for developing a new reliable income mechanism. However, considering the Fund’s financing gap, it will be crucial to look at both income and expenditure in tandem. Not least in view of the changing focus of the Fund’s mission, more ambitious real expenditure restraint seems warranted.

We are looking forward to discussing and refining the strategic themes of the World Bank Group presented to the public by Robert Zoellick last week.

- In low-income countries, assistance to reduce poverty and foster development has to be focussed better. In particular, resources should be more selectively channelled towards reform-oriented and turn-around situations. In fragile states, peace-building and state-building are at the frontier of the development agenda.
- In middle-income countries, the World Bank’s strong engagement continues to be important for achieving the Millennium Development Goals and for the cooperative accomplishment of global future tasks.
- We support the World Bank’s new focus on global and regional public goods and on social and environmental sustainability. The essential challenge and opportunity for the World Bank Group is to integrate its global public goods priority into all aspects of its work, in particular into its country program.

Let me conclude by saying that achieving the Millennium Development Goals (MDGs) will require a substantial scaling up of Official Development Aid (ODA). Germany will fulfill its international commitments and contribute its fair share. The International Development Association (IDA) has a key role to play in the increasing global aid architecture and should more actively address the challenge of climate change in its work.

GREECE: GEORGE ALOGOSKOUFIS

Governor of the Bank

The Global Outlook

The global economy continues to grow strongly, although downside risks have clearly increased. The recent financial market turbulence that originated in the U.S. credit market potentially could slow the pace of the global expansion. Financial market conditions have improved since mid-August but a full recovery will require time. The widening of credit

spreads has a positive aspect, insofar as it better reflects underlying risks. However, it creates downside risks to near-term growth. Rising oil prices, inflation concerns, and trade protectionism also constitute key risks to the global outlook. Climate change and clean energy needs should also be taken into consideration.

The speed at which the recent credit crunch spread from the U.S. to Europe and other parts of the world provides a powerful illustration of the systemic risks associated with financial globalization. Enhancing transparency in financial markets is the key to avoiding unexpected events that create uncertainty and impair market liquidity. The recent turbulence calls for improvements in the practices of market participants regarding the disclosure of information on exposure to risks. There is also a need to strengthen cross-border regulation and supervision. Given its global membership and financial stability mandate, the Fund has a key role to play in identifying spillover risks and working with national regulators and other relevant bodies to help avoid or contain them.

Quotas and Voice

Reform of the Bretton Woods institutions is progressing. The ad hoc quota increases agreed last year are only a first step towards achieving a redistribution of quotas in favor of the most dynamic economies and the low-income countries. It is imperative that we reach agreement and complete the quota and voice reform by the fall 2008 deadline. The new formula must be simple and transparent, and give a primary role to GDP at market rates. A compression factor would clearly help towards a more equitable redistribution of voting power. We look forward to further progress in enhancing the credibility and effectiveness of the Fund.

World Bank

These Annual Meetings take place at a time of increased financial flows to developing countries. The World Bank Group has retained a key role in financing the least developed countries, where private capital inflows have remained limited. ODA and IDA in particular have a prominent role to play in sub-Saharan Africa. In this connection, we support the pledge of the World Bank Group to allocate an amount of 3.5 billion dollars from its earnings to IDA -15. We support the IFC's commitment to increase its engagement in IDA countries.

Greece is actively participating in the IDA 15th replenishment round with a view of increasing its IDA share.

Greece's Economic Performance

Greece plays a key role in the development of Southeast Europe through trade and direct investment. Southeast Europe is becoming one of the fastest growing regions in Europe and Greece is committed to facilitate the integration of these countries in the global economy and the European Union.

Greece's growth performance has been quite strong over the past three years, exceeding the Euro-area's average by a significant margin. Growth has been underpinned by private investment and exports, while tourism and shipping services also are a contributing factor. GDP growth reached 4.3 percent in 2006 and is expected to be sustained around 4 percent in 2007–08. The Greek economy can do even better in the medium term, as structural reforms are being pursued to make the economy more competitive and to tackle the perennial weaknesses of the public sector.

Fiscal consolidation advanced significantly in the past three years, as the general government deficit was slashed below the 3 percent EMU threshold from 8 percent in 2004. The general government deficit is estimated to reach a 10-year low of 2.5 percent of GDP in 2007. Greece's adjustment record demonstrates that fiscal consolidation is compatible with sustained growth if accompanied by supply-side reforms that help redirect resources toward private investment. Looking forward, the Greek government remains committed to continuing structural reforms, including the pension reform, while pursuing fiscal consolidation efforts to achieve balanced budgets by 2010.

HAITI: DANIEL DORSAINVIL

Governor of the Bank

On behalf of the Haitian delegation, I would like to begin by conveying my heartfelt appreciation to the Joint Secretariat of the Bank and Fund for the excellent organization of the 2007 Annual Meetings of Governors.

I am also pleased to congratulate Mr. Rodrigo de Rato, who will leave his position at the end of this month, on the work that he has accomplished. I would also like to extend a cordial welcome to Mr. Dominique Strauss-Kahn, who will take up the reins at the IMF. We eagerly await the expeditious implementation, under his leadership, of reforms that impact the role of the IMF in low-income countries and enhance the representation of member countries through quota reform and staff diversity.

The Republic of Haiti warmly welcomes the decision of the World Bank Group, under the leadership of its President, Mr. Robert Zoellick,

to allocate US\$3.5 billion to the poorest countries. We also avail ourselves of this opportunity to laud the initiative of the World Bank to undertake a critical review of the conditionalities associated with the disbursement of external aid. It would also be helpful to review the basis for the allocation of resources to post-conflict countries. For such countries, access to Bank resources remains inadequate, given that the allocation of IDA funding based on past performance puts them at a disadvantage.

The Bank should also be commended for the leadership shown in instituting an insurance program to cover disaster-related risks in the Caribbean. However, the recent damage suffered by Jamaica as a result of Hurricane Dean demonstrated the existence of technicalities that impede disbursement of funding under this program.

In Haiti, institutions are becoming stronger, dialogue is deepening, and insecurity has been considerably reduced. In this context, we commend the work done by the Haitian National Police, with assistance from the United Nations Stabilization Mission in Haiti [Mission des Nations Unies pour la stabilisation en Haiti—MINUSTAH] through the contingents from several of the countries represented there. We thank them for their steadfast support.

The Government of Haiti has made a commitment to address several challenges and is confident that, with the support of friendly countries and partner institutions, it will manage to achieve the objectives set. A number of important steps have already been taken. Maintaining political stability, a climate of security, and sound macroeconomic management have facilitated the resumption of growth of the Haitian economy, which stood at 1.8 percent in 2005 and 2.3 percent in 2006, with the rate for 2007, under the worst case scenario, being projected at 2.5 percent. It is important to compare three consecutive years of GDP growth with the 3.5 percent contraction posted in 2004. Inflation has fallen from approximately 8 percent in February 2007 to 7.9 percent in September 2007, as compared to 12.4 percent in 2006 after reaching 37.8 percent in September 2003. The gourde/dollar exchange rate has been stabilized.

At the moment, we not only have to build on the gains made in the area of economic and political stabilization, but also to accelerate the growth rate. Rapid and sustained growth of the Haitian economy is essential for poverty reduction in Haiti. Also, in order to ensure rapid growth, the Government is according special importance to improving the business climate, strengthening democratic institutions, combating corruption, enhancing access to basic social services, and repairing and building economic infrastructure.

Determined to bolster the progress made in the areas of stabilization and good economic governance, the Government will complete the second review of the first year of the Poverty Reduction and Growth Facil-

ity (PRGF) with the IMF. Next fall, Haiti will reach the decision point under the HIPC Initiative, a milestone that will make it eligible for the Multilateral Debt Relief Initiative (MDRI).

Efforts to boost domestic resources have already yielded decisive results and are continuing apace, with emphasis being placed on combating smuggling and tax fraud. However, we are also counting on the assistance of our external partners with implementation of our PRSP that we have just completed with input from all sectors of Haitian society.

We would like to express our profound gratitude for the support of the countries in this room that are friends of Haiti. The Haitian Government harbors the hope that it will be able to count on the assistance of all of you with the implementation of its poverty reduction and economic growth promotion program.

INDIA: P. CHIDAMBARAM

Governor of the Bank and the Fund

This plenary is very special in one respect: we have with us a new President of the World Bank Group and we will, in a few days, welcome the new Managing Director of the International Monetary Fund. Both Mr. Robert Zoellick and Mr. Dominique Strauss-Kahn are exceptionally qualified individuals, we are sure they will provide wise leadership to the two institutions, and we wish them success. If the two institutions had launched a worldwide talent search for persons to head the institutions, these two names would have figured in any short list; such a process would have also enhanced the credibility of the two bodies as truly global institutions. Fellow Governors, I think this is the day and the hour when we should declare our intention to uphold the principles of corporate governance and state in unambiguous terms that the next President and the next Managing Director will be selected through a transparent process from among the best talent available in any part of the world.

Global Macroeconomic Situation

The global economy has registered sustained growth in recent years. The world GDP growth is projected to cross 5 percent this year. China and India continue to remain the engines of global growth. Latin America and Sub-Saharan Africa have also recorded strong growth. However, with financial market turbulence spreading from its epicenter in the U.S. to Europe, the downside risks have increased. Financial market risks continue to unfold and the prospects for 2008 are somewhat uncertain. We urge the advanced economies to take appropriate measures to restore

full normalcy in financial markets and share with the world what they intend to do.

Global imbalances, supply-side inflationary pressures, and protectionism continue to pose risks to growth. Oil and food prices have spiraled. As food comprises a large share of the consumption basket in developing countries, high food prices have political and social ramifications, apart from triggering inflation. These risks call for greater vigil on the part of all countries and a state of readiness to respond with both short and medium term measures.

Strategic Direction of the World Bank Group

We welcome the step taken by the Bank to reposition itself as an aid institution and a knowledge bank. With different products on its menu, the Bank would be attractive in different ways to different countries: the poorest will be more inclined towards the financial products while the Middle Income Countries will be attracted to, besides financial products, to the knowledge and research products.

Strengthening the World Bank's Engagement with IBRD Partner Countries

We welcome the steps taken to strengthen IBRD's engagement with partner countries, especially on pricing reforms. These should facilitate financing of infrastructure that is integral to the attainment of MDGs. However, further action is needed to reduce IBRD's non-financial costs. I propose that the Bank should commit itself to greater use of country systems and take concrete action to ensure that this commitment percolates to operational levels.

Global Public Goods

The Bank's work on GPGs should sub-serve the core of its mandate of poverty reduction. While supporting the idea of a "special focus on climate change," we urge the Bank to be mindful of issues relating to legacy of carbon emissions, energy equity, and the principle of "common but differentiated responsibilities."

Besides, the special focus should not distort the hierarchy of developmental needs of low-income countries. Orderly international labor mobility, technology transfer; intellectual property rights, affordable medicines, stolen assets recovery, and portability of social security are some GPGs that are more relevant for developing countries, and should not be crowded out.

India is committed to addressing climate change. We have made considerable progress in de-linking economic growth and energy use, and in reducing our CO₂ emission-intensity. We have offered that our per capita GHG emissions will not be allowed to increase beyond the per capita GHG emissions of industrialized countries, and we have urged the industrialized countries to reduce their per capita GHG emissions. While welcoming the Bank's initiatives on clean energy, we need to remind ourselves that access to affordable energy is a major challenge: 675 million South Asians live without such access.

Voice and Participation

The Singapore resolution on Quota and Voice Reform in the IMF called for a formula that should provide a simpler and more transparent means of capturing members' relative positions in the world economy. We are disappointed with the progress made until date. While there is an appearance of progress in identifying the elements of a new formula, a new formula itself is not yet on the table. The new formula must result in a meaningful transfer of shares from developed to developing countries. We believe that this is possible only if GDP is computed on PPP terms. We are willing to consider a blended GDP as a measure of compromise, so long as the outcome meets our basic objectives. Other elements should be part of the formula only to the extent that they are useful to identify those who would need to draw from the Fund and those who have the capacity to contribute to the Fund. The time between now and the Annual Meeting of 2008 are short. We must therefore redouble our efforts and agree on a formula that will redeem the pledge made in Singapore.

Governance structure and voting shares of developing countries are at the core of the Voice reforms' issue in the Bank. We maintain that any discussion on the structural options without a review of the fundamental formula for IBRD shares would be superficial. While GDP would remain a variable, we also need to include other variables, such as poverty numbers and infrastructure deficit to reflect correctly the demand side.

Scaling up and the Role of IDA

We believe that the coordinating role of IDA can be more effective with increased IDA funding. We endorse the recommendation that IDA support should reach a "critical mass" and this support should keep pace with the increasing absorptive capacity of its clients.

We are constrained to note that the supply side of aid, both in quality and quantity, is not keeping pace with the demand. IDA's real growth

has been flat for over two decades. The slow and uneven global aid spread contrasts with the Monterrey and Gleneagles resolves on scaling up. The predictability of aid also continues to be low. We urge the donor countries to honor their commitments.

The world community looks up to us to deliver on our promises. Let us match our words with action for a world free of poverty.

INDONESIA: SRI MULYANI INDRAWATI

Governor of the Bank

On behalf of the Indonesian delegation, I would like to express my sincere appreciation to the American people for their gracious hospitality and warm welcome to your nation's capital. Allow me also to congratulate President Zoellick and Managing Director Strauss-Kahn on their recent appointments. We are confident that their good leadership will prove crucial in the coming years as the need for the Bank and the Fund to reform and position itself in meeting the demands and development challenges of eradicating poverty in an ever-increasing complex world.

In this context, we greatly welcome the Bank's Long-term Strategic Direction. We consider this will provide a better mechanism for aligning aid with national development strategies, for reducing transaction costs, as well as maximizing the Bank's expertise in client countries. On the matter of project disbursement, we continue to experience difficulty with the Bank's slow and antiquated process. We therefore encourage the Board of Executive Directors to seek ways for streamlining the Bank's disbursement procedures so that it can remain competitive, including adopting national standards and best practices.

Looking ahead, we note that the Bank's strategic direction appears to have expanded to include regions that continue to enjoy the benefits of record oil prices and higher economic growth. We are concerned that this expanded scope will affect deployment of the Bank's limited resources for addressing the most relevant and highest priorities in accordance with its original mandate and focus; that is poverty reduction and development issues.

Also, given the universal consensus that climate change poses real risks and challenges with our existing approach toward sustainable development, we feel that the Bank should direct and intensify its efforts in addressing the challenges that this new reality creates for us all.

To this end, Indonesia will host the 13th Conference of Parties (COP) meeting of the United Nations Convention on Climate Change in Bali, December 3 to 14, 2007. As part of the Bali's UNFCCC conference, Indonesia will also host the 'first-of-its kind' High Level Event on

Climate Change for Finance Ministers, December 10 to 11, 2007. Climate change is not only an environmental issue, it is becoming a development and investment issue, with these new responsibilities falling on the shoulders of finance ministers. The overall purpose of the meeting is to raise awareness among finance ministers on climate change, with particular attention to fiscal instruments related to climate change mitigation and adaptation.

We believe that finance ministers can and should be assuming a leading role on this issue. Finance ministers have all the policy instruments needed to make a difference on the global outcome of climate change. These instruments include fiscal policy, risk management, insurance, finance policies, and the power in directing the flow of funds and investments. Indonesia is now taking steps to reduce emissions from deforestation and promote cleaner future energy initiatives. Other countries are expected to take more actions that are promising. We must not wait, but take action now in addressing the problem together.

Let me now turn to the theme of Governance. We believe that good governance and the fight against corruption are critical to achieving our development goals. Our experiences show that building good governance and fighting corruption is a long and difficult endeavor. It needs patience, perseverance, and consistency in both policy and action. More importantly, it requires courage and commitment to eradicate a deep-seated structural problem. Therefore, we welcome the World Bank's Stolen Asset Recovery (StAR) Initiative and wish to record our very strong commitment in dealing vigorously with the theft of public assets. As we have experienced, sometimes you are forced to lose a few battles in order to win the war. And our conviction to win every battle is unwavering and steadfast if we wish to move forward. More specifically, we aim to tackle corruption by reforming our bureaucracy and introducing new systems to manage public funds, eliminate cumbersome regulations, and by promoting public-private partnerships based on open and transparent competition. We strongly endorse collective efforts and global partnerships for investigating, tracing, and repatriating of stolen assets. We also wish to send a clear message to prospective investors that bribery poses serious risks and severe sanctions. Collectively, we all also need to send a clear message as to the risks and ultimate consequences for countries that harbor stolen assets.

I would now like to touch briefly on the reforms of the BWIs. In the interest of building mutual accountability, credibility, and effectiveness, we are expecting the Bank and the Fund to undertake structural reforms and continue their efforts to increase the voice and role of developing countries. We believe it is important to pursue rigorously structural improvements in the form of introducing special majorities, extending Executive Directors' terms, and increasing member shares.

Efforts should also be intensified to improve the non-structural operations of the Bank, including increased representation of qualified staff from developing countries in the Bank's senior management ranks and empowering all member countries to participate in the leadership selection process.

Let me close my remarks by reaffirming Indonesia's commitment as a solid and reliable partner of the Bank and the Fund. I would also like to wish President Zoellick, Managing Director Kahn and their management teams every success as they press ahead with their very important and challenging reform agendas.

IRAN: DAVOUD DANESH-JAFAR

Governor of the Bank

I am very much delighted to have the opportunity to attend this august meeting and to be able to express my views.

The economic gap between rich and other countries is increasing. The current rigid structure and mechanism governing the world economy is designed in such a way that, even the most optimistic intellectuals in the field of development, does not see the decrease in this gap at sight. Although the rapid world economic growth in 2006 has provided a favorable ground for making progress in achieving the Millennium Development Goals (MDGs), but the expected programs pertaining to poverty alleviation throughout the world has not yet been met. World Bank as one of the most important international organizations should pursue its main goals as comprehensive development and poverty reduction mission in member countries. But, it seems that, unfortunately there has been some dualism between words and actions of the Bank.

On the issue of enhancing the "Voice and participation of Developing and Transition Countries in Decision Making at the World Bank and IMF", while we welcome the overall increase of the shares and voting rights of these countries as a whole, we would like again to emphasize on the principle, that any increase in the shares and voting rights of a given group of countries should not be at the expense of some other developing countries. This should be formulated in a way that leads to the increase of the voting power of developing countries as a whole without reallocation among them. This should be the crucial objective to be considered in the changes. Furthermore, we believe that the overarching aim has to be bringing the total voting power shares of Part II countries to the level of 50 percent in order to observe the equity and equal voice between developed and developing countries.

In this direction, we believe that restoring the basic votes to their original level or at least tripling them should be considered as a way, among other things, in closing the gap between voting power of Part I

and Part II countries. The voice of developing countries can also be enhanced by providing level playing field for the selection of the World Bank president and IMF Managing Director in future. We believe that a transparent, open and merit based selection procedure without the consideration of the country of origin should be established as the principle framework for the section.

Middle-income countries are vital stakeholders and shareholders of the Bank. They are the main source of income and demand for World Bank loans and home for 70 percent of the poor living with less than 2 dollars a day. There are huge needs for development loans in these countries. Despite this fact, we observe negative net transfer to these countries from the Bank. Also, the loan portfolio of the Bank has been shrinking which is a matter of concern. We believe that the Bank should be more forthcoming and active in simplifying and modifying its procedures in doing its business in an efficient and effective manner.

And last but not least, as it is also stipulated in the Articles of Agreement of the World Bank, it should analyze and consider implementing projects in different countries only on the basis of the economic merits of the respective projects. The political considerations under no circumstances should undermine or bias the position of the World Bank management in making the right economic decisions in cooperation with member countries on any program or project.

The performance of the Iranian economy in recent years demonstrates its resilience and vibrancy despite the strong enmity of an unreasonable and willful power that, over the last three decades, has unilaterally used all means to force the Islamic Republic of Iran to submit to its will. Having failed in all threats and intimidation, this power has resorted to subverting the international economic and monetary system to damage the integrity of Iran's financial system. It abuses its power in all international fora to weaken my country's financial system. It uses misinformation, disinformation, and outright lies in its fear-creating efforts. While we are confident that it will fail in its attempt to intimidate the global financial system to isolate Iran, the actions of this power is a warning to all nations that rely on the global economic system for orderly trade and finance. This power has used unilateral economic sanctions against some 55 countries in the last five decades and can victimize any country. This is a very unsound policy. If allowed to carry out its very wrong intents by subverting the integrity of the international economic and monetary order and to deprive Iran of its rights of trade and finance, no country will be safe in relying and trusting the global financial system. International community should not remain silent in face of this phenomenon, which could be called "financial terrorism."

IRAQ: BARHAM AHMED SALIH
Governor of the Fund

I would like to take the opportunity of addressing you on the occasion of the Annual Meeting. I want to thank the World Bank team in Washington, the country team in the region and especially the team in Baghdad with whom I am in regular contact.

It is undeniable that for Iraqis, and friends of Iraq, the continued violence and the pace of progress has been a source of deep frustration. But while acknowledging the setbacks and the challenges, we must also recognize the important progress that has been achieved. In recent times, the security environment has improved in tangible ways. Of course, we still have a long way to go before attaining the stability and security we need, but the progress is undeniable. Levels of violence are way down compared to a year ago. A year ago, entire areas such the Anbar province were deemed lost to Al Qaeda—now these regions have become denied territory to Al Qaeda terrorists. These changes in the security dynamics affirm that success is possible in Iraq.

In terms of economic performance, we are still not living up to the potential a country with such an abundance of natural and human resources should be showing. Security challenges have been a primary impediment to improving our economic performance at a faster pace. But also bureaucratic inertia, the overbearing legacy of a socialist command economy and corruption—and indeed political instability, has proven serious impediments to accomplishing the reforms needed to unleash Iraq's economic potential.

These are no easy challenges for a state emerging from decades of tyranny, wars and sanctions—but we are committed to an ambitious agenda of reform manifested in the International Compact with Iraq—this was an initiative launched by the government of Iraq with the UN, and with the help of the World Bank, aimed realizing our National Vision in establishing a stable unified, federal democratic state with a prosperous economy with a diverse production base capable of providing the requirements of sustainable development based on the market factors and opened to the world and integrated with it and with the regional economies.

The Compact aims to create a mutually reinforcing dynamic of national consensus and international support. Domestically the aim is to build a national Compact around the government's political and economic program and to restore the Iraqi people's trust in the state and its ability to protect them and meet their basic needs—it includes a far reaching agenda of economic reform at unlocking Iraq's development and economic potential.

The Compact reaffirms the commitment of the Government of Iraq to good governance and fighting corruption. Achieving prosperity is a key part of the Vision. We know that sustainable growth in employment and living standards has to be driven by a strong, diversified private sector. The Government has a key regulatory and legal function—but the real source of sustainable prosperity has to be the private sector.

Since the launch of the compact earlier in the year, we can report progress on many of the bench marks defined in the socioeconomic arena.

In public resource management, the government can report continued progress in improving budget execution performance. In particular, execution of its investment budget is 35 percent (around Iraqi Dinars (ID) 4.5 trillion) as at July 2007. For perspective, the result of the investment budget execution for the full year in 2006 was around 26 percent.

The Government's joint Public Expenditure and Institutional Assessment being conducted in partnership with the World Bank continues to be on track for completion by the end of the year.

Good progress is being achieved in economic reform. A generally positive outcome has been achieved following meetings between the Government and the IMF on Article IV consultations and the fifth review under the Stand-By Arrangement (SBA). The Government is currently implementing measures to reenergize efforts to meet certain structural performance criterion under the SBA and is preparing for a third program in support of the final phase of debt forgiveness under the agreement with the Paris Club.

The SBA is important because of the close relationship between its implementation and the process of debt reduction. The Paris Club agreement postulated that 80 percent of the debt owed to Paris Club countries is to be cancelled. The agreement also states that other creditors (public and private) should treat Iraq in a comparable way. Without going into the details of the matter almost \$70 billion dollars of debt (amounting to about \$130 billion) has been written off. The implementation of the new SBA due to end by the end of 2008 will make it possible for Iraq to get the final 20 percent reduction of the Paris Club debt.

The Government's efforts to control inflation are beginning to deliver tangible results. Annual Consumer Price Inflation (CPI) reached around 65 percent for 2006, up from 32 percent for the preceding year. The Government targeted the primary causes of inflation by addressing areas such as fuel supply bottlenecks as well as implementing new IMF supported monetary policy. Core inflation (excluding fuel and transportation) has consequently been reduced from 32 percent in 2006 to 14 percent, and it is hoped that the CPI will decline to 12 percent in 2008.

The Government has approved up to US\$1 billion for micro-credit lending. This decision was made on the basis of the successful US\$50 million micro-credit pilot program for Baghdad.

The Government has also provided funding for the development of economic free zones. Funds are earmarked for the rehabilitation of new and existing zones. Work with the Governorates continues with a focus on investment promotion, but also involves work on improving budget execution for regional economic development. Particular achievements in the investment area include the appointment of the Chairman of the National Investment Board.

Progress has been achieved in increasing electricity supply with record levels of generation being reached. For example, in a day in September around 120,000 mw was produced. Attacks by terrorists on the electric networks hamper the effective distribution of current and future generation capacity. To this end, the Ministry of Electricity, with the help of security ministries, will continue efforts to increase sustainable electricity generation capacity and improve distribution networks; the Ministry is also in the process of enhancing its strategic plan for the sector.

From the declining rates of production experienced during 2006, oil production and export volumes have increased though not to levels initially forecast for 2007. Improved prospects for oil production and economic growth will be contingent on the completion of planned investments in the oil sector.

We are working to bring the negotiations on the hydrocarbon law to closure—if and when enacted, this law will cause the restructuring of the oil sector and will provide a conducive investment environment to unlock Iraq's real potential as an oil producer. I am hoping that year 2008 will witness major improvement in our production and export levels.

We are also making progress with the restructuring of the banking sector and are looking to increase the possibilities of Foreign Direct Investment. As our capacity to implement projects increases, there will be a need for the participation of International Financial Institutions, including the World Bank and IMF. In many cases we are only just beginning to re-engage with the international community through trade and financial services. I do believe that as we restructure our economy we will need high quality advisory services.

With some of the World Bank funded projects there have been some difficulties in implementation. These are being taken seriously and I am already in touch with the senior ministers involved to resolve these issues.

For the future, we need to examine how the engagement between the Government of Iraq and the international financial institutions will

deliver results. One of the main advantages of the International Compact with Iraq is that it enables us to examine the main economic priorities of the Government and assess how we are performing.

When there are difficulties, we are trying to find Iraqi solutions. When we identify a need for expertise or finance we have a way of involving other partners. When we make progress, we need to look at the lessons learned and apply these to future priority areas.

The World Bank's role in helping to launch and establish the International Compact with Iraq is very much appreciated by our Government. The roles that the IMF and World Bank have played in ensuring debt forgiveness, has taken a great burden away from the Iraqi people. We now have to invest in improving infrastructure and developing many different sectors to ensure that wealth created in Iraq is distributed more fairly. We have to help people who were unable to reach their full potential under Saddam to fulfill their dreams and build a stable and prosperous Iraq.

We need to recognize that ultimately it is up to us Iraqi politicians, and people to resolve our problems. Outsiders cannot deliver for us. The Iraqi leadership must assume responsibility and deal with these challenges and turn the tide. This can be done by Iraqis and by Iraqis alone, but undoubtedly we will need sustained support from the international community.

For us failure is not an option, success will be difficult—it will take time—there will be no easy nor quick fixes—but it is possible—we must succeed.

IRELAND: JOHN HURLEY

Alternate Governor of the Fund

I am pleased to speak on behalf of Ireland. Firstly, I would like to welcome Mr. Zoellick as the new President and Mr. Strauss-Kahn as the incoming Managing Director of the IMF. I wish them both every success in their new roles. I would also like to thank their predecessors, Mr. Wolfowitz and Mr. de Rato for their contributions and to wish them well in the future.

We welcome the continued focus on the future roles of the Bank and the IMF and the progress made to date. There are challenges ahead that need to be met in tandem with supporting the global economy.

The six strategic themes President Zoellick has highlighted are an important contribution to the work of the Board to ensure the finalization and implementation of the long term strategy for the Bank.

The IMF faces many challenges to ensure it remains a relevant and useful institution and I will mention some of these.

Surveillance

We welcome the emphasis on strengthening the role of the IMF in multilateral surveillance; it is an appropriate role for the organisation in light of increased regional and global linkages in financial markets and economies. We too welcome the adoption and prompt implementation of the 2007 Decision on Bilateral surveillance over Members' Policies which should enhance the focus and candour of the Fund's bilateral surveillance, in particular, of exchange rates.

The Executive Board decision to prepare a Statement of Priorities and Responsibilities for IMF Surveillance should help improve the focus, prioritization, and coordination of surveillance work across the Fund.

IMF Finances

We also welcome the work on developing a new income model for the fund. The Committee of Eminent Persons earlier this year outlined a good basis for further work towards developing an income model that can ensure the IMF can carry out its activities in an efficient, accountable and sustainable manner. We share the views of EU member states that the proposals in the paper should be treated as a comprehensive package.

We also agree with our EU colleagues that new income measures cannot be considered in isolation from what the shareholders countries view as the Fund's mission and the expenditure incurred in carrying it out. As proposals emerge for the continuing role and mission of the Fund, it is essential that an integrated income and expenditure framework should be developed.

Crisis Prevention and Resolution

We welcome the work the Fund has already done on the design of a new liquidity instrument—the reserve augmentation line (RAL)—for market access countries, and look forward to further clarification on its design.

Quota

Ireland welcomes the efforts being made to reach an agreement on quota and voice reform that may be acceptable to the whole IMF membership. We recognize that this is an important but difficult issue to resolve. Along with our EU colleagues, we remain committed to work-

ing towards a fair and equitable solution. Given the importance of this reform agenda, I would hope that progress could be as soon as possible.

IDA

IDA is crucial to the attainment of the Millennium Development Goals. However, the trend towards grant financing has called into question the longer-term security of funding for IDA when coupled with some of the contributions being made. Ireland has voiced concern about this in the past. It is imperative that in future IDA replenishments appropriate steps are taken and all donors step up to the mark. While the level of grants may have increased, we must ensure that IDA will be in a position to continue to also provide interest-free loans to the poorest of developing countries.

We welcome the World Bank's commitment to contribute \$3.5 billion from its income to provide grants and credits for the world's poorest countries through the 15th replenishment of the International Development Association.

Finally, I would like to thank you for your attention and to conclude by saying that the Government of Ireland look forward to advancing our shared agenda with our fellow members in the IMF and the Bank. We also look forward to seeing some of you again in Dublin shortly when we host a meeting of the IDA Deputies in Ireland next month.

ISRAEL: STANLEY FISCHER

Governor of the Bank

These meetings take place not only at a challenging time in the international economy, but also at a time of unexpected changes in the leadership of both the Bank and the Fund. I will use this opportunity to discuss the futures of each of these two great institutions. But let me start with recent developments in the Israeli economy.

The Israeli Economy

The Israeli economy has been growing at an average annual rate of more than 5 percent, since 2004. In 2007, inflation is expected to be within the target range of 1–3 percent a year. The budget should end the year close to balance. The balance of payments is in a surplus of between 4 and 5 percent of GDP, and foreign direct and financial investments continue to flow into the economy. Controls on capital flows have been removed progressively over the last fifteen years, and the capital account is essentially totally liberalized. The exchange rate floats freely

and the Bank of Israel has not intervened in the foreign exchange markets since 1997.

Fiscal discipline has reduced the share of government spending in GDP from 52 percent in 2003 to 44 percent this year. Fiscal discipline, together with privatizations and sustained growth, has reduced the debt to GDP ratio from more than 100 percent in 2003 to a level expected to be about 82 percent at the end of this year—a level that is still too high but that is expected to continue to decline. Growth has reduced the unemployment rate from more than 11 percent in 2003 to about 7.5 percent at present. This has been accompanied by an increase in the participation rate, which is very low in Israel. The poverty rate—a relative measure in Israel—is beginning to decline but more needs to be done to improve the standard of living of the poorest members of the population.

The impressive achievements of the Israeli economy are due in part to the global boom, but also to improved economic policies based on the understanding that the only way to sustainable growth, particularly for a small economy, is to pursue market-based policies and to embrace the possibilities that globalization offers. At present, we are working on a new and modern central bank law that will clearly define the independence of the Bank of Israel, while increasing its accountability and transparency.

The problems of our economy can be solved only with continuing growth and policy discipline, mutually reinforcing elements of success. They are also more likely to be solved in an environment in which the prospects for peace with our neighbors continue to improve.

The Fund

As Managing Director de Rato steps down, we thank him for his many contributions that will bear fruit in the coming years, including the Strategic Review of last year, the work summarized in this year's Policy Agenda Report, and the ongoing work on representation and voice. This agenda defines the major challenges that face incoming Managing Director Dominique Strauss-Kahn.

A great deal has been written about the problems confronting the Fund as it reassesses its role in the rapidly changing global economy of the twenty first century. The problems are there, but we need to remind ourselves that they are the problems of success, not failure. As many here can testify, it was very interesting to be at the Fund when it was at the center of the global financial storm of the 1990s and early in this century. It may be less interesting, but it is certainly more impressive, to be present in an era of unprecedented global growth—growth based on the Fund's approach of integration into the global economy—as the

increasing economic weight of developing countries, especially of China and India, transforms both economic and political relations among nations.

What will be the role of the Fund in the future? Article I (i) of the Articles of Agreement, states as the first purpose of the Fund, “To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.” This is the essential role of the Fund. Even if on some imagined far-distant day, financial crises become only a historical memory, this function will remain central to the Fund, for there is no other organization with the legitimacy of the Fund, with its global membership, with both finance ministries and central banks involved, that can fulfill that role. No less important, time and again the superb staff of this institution has risen to the challenge of implementing the wishes of its member countries.

That is to say that the Fund’s fundamental strength is that it is the central global financial institution for consultation on international monetary (and financial and economic) problems, with the capacity to implement the conclusions of those consultations among its member countries.

Second, firm surveillance over the global economy and over its member countries is vital to the Fund’s role. The new Decision on Bilateral Surveillance adopted in June this year emphasizes surveillance over policies—particularly exchange rate policies—that influence the stability of a country’s external accounts, and the need to deepen further the integration of financial sector issues in surveillance. In the words of the Managing Director’s policy agenda report for this meeting, surveillance needs to “characterized by greater clarity, candor, evenhandedness, and accountability” with the concept of external stability serving as an organizing principle. The emphasis on candor and evenhandedness is particularly to be welcomed: surveillance will not be successful in influencing a country’s policies if it is not seen to be applied candidly and equally to all countries, large and small, rich and poor.

In addition, surveillance needs to be timely. Surveillance matters not only because it helps member governments improve their policies, but no less because it informs a wider public. Therefore, publication should be speeded up. In the age of emails and the internet, there is no good reason why Article IV reports should not appear within a month of the conclusion of the staff’s visit to the country. It is also desirable that the Fund increase its use of interim reports, as has been done in the publication of quarterly WEO forecasts.

Third, the Fund needs to maintain its financial capacity to help members deal with financial crises. A decade ago, we may have thought that financial crises among the industrialized countries were a thing of

the past. After the events of this summer, we can no longer think that. We should all be grateful that improvements in economic management and the strengthening of financial systems in emerging market and developing countries have kept this crisis away from them. But we cannot rule out the possibility that the Fund will once again have to lend to member countries facing the threat of serious economic instability, as a result either of their own actions or of contagion. The owners of the Fund need to ensure that it will be in a position to help when needed.

Fourth: if the Fund is to retain its legitimacy, it needs to reform its governance to give the rising nations a greater share. The problem with percentage shares is that they have to add up to 100. This means that if the emerging and developing nations are to have a larger role, the industrialized nations have to have a lesser role in determining its decisions. It is that simple. It is also clear that the governance/quota problem will not be solved without resolving difficult issues about the representation of Europe in the Fund.

For lack of time, I pass over quickly two other issues: the income of the Fund, and the Fund's role in poorer member countries. As emphasized in a recent paper by Jack Boorman, the Fund's income needs to be fitted to its role, and not vice versa. With regard to poorer member countries, the Fund, in close collaboration with the World Bank, needs to continue to be involved in working with them. After all, its claim to legitimacy depends on its being and being seen as a global institution. In this regard, it will probably be necessary to increase the basic vote by more than agreed upon at last year's Singapore meeting.

There is much to be done, and we wish incoming Managing Director Strauss-Kahn every success as he takes over leadership of the Fund.

The Bank

President Zoellick has set out his vision for the Bank in his October 10 speech at the National Press Club and his October 21 Note to the Development Committee. The vision is appropriately ambitious. It deserves the strong support of the membership.

The overall vision is to contribute to an inclusive and sustainable globalization—to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope. To do that, the President sets out six key strategic themes:

- Overcoming poverty and spurring sustained growth in the poorest countries, especially in Africa;
- Helping rebuild post-conflict and failing states;
- Producing an appropriate business model to help middle income countries meet their development goals;
- Fostering regional and global public goods;

- Promoting development and economic opportunities in the Arab world;
- Developing the role of the Bank as “the knowledge bank,” a brain trust of applied experience.

As they should, these themes clearly reflect the needs and wishes of a wide range of the developing and emerging market member countries of the Bank, and they should be applauded both because they are the right themes, and for how they were developed. The goals implied by the themes will not be achieved easily. Indeed, it is fashionable to emphasize the failures of development over the past fifty years, the many countries where per capita income has declined, the persistence of poverty and of hunger. It is right to emphasize the problems that remain to be solved. But we should also from time to time recognize that this has been a remarkably successful decade for the developing countries. Many African countries are now growing at rapid rates as that in Asia. Nearly 40 percent of the world’s population is seeing sustained growth at unprecedented rates. In the process, the world is being transformed.

We wish President Zoellick success in achieving the goals he has set out for the World Bank—goals that as they are attained will help bring the fruits of economic development to people and to nations who are not yet sharing in the historic global transformation now under way.

ITALY: TOMMASO PADOA-SCHIOPPA

Governor of the Fund

The Global Economy and Recent Developments

The current projections about the global economy remain largely positive, but short-term risks have substantially increased on the downside. The recent financial turmoil will affect the growth pace of the global economy, but to what extent remains unclear. Though a more severe and prolonged slowdown than currently assumed cannot be ruled out, the strong fundamentals of the global economy should contribute to contain any further deterioration of financial conditions.

The US and European economies have been the most exposed to credit risks. Policymakers’ responses have been swift and largely effective in containing the spreading of the financial turbulence. Recent events highlight the need for closer international cooperation in monitoring financial markets and in improving the disclosure of information.

Despite the recent turmoil, financial flows to emerging markets have not suffered any substantial setback. Given the export-led nature of most of these economies, a weakening of the US and EU economies might ease the very intense growth enjoyed by some Asian economies in recent years, notably China and India. Domestic demand needs to

play a greater role in sustaining growth while helping insulate the economy from spillovers. Strengthening social safety nets and allowing the exchange rate to respond to fundamentals will be essential to underpin domestic consumption.

Improved economic management and accelerated implementation of structural reforms have contributed to foster growth in almost all developing countries. Nonetheless, a number of weaknesses, including high external debt and a substantial current account deficit, have been addressed only marginally. A prudent fiscal stance and a more effective monetary and exchange rate policy to better respond to the rising global integration challenges are key to cope with any significant liquidity shortages and a slowdown of the global economy.

The Implementation of the Medium-Term Strategy Is Moving Forward

Additional efforts are needed to find a new quota formula that is acceptable to the whole membership. The new formula should better capture the relative weight of the members' respective economies and thus enhance the representation of the most dynamic economies, most of them developing ones. The choice of countries eligible for the second round quota increase should not discriminate among underrepresented countries and should ensure equal treatment to all members. The ongoing deterioration of the voting power of the low-income countries should be reversed through a sizable increase in basic votes, which should be at least doubled.

The adoption of the new surveillance framework will give a substantial boost to the effectiveness of surveillance. However, a full cooperation of the membership and a renewed commitment to the institution remain the key ingredients for stepping up its influence.

Introducing a triennial statement of surveillance priorities and responsibilities will help sharpen and make operational the broad surveillance agenda. Setting a limited number of priorities, to be periodically updated, will contribute to focus staff's analysis and their recommendations. While identifying and setting surveillance priorities are key responsibilities of the Board, subsequent endorsement by the International Monetary and Financial Committee (IMFC) would enhance the membership's commitment.

Developing a sustainable financing model based on a broader income base is a key responsibility of the IMF's membership. At the same time, more efforts are needed to further strengthen the cost analysis and its effectiveness in order to achieve a better prioritization of activities and closer alignment with financing resources.

*Low-income Countries: The Role Played by the IMF
and the World Bank*

The Role of the International Monetary Fund

The Fund has an essential role to play in assisting its low-income members to achieve the Millennium Development Goals (MDGs), through the design of consistent, stability-oriented policy frameworks and macro-critical structural reforms. In the context of the Medium-Term Strategy, the role of the Fund in low-income countries (LICs) is being refined with a view to make it more focused on the Fund's core areas of expertise, and hence more relevant and effective while keeping a close and constructive engagement with LICs through surveillance, technical assistance and financial support. The Fund should continue to sharpen its policy advice to LICs, in particular, by helping them successfully manage the fiscal and balance of payment space created by debt relief and scaled-up aid, including through the preparation of alternative scenarios, when necessary to ensure consistency with macroeconomic and debt sustainability. The Fund should also continue to advocate more predictable and effective aid, but without actively engaging in aid mobilization and coordination, nor should it attempt to assess the resource requirements for reaching the MDGs, as this falls outside its core expertise.

The Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives have greatly contributed to improve LICs' financial position and to free resources for poverty reduction. While we welcome the progress made by several LICs through the Initiative, we are concerned that long-term debt sustainability remains a challenge, even for countries that have benefited from significant debt cancellation. To avoid the re-accumulation of unsustainable debt, the Debt Sustainability Framework (DSF) provides an essential tool to guide borrowers and creditors alike in making wise borrowing and lending decisions in an environment where new creditors are emerging and domestic debt is gaining prominence as a source of financing. In this domain, the Fund has a key responsibility to: (i) strengthen LICs' capacity in the area of public financial management, and of debt management in particular, through the definition of a sound Medium-Term Debt Strategy (MTDS) consistent with a sustainable debt trajectory; and (ii) foster the use of the DSF by both debtors and creditors, including through promoting creditor cooperation, transparency and information sharing on debt-related issues.

Now that there is agreement on the modalities for implementing a financing package for Liberia, we urge all members, especially those

with a strong external position, to contribute to the financing of Liberia's debt relief under the HIPC Initiative.

The Role of the World Bank Group

The World Bank Group (WBG) should remain focused on the achievement of the Millennium Development Goals (MDGs), particularly by promoting policies aimed at fostering economic growth and reducing poverty. This framework remains appropriate in our effort to spread the benefits of globalization, and should stand at the core of the WBG's new long-term strategy by providing a concrete focal point for international cooperation, as well as ensuring specific monitoring of responsibilities and assessment of results.

Effectiveness imposes selectivity. In particular, greater efforts are needed to clarify the comparative advantages of the WBG, with respect to both the private sector and other global public institutions. We believe that the comparative advantages of this institution are its knowledge of poverty reduction and development, and its experience in project design and implementation. Therefore, the WBG should concentrate its attention on important areas like low-income regions, fragile states, and inclusiveness in middle-income countries.

Within the WBG, IDA has a particularly critical role to play at the global, regional, and national levels. The global aid architecture is increasingly characterized by fragmentation, verticalization, and earmarking, and IDA could provide an effective platform for the delivery of aid. However, its country level effectiveness needs to be thoroughly assessed.

Bank-Fund Collaboration

A clarification of the mandate and responsibilities of both institutions is necessary for a successful refocusing of their respective roles. At the same time, the Bank and the Fund cannot and should not operate in isolation: they need to collaborate closely, and to rely on each other's work and expertise in line with their mandates. Against this background, we reiterate our full support for developing a culture of mutual trust and collaboration, and we welcome the concrete measures envisaged in the Joint Management Action Plan to make Bank-Fund collaboration more effective, and hence the work of both institutions more relevant and beneficial to their memberships, and to LICs in particular.

JAPAN: OTOHIKO ENDO

Temporary Alternate Governor of the Bank and the Fund

It is my great privilege to have this opportunity today to address the World Bank-IMF Annual Meetings, representing the Government of Japan.

At the outset, I would like to express my sincere appreciation to the Managing Director, Mr. Rodrigo de Rato, who will be leaving the IMF at the end of this month, for his services in his office. I would also like to offer a warm welcome to Mr. Robert B. Zoellick, who is here for the first time after assuming the important responsibility of President of the World Bank, and to Mr. Dominique Strauss-Kahn, who has just been elected as the next Managing Director of the IMF.

Changing Environment Surrounding the IMF and Its Implications

In the past few years, the world economy has enjoyed a so-called era of “Great Moderation,” where business cycles appear to have all but disappeared. This phenomenon has been accompanied by a looser market discipline, such as excessive risk-taking lured by abundant liquidity. Governments did not, or could not, take effective counter-measures to address this problem. Indeed, only now have we begun to discuss what can be done to minimize the damage already inflicted, and how to improve the future situation.

If we are to enhance an ex ante response to the budding problem, it should be the IMF that stands in the forefront, sounding the alarm, and leading global discussions. In this sense, the IMF could have played a more active role in the run-up to this summer’s market turbulence. It is true that the main function of the IMF lies in its expertise in macroeconomic policies, but the IMF has also strengthened its capacity to deal with issues related to financial markets and financial oversight. Thus, I look forward to a more pro-active response from the IMF in future occasions.

To be fair, prior to the recent market turbulence, the IMF did make some efforts: the Fund pointed out potential risks and rung the alarm in various reports issued before the summer. However, these reports did not attract much attention in the capitals or in the markets. In reality, nowadays the IMF does not command the same authoritative position that it used to enjoy. Things were different in the past. Close attention was always paid to the analyses or recommendations of the IMF, when balance of payments crises were frequent and the IMF was tasked with ensuring the stability of each economy and of the international financial markets, through its programs with policy conditionality attached. However, now that private capital can easily finance global imbalances, it

appears that incentives to reverse the IMF's opinion have declined. Considering that the fundamental goals of the IMF are to ensure the sustainable development of the global economy and to stabilize the international monetary system, one can even argue that the absence of a balance of payments crisis indicates that the IMF has accomplished its mission.

Where Should the IMF go?

Does this, then, mean that the IMF no longer has a *raison d'être*? I do not subscribe to this point of view.

First and foremost, the IMF should still deal with financial crises. It is too optimistic to think that, from now on, there will be no financial crisis anywhere in the world. The role of the IMF as a central player in an international effort to supply liquidity at times of financial crisis will remain indispensable. It is expected that future crises will be triggered by the movement of private capital as it flows freely across borders. In response, the IMF should establish a new crisis-resolution strategy built upon the responses to these capital movements

Second, the IMF should continue its efforts to prevent financial crises. It is regrettable that, despite the long time spent on deliberations, the Executive Board still has not agreed to a detailed design of the new crisis-prevention instrument for emerging market economies. The IMF should make further efforts to establish a user-friendly preventive instrument as soon as possible, taking into consideration the views of major emerging market economies.

Effective surveillance is the first step toward preventing a financial crisis. Surveillance practices have been enhanced through recent reforms. However, IMF staff and member countries do not necessarily share a unified view about how to implement the new principles. Such confusion will damage the credibility of the IMF. I strongly call for the prompt adoption of clear and detailed guidelines that all members can agree to.

As for the method of surveillance, the IMF should shift its emphasis from a static analysis of the current situation toward a dynamic analysis of the risk of financial crises over a medium-term horizon. At the same time, the IMF should pay attention, not only to the specific country in question, but also to conditions surrounding the country, and the region, including the confluence of international capital flows and developments in international financial markets.

Third, I would like to stress the importance of thoroughly investigating, from a new angle, issues that the world economy will likely face over the medium- or long-term, and advocating these findings in a most straightforward manner. I would like to list a few examples regarding such issues.

- What makes excess liquidity start to shrink? A trigger may be, for instance, a change in the monetary policy stance in advanced countries, a decrease in the large current account surplus in some countries including oil-exporting countries, or a decline in leverage in the credit markets. And, should international liquidity rapidly shrink, how would this affect emerging market economies?
- As economic growth in emerging market economies raises their per capita income, how would this affect the prices of commodity goods and manufactured exports? Would central banks in the advanced countries have to adjust their monetary policy framework to this new situation?
- How will the rapid ageing of the population, observed in several of the advanced countries, affect their public finance over the long-term? How should these countries prepare for it?

In my view, the IMF should offer candid policy recommendations on these and other challenges. In doing so, there may be some room for better communications with the press and the markets. Euphoric markets may not listen to a message that they do not want to hear. Still, the IMF must play the role of ‘ruthless truth teller’ more effectively, building upon improved dialogue with the authorities of its member countries.

It is fortunate that the current turmoil occurred while the fundamentals of the world economy remained stable. According to the World Economic Outlook published recently, the global economy is forecast to expand vigorously in 2007 and 2008, albeit a little lower than the July update thanks to the expected effects of the financial market turbulence. This is partly due to solid economic fundamentals in advanced countries such as the United States, the EU, and Japan; but, more so, to strong domestic demand in emerging market economies. Emerging market economies are expected to continue to support the world economy in the future. Needless to say, there is much uncertainty regarding developments in the financial markets; thus, we need to remain vigilant.

As for the Japanese economy, the new Fukuda cabinet continues to promote both structural reforms and stable economic growth. With both stable economic growth and stringent spending cuts, the integrated fiscal reform, addressing both expenditures and revenue, will be vigorously pursued, aimed at achieving, without fail, a surplus in the primary balance of the central and local governments combined in FY 2011.

Against such a background, I strongly hope that the IMF will adopt a new way of thinking, in order to further solidify the foundation of the world economy, building upon lessons learned from the recent turmoil.

Governance Reform and Sustainable Financing of the IMF

It is the exchange of diverse values that will foster a new way of thinking. However, since the Bretton Woods Conference held 60 years ago, the IMF has failed to properly reflect the changes observed in the global economy. To enhance the legitimacy of the IMF, it is necessary that the composition of the Executive Board and the staff, including senior staff, reflect the reality of the global economy of 2007, not that of 1944. The operations of the IMF should be based on a flexible philosophy that represents the broader views of its membership.

The first step is the reform of the voting shares. Japan has insisted, since its affiliation more than 50 years ago, that all members who are under-represented be allowed to eliminate their under-representation so that the voting shares of the IMF properly reflect members' relative positions in the world economy. This is because Japan believes these reforms are indispensable in order to produce international benefits by means of contrasting and amalgamating various values of the time. It is regrettable that, before this Annual Meetings, we could not agree on a concrete package for the second round quota reform, but it is important to overcome our existing differences to advance the discussions in a constructive manner. Based on last year's Resolution of the Board of Governors, Japan continues to participate proactively in the ongoing discussions to complete the quota and voice reform by the Spring Meetings of 2008, and no later than the next Annual Meetings.

New ways of thinking give rise to the redefinition of core competencies and priorities. The income of the IMF, which relies on interest generated by lending, is decreasing against the background of the stabilization of the global financial markets and the reduction in the number of countries borrowing from the IMF. As a consequence, the IMF has been in the red since FY 2007, and its deficits are forecast to expand rapidly.

In this critical situation, the Fund's measures to increase income are currently being examined, based on the recommendations by the Crockett committee. However, it is obvious that increasing income alone is not at all sufficient to put the IMF's finances in order. Japan strongly requests that the IMF initiate significant spending cuts by shedding non-core operations, organization, and staff, based on a reappraisal of its core competencies and priorities. The IMF must realize that its credibility is at stake if it simply aims at an uncritical, supply-driven maintenance of operations and personnel through increased income without any progress on spending cuts. It is indispensable that reforms on both the income side and the expenditure side be pursued simultaneously.

I am confident that the new Managing Director, Mr. Strauss-Kahn, is as passionate about the IMF reforms as Mr. de Rato. As the world economy undergoes dramatic transformation at a speed much faster than we expected, I strongly hope that, at the earliest opportunity, Mr. Strauss-Kahn will present his views about what the IMF should look like in the new era, after conducting thorough discussions with the Executive Board and staff.

Development Issues and the Expected Role of the World Bank

Globalization has enabled many developing countries to achieve strong economic growth, contributing to the reduction of world poverty. A number of emerging economies have gained stable access to capital markets. Total aid volume has been increasing. These are encouraging signs. I welcome the long-term strategic exercise of the World Bank Group, taking advantage of these favorable developments toward self-sustained growth in developing countries.

In providing aid to low income countries, we should continue to focus on policies and projects that aim directly at reducing poverty and achieving the Millennium Development Goals. In doing so, we should incorporate growth and private sector development as much as possible into their development strategies. We are encouraged by the fact that South Asia, with the largest population living under poverty, is on the path toward winning the war against poverty through economic growth. The World Bank should strive to extend such trend.

A number of middle-income countries have gained stable access to capital markets, enabling them to raise capital for economic development on their own. These countries, however, still have a substantial number of people living under poverty. New challenges such as energy and environmental issues have emerged. The World Bank should support these countries address such issues using their own financial resources by providing technical advice in formulating appropriate policies and institutions. To meet these needs, the World Bank must improve the quality of its knowledge services.

With the advance of globalization, it has become increasingly important how to deal with global public goods. In particular, climate change issue requires urgent attention and collective action of the international community. The World Bank should play a leading role in providing technical advice, using its expertise in wide-ranging sectors gained through development activities over the years. As addressing the challenge of climate change requires substantial amount of financial resources, we urge the World Bank to seriously explore ways to mobilize private capital, including innovative financing mechanisms using insurance and guarantees.

I welcome the recent trend of increase in total aid volume as well as the number of aid channels including emerging donors. By taking advantage of these encouraging trends, we need to strengthen our efforts to enhance aid effectiveness. Donor coordination should be improved with IDA serving as the platform. The development support of all doors needs to be aligned with the poverty reduction strategies formulated by recipient countries. We must make sure that all donors take debt sustainability of recipient countries into account in providing loans. These are tough challenges. However, the success of IDA, as well as the success of our effort to achieve the Millennium Development Goals hinges crucially on our ability to coordinate the donors' activities, using IDA as a common platform. We urge the World Bank to intensify its work in this area and provide concrete results.

The structure and environment of the world economy has dramatically changed, as the emerging market economies achieve fast growth. In order to be able to respond to these changes in a timely manner, the World Bank and the IMF need to clarify their respective roles, to reinforce their capability in their core operations and to improve their respective governance structure so as to facilitate such a response. Japan hopes that the two Bretton Woods institutions will avoid a pitfall of inertia and continue to reform themselves with a sense of urgency. The reform efforts of the World Bank and the IMF need to be fully supported, from a long-term perspective, by their respective Executive Board and their member countries. This will not only prepare the groundwork for each country's stable and sustained economic growth, but also represent our clear responsibility toward future generations.

KOREA: OKYU KWON

Governor of the Fund

It is my great honor and privilege to address you today on behalf of the Korean government. And I thank the US government for the excellent arrangements of this meeting. Let me join my fellow governors in welcoming Mr. Zoellick as the new head of the World Bank. His forward-looking vision and leadership will surely add new momentum to the Bank's continued progress, as a leading development institution.

I also take this opportunity to pay my tribute to Mr. de Rato for his outstanding commitment and progress he made in advancing the IMF reform agenda for the past three years.

Stability of the Global Economy

The global economy has exhibited solid growth for the past few years. Also, the international financial market showed exceptionally strong performance.

However, the recent sub-prime mortgage crisis has brought about significant turbulence and uncertainties in the global financial market. Following the outbreak of the crisis, major central banks exerted immediate efforts to relieve liquidity shortages. Nevertheless, the adverse effects of the recent market turmoil are expected to affect the real economy. Prospects for global economic growth of next year are also likely to deteriorate.

The crisis was mainly triggered by weakened credit discipline in the recent past. Universally low interest rates and financial innovation led to excessive lending and complacency about risks.

The latest episode of turbulence presents an opportunity for us to revisit some fundamental principles that we should bear in mind.

First, the importance of financial market transparency cannot be emphasized enough in all circumstances.

The market's failure to properly detect and assess risks of structured financial products such as CDO was one major factor behind this crisis. In this sense, improving transparency in credit derivatives and its off-balance sheet exposures should be our top priority. Only greater transparency can restore investors' trust in financial products and institutions.

Second, I see more room for improvement in the current credit ratings system. This is the same problem that was brought to global attention ten years ago during the Asian financial crisis. The credit ratings system should be improved in a way that it stimulates competition among credit rating agencies and eliminate moral hazard.

Also, separating assessment and advisory functions of these entities will minimize conflict of interests and help sharpen the expertise of individual agency.

Third, I welcome the healthy and open discussion on the possible impact of sovereign wealth funds. I think it is important to base our discussion on principles such as transparency, accountability, and reciprocity. However, it is also necessary that we take a balanced view from all countries involved.

For one thing, we should not forget that many sovereign wealth funds play a stabilizing role in financial markets.

As for national security concerns, its concept needs to be more clearly defined and evenly applied to all investment funds whether they are public or private.

IMF Reform Agenda

The past sixty years have seen the Bretton Woods system contribute greatly to global economic growth and stability.

However, in the face of ever-changing global economic context, the IMF and the World Bank are under constant pressures to take up new

roles and priorities. In this sense, I highly welcome the ongoing reform efforts of these two institutions. But these two agencies need to seek broader consensus of member countries in fleshing out its reform initiatives.

Let me first talk about the reform of the IMF.

First and foremost, the IMF should accelerate its consensus-building efforts for the second-round ad hoc quota increase.

Emerging members with a large gap between their relative positions in the world economy and existing quota shares should be given significant quota increase.

And I call upon strong support of advanced member countries including the G-7 members, which is crucial in this matter. Successful quota reform is a prerequisite for the Fund's enhanced legitimacy and a source of further momentum to pursue remaining reform initiatives.

Also, the Fund's recent efforts to strengthen its surveillance role can be pursued with due legitimacy with a fairer governance structure in place.

I believe the latest financial turmoil also reflects demand for more accurate analytical and predictive skills of the IMF staff.

In principle, Korea supports the Fund's continued development of new income model in order to ensure its fiscal sustainability. But expenditure reform is another area that the management's keen interest is needed.

At this important juncture, we welcome the appointment of Mr. Strauss-Kahn who is highly respected for extensive knowledge, experience, and insightful vision. I am confident that the Fund's reform efforts will further accelerate under the leadership of the new Managing Director.

LAO: SOMDY DOUANGDY

Governor of the Bank

It is an honor and a great pleasure for me to represent the Government of the Lao People's Democratic Republic at the 2007 Annual Meetings of the Boards of Governors of the World Bank and International Monetary Fund. Let me join my fellow Governors in congratulating Mr. Chairman, the President of the World Bank, the Managing Director of the IMF, and the Government and people of the United States of America for the excellent arrangements made for this important meeting.

I would also like to take this opportunity to express my congratulations to President Zoellick for being elected as a new President of the World Bank Group. I believe that the Bank under Mr. President's lead-

ership will further enhance its role in supporting the poverty reduction of all regions in the world.

I would like to take this opportunity to inform the meeting on the Lao PDR's economic performance for the fiscal year 2006–07; our macroeconomic situation was stable, inflation has been reduced to historical low about 4 percent, the exchange rate was stable, and there has also been an increase in private domestic and foreign investment from US\$1,249 million in 2005 to an estimated US\$2,600 million in 2006. The economic growth for 2006–07 is estimated to be about 7.6 percent; this growth will be partly contributed by the expansions of hydropower and mining sectors.

The Government has continued to conduct the prudent fiscal policies with the aim of increasing domestic revenue and strengthening expenditure controls in order to maintain the budget deficit at target level. As the result, in last two fiscal years, the domestic revenue has exceeded the target by 6 to 8 percent and the budget deficit has maintained below 3 percent. The monetary policy continues to be carried out in a caution manner. The external position has significantly improved. A surge in mining export, strong tourism receipts, and high flow in foreign direct investment has boosted the foreign earning.

In order to fulfill the socio-economic development plans setting for the coming years, the Government of Lao PDR has initiated major reforms, including the continued focus of effort on stronger improvement of business environment, more enhancement of investment efficiency, higher progress in public financial management reform particularly centralization of revenue administration and treasury and redesign the inter-government fiscal relationship, accelerating the banking sector form. On the economic integration into the world, the government has continued to reduce the tariff under AFTA commitment and push up the preparation for WTO accession.

We highly value the support from the international community including the bi-lateral and multi-lateral organizations, the international financial institutions. The Fund and the Bank have continued to provide vigorous support and assistant to the Lao PDR in term of policy advice, infrastructure and economic projects and programs, and technical assistances. This support has played an important role in helping Lao PDR in recovering from the crisis and achieving the high economic growth and stable macroeconomic condition in recent year. The Poverty Reduction Support Operations (PRSO) which lead by the World Bank has remarkably support the structural reform to more market-oriented economy, particularly the improvement in the legal framework, which will form a fundament for sound and efficient development in the key sector.

We would like to take this opportunity to urge the World Bank Group to put more effort in supporting the socio-economic development and poverty reduction of the poor countries of our region as the Bank does with other regions of the world. Official Development Assistance is an important factor in supporting the poor countries of this region to achieve their poverty reduction agenda and Millennium Development Goals.

In conclusion, in the name of the Government of Lao PDR, I would like to express my sincere appreciation to the managements and staffs of the Bank and the Fund, and fellow member countries for the support given to the Lao PDR. I wish the meetings a great success.

LITHUANIA: RIMANTAS SADZIUS

Governor of the Bank

(on behalf of the Republic of Estonia, the Republic of Latvia, and the Republic of Lithuania)

I am honored to speak on behalf of the three Baltic countries—Estonia, Latvia, and Lithuania. Let me take this opportunity to welcome the new World Bank President Mr. Robert Zoellick and wish him every success in his new capacity as a leader of this prominent international development institution. I also want to give many thanks to the IMF Managing Director, Mr. Rodrigo de Rato, and wish him great success in his new endeavors.

For Estonia, Latvia, and Lithuania, since regaining independence in 1991, integration into the international system has been our overriding objective. We have implemented major economic and social restructuring in the process of integration to the European Union. The membership in the European Union has brought new responsibilities and commitments, including those in the area of development cooperation in our region and beyond. Having received assistance ourselves, today we appreciate and understand that it is equally important to give as to receive.

The Baltic countries are already contributing to the development bilaterally and through the EU mechanisms and are committed to further increase their official development assistance in line with the commitments made by the new EU Member States. Estonia, Latvia, and Lithuania have already graduated from the IBRD's borrower status and are on the way to join International Development Association donor countries and to contribute to the ongoing IDA15 replenishment. We are taking our international obligations and responsibilities seriously and we do believe that multilateral organizations, such as International Development Association, are well placed to provide development assistance to the poorest countries.

This year's Annual Meeting is of particular importance as it focuses on the issues that need urgent actions and consolidated response by the international community, if we are to achieve the Millennium Development Goals. Challenges of sustainable development still remain, global imbalances and inequalities in opportunities within and among countries and regions. The new daunting challenges are climate change and global warming. Therefore, both countries themselves and the international community should address these challenges. A successful and effective response to climate change requires considerable and urgent increase of our efforts. In light of that, the World Bank needs to adopt its strategies and actions, including the self-reform of the institution with the aim to make it more relevant and enhance its development impact.

Let me continue with the issues related to the World Bank's long-term strategy. We concur with the six strategic themes identified by the President for the Bank's future work in support of inclusive and sustainable development. Along with the new strategic directions, a corresponding review of the World Bank's internal organizational structure could be considered to make it more efficient and effective.

I would like to emphasize the importance of the World Bank's strategy in the Middle Income Countries. Although many Middle Income Countries have achieved economic development, many challenges still remain that distance these countries from the attainment of the Millennium Development Goals. The Baltic countries do believe that the World Bank can play an important role in the development of the Middle Income Countries by being more proactive and engaging more closely with these countries since its involvement in these countries is central to the Bank's development mandate. The disbursement levels to the Middle Income Countries and prepayments of the Bank loans show that the Bank lending in these countries is losing its competitiveness. Given that, the Bank should try to reduce the non-financial costs of doing business through increasing use of country systems and enhancing the Bank's knowledge services business model.

In our view, the Bank's value added for the Middle Income Countries rests within the Bank's flexibility, responsiveness, and ability to provide cutting edge knowledge. Knowledge services appear as a unique product, which constitutes the Bank's comparative advantage. The Bank should give more attention to transferring reform experiences from more advanced Middle Income Countries to those lagging behind. With regard to this, we encourage the Bank to apply the best practice activities from the Bank's cooperation with Estonia, Latvia, and Lithuania in other countries and I confirm that we are ready to share our experts and knowledge with the Bank and its clients.

Not long ago, Estonia, Latvia, and Lithuania were recipients of the World Bank's financial assistance and were considered Middle Income Countries. Now, as EU members, we strive to reach the development level of the old EU members and to be among the most developed countries in the world. Our progress over a rather short period of time has been remarkable. The World Bank and other International Financial Institutions have made an important contribution to this transformation process by helping with the financial resources as well as with high quality technical assistance, advisory and analytical services. Over the past five years, the GDP growth in the Baltic countries has averaged 8 to 9 percent, and our macroeconomic policies are geared towards accession to the euro zone: to reduce inflation and maintain sustainable growth by minimizing the risks of economic overheating. Improvement of the business environment continues to be our priority to ensure the flow of foreign investments that supports growth and helps to reduce economic imbalances.

We would like to thank the World Bank's management, its staff, and the Board of Directors for their valuable cooperation and partnership, and look forward to continuing our fruitful collaboration in a different status—as we assume greater responsibility as donors—aiming to contribute to the achievement of global goals of reducing poverty and promoting economic development.

MALAYSIA: TAN SRI NOR MOHAMED YAKCOP

Governor of the Bank and the Fund

Global Economic Outlook

Amidst the turbulence in financial markets that has clouded prospects for global economic growth, we are indeed heartened by the WEO's assessment that a solid global growth remains achievable. We are even further encouraged to hear that growth would be supported by generally sound fundamentals and strong momentum in emerging market economies. This reflects the success of reform measures by the national authorities as well as closer economic and financial cooperation at the regional level. However, we remain concerned with the fact that risks to the outlook are firmly on the downside, centered on the concern that financial market strains could deepen and trigger more pronounced global slowdown. We share the view that we need to remain vigilant and be prepared with appropriate strategies in the event the global growth momentum falters. The possibility of oil prices scaling heights barely conceivable a few years ago, rising inflation and interests rates, as well as increasing protectionism cannot be totally sidelined.

Malaysian Economy

Last August, Malaysia celebrated 50 years of nationhood. At the time of independence in 1957, the economy relied heavily on rubber and tin and more than half of our population was in poverty. It has since been transformed into a broad-based and diversified economy, with total external trade in excess of RM1 trillion and continues to enjoy political stability with a diverse yet united population. Per capita income has increased 26 times to RM20,841 and the incidence of poverty has been reduced to less than 6.0 percent.

Malaysia's economy expanded faster than expected in the second quarter of this year, growing 5.7 percent from a year earlier, with the services, construction and mining providing the impetus. The expansion exceeds the 5.5 percent growth rate forecast by many economists and takes first-half growth to 5.6 percent. The average GDP growth rate for the 50 years was 6.3 percent per annum. Notwithstanding the downside risks, we remain confident of achieving our 2007 growth target of 6 percent. The services sector expanded 9.7 percent from a year earlier compared with 9.2 percent growth in the first quarter, boosted by financial services, tourism, transport, and communications. Manufacturing, the other pillar of our economy, moderated to 1.5 percent compared with 2 percent in the first quarter, and below the 8.4 percent a year earlier, partly because of weaker exports. Unlike other economies in the region and many advanced economies that have raised interest rates, Malaysia has paused on interest rate since April 2006. Our banking sector, continues to strengthen further and remained robust in the first six months of 2007, supported by strong capitalization (RWCR: 13.1 percent), higher profitability (pre-tax profit: RM8.3 billion) and improved asset quality (NPL: 4.1 percent). In the capital market, gross funds raised grew strongly by 53.3 percent to RM56.1 billion (Jan–June 2006: 5.1 percent; RM36.6 billion). The momentum of strong growth will be sustained going into 2008 with GDP growth forecast at between 6.0 percent and 6.5 percent, supported by policy measures to promote domestic consumption and investment. The Government continues to push for reform in its delivery system with the view to making Malaysia an attractive and competitive destination to invest and conduct business. Removing red tapes and streamlines rules and regulations are among the key initiatives undertaken to reduce cost of doing business and to improve investment climate.

IMF Surveillance

Malaysia would like to reiterate the call for IMF to focus its surveillance to issues that are central to its mandate and to improve the quality

of policy dialogue with member countries by making better use of cross-country experiences. Achieving a more balanced global growth and greater stability in the global financial system requires greater understanding of the issues from the perspective of the emerging and developing economies. We also share the view that the Fund should not focus on transparency at the expense of its role as a confidential advisor to members. We remain concerned that the emphasis of the IFIs is still skewed towards enhancing transparency of the public sector, with limited progress for the private sector. As recent events in financial markets have revealed, more concerted efforts are required to ensure that the checks and balances are in place to make the private sector more accountable for disclosing timely and accurate information. At the same time, it should be recognized that enhanced transparency and disclosure is not an end in itself. Transparency does not guarantee stability, nor does it prevent a crisis. While we support the Fund's initiative for greater transparency, we should caution that this initiative must strike a balance between the need for transparency and the need to maintain the confidentiality of the dialogue between the Fund and its member countries. When undertaking surveillance, Malaysia also believes that the issue of exchange rates should not be analyzed in isolation and must be viewed in the context of overall external stability. Further, the external economic factors should be considered in terms of consistency with the domestic macroeconomic policies.

Strategic Direction of the World Bank Group—Engagement with Middle Income Countries

Malaysia welcomes the appointment of Mr. Robert Zoellick as the President of the World Bank and congratulates him for committing to a new business plan for the Bank on his 100th days in office. “An Inclusive and Sustainable Globalization” gives us a sense of direction where the Bank's financial and human capitals will be focused on.

We welcome the special focus given to the middle-income countries (MICs) in the new Strategic Direction since MICs account for two-thirds of the world population and home to 70 percent of the world's poor. While poverty may be the most important issue for low-income countries, it also remains one of major concerns for MICs, especially for those that have problems with income inequalities and which lacks access to private financing. We note the finding that the Bank's overall country programs in MICs have been moderately satisfactory and we believe this is because the Bank has not been aggressive enough in the promotion and implementation of new products for this group of countries. Considering that some MICs have graduated from the agriculture

sector and are now services sector driven, the Bank should be more innovative and responsive as well as has a more differentiated business model for the MICs. For the Bank to make its presence felt and needed by MICs, it must also ensure that its in-house capability in the services sector is upgraded and enhanced. Even in the agriculture sector, the Bank should continuously add value into niche areas that can contribute to economic growth in MICs. As such, the Bank will have to focus on strengthening four key activities, namely, integrated development solution, strategy and coordination services, financial services, as well as knowledge and capacity building services.

At the same time, the MICs can play a crucial role in strategizing the WBG. Drawing on MICs own capacity, we contend that MICs have assets with regard to institutional capacity and knowledge that could be drawn upon by the Bank and disseminated among other MICs or low-income countries through collaboration, cooperation or partnership with these countries. In this regard, Malaysia has been sharing its development experiences with fellow developing countries through our bilateral Malaysian Technical Cooperation Program (MTCP) as well as through the various collaborative efforts with other development partners, including the World Bank.

Quota and Voice Reform

The Bank and Fund's work program has evolved with the changing need of member countries since the historic meeting in Bretton Woods 60 years ago, whereas its structure remains the same. While the economic status of member countries, have changed drastically and many countries, in particular the Asian economies are now playing a greater role in the global economy, the same cannot be said when it comes to the Bank and Fund decision making process.

We hope that time and resources are committed to complete the entire reform agenda by the 2008 deadline. The credibility and effectiveness of any institution hinges on the degree to which its representation reflects the relative significance of its respective membership. While the Fund has made some progress, the Bank has so far taken only modest steps to enhance its legitimacy. In this regard, Malaysia welcomes Mr. Zoellick's strong message to this year's Annual Meetings, which read ". . . inclusive development also means greater voice for those most affected by our decisions . . ." We need to move beyond communiqués and progress report or measures that merely tinker with the existing system when a fundamental and complete overhaul is required. Only then, "inclusive and sustainable globalization" has real meaning.

MALTA: MICHAEL BONELLO

Governor of the Fund

It is a pleasure and honor to address the Annual Meetings of the International Monetary Fund (IMF) and the World Bank.

We take this opportunity to welcome the Republic of Montenegro as a member of the IMF and the World Bank Group, as well as Djibouti and Liberia as new members of the Multilateral Investment Guarantee Agency. We also note with satisfaction that, since the 2006 meetings, the Republic of Serbia has joined the International Centre for Settlement of Investment Disputes.

A remark of appreciation goes to Mr. Rodrigo de Rato y Figaredo for the direction he has given to the ongoing discussions on the medium-term strategy of the IMF and look forward to work with his newly appointed successor Mr. Dominique Strauss-Kahn. We are confident that Mr. Strauss-Kahn's academic and professional background will help to ensure that the pace of reform will maintain momentum as the discussions shift from the technical to the negotiation phase. We also welcome the nomination of Mr. Tommaso Padoa-Schioppa as chairman of the International Monetary and Financial Committee.

In this regard we would also like to show our appreciation of the positive work undertaken by the former World Bank President Mr. Paul Wolfowitz during his tenure at the Bank and stand ready to co-operate fully with his successor Mr. Robert B. Zoellick in taking this institution forward.

These meetings take place against the background of relatively favorable growth prospects. It is encouraging that while second round effects from the recent financial market turmoil represent a further downside risk, and some downward revisions to growth, global expansion is expected to remain in the range of 5 percent. Furthermore, growth appears to be coming from diverse regions. The vigorous pace of activity in emerging economies, in particular, has assumed an important role in alleviating the potential negative multiplier effects of softer conditions in the United States. In the euro area, growth is also expected to remain robust.

Although inflation is generally under control in industrialized countries, the narrowing of output gaps in many emerging economies, posits an upside risk to the inflation outlook. Another factor is the demand for energy products that is pushing the price of oil to higher levels. In an environment like this, some countries might be pressed to take preventive measures in the form of higher interest rates. Concurrent, with the potentially disorderly unwinding of global imbalances and the continuing protectionist sentiment, this presents a downside risk to the growth outlook.

Moreover, financial vulnerabilities persist, particularly in emerging countries, where financial institutions and corporations have been accumulating debt that is partly denominated in foreign currency. More generally, although the recent instability, which originated in the US sub-prime mortgage market is not expected to have a significant impact on global economic activity, and many central banks have responded appropriately through liquidity injections, the situation in financial markets is still unfolding and this continues to present a source of uncertainty.

Against this background, the prompt implementation of reforms aimed at addressing structural rigidities and macroeconomic imbalances assumes further importance, as it signals policymakers' commitment to sound economic management and thereby helps restore business confidence. Cognizant of this fact, EU Member States remain committed to a faster pace of implementation of structural reforms, although in this case, this Endeavour is made even more urgent in view of the policy constraints associated with Economic and Monetary Union.

The Maltese authorities concur with this view. While 2007 is expected to mark the second year in which the fiscal deficit ratio will have been below the 3 percent limit defined in the EU Treaty, and the annual inflation rate has been below 2 percent since 2006, it is acknowledged that a successful existence as a euro area Member State from 1 January 2008 requires further progress on the path of reform. Of utmost importance in this regard, will be a more expenditure-led fiscal adjustment which takes due account of the future costs of ageing, wage growth that takes into account productivity growth and cost developments in other countries, and enhanced competition in product and resource markets.

Since the IMF was established, the world has undergone an economic development that has seen the balance of economic power shift to a different set of countries. Many emerging economies have seen an increase in their share in trade and financial flows, while others have correspondingly seen a drop in their role in the global economy. This shift, however, has not been reflected in the distribution of quotas and voting power in the IMF. In this regard, we support the work that is being undertaken to bring the quota share of emerging market economies and the voting power of low-income countries closer to their relative weight and role in the world economy. In particular, we fully support the idea of at least a doubling of basic votes and are prepared to consider also a tripling. We also look forward to a mechanism that safeguards the share of basic votes in total votes.

While the emergence of new economic powers in the world stage has implications for the governance of the Fund, it also has implications for

the surveillance framework of the IMF, not least because the diversity of the economic players which today exert the greatest influence on financial markets has not only facilitated risk transfer opportunities, but it may also have created new channels of contagion and created incentives to trade in more complex financial products. Furthermore, the benefits of greater market integration that go to emerging economies can only spillover to less developed countries if these can draw on a stable international financial system. We thus welcome the 2007 Decision on Bilateral Surveillance. We consider that with this revision, the IMF is in a better position to deliver focused and even-handed messages to its members, while providing a better framework than the 1977 Decision in avoiding the misuse of exchange rate policies to disguise underlying macroeconomic imbalances and to postpone reforms. This should reduce the potential negative effects that such practices often entail, while also facilitating a more orderly unwinding of global imbalances.

We also welcome the decision of the Executive Board to set a statement of surveillance priorities and responsibilities. By clarifying the channels through which the different parties involved in surveillance are held accountable, this should strengthen the effectiveness of surveillance. In this sense, it would complement the new surveillance decision. While we encourage the IMF to continue to work on an appropriate text that could make up this remit, we emphasize that this statement of priorities and responsibilities should steer clear from introducing new administrative burdens. Moreover, to ensure that this statement achieves the purposes it is meant to achieve, surveillance practices and results should be regularly monitored against previously agreed priorities.

The continuation of benign economic conditions and progress with macroeconomic stabilization in many borrowing members have in the meantime reinforced the pattern of early repayments, thus depriving the IMF from what is effectively its most important source of income. The report from the Committee of Eminent Persons includes a number of suggestions that could be activated to address this situation, although these measures differ in terms of their technical and political feasibility. We encourage the IMF to use this Report as a basis for a comprehensive package that builds on different approaches. Although we recognized that expenditure-led solutions were not included in the terms of reference of the Committee, we consider that a durable income model must include both income and expenditure measures.

Given the implementation lag associated with such measures, we encourage the IMF to start considering these issues without delay.

On the expenditure side, one aspect that might warrant closer examination are the potential savings that could be achieved through better

collaboration between the IMF and the World Bank, as this has the potential to reduce significantly the duplication of resources. In particular, the appropriate role of the two institutions in low-income countries needs to be addressed.

A more effective deployment of resources to combat poverty would not only benefit directly the citizens of low-income countries but is also of interest to countries, which like Malta have to deal with an overflow of immigrants who leave their country of origin in search of a better life overseas. Improved economic conditions in these countries, especially in Africa, would reduce incentives for illegal migration to recipient countries, and thus avoid further pressures on the infrastructure and financial resources of the latter.

Although there remains scope for Fund involvement in low-income countries under existing facilities, the involvement of the Fund in these countries should not overstep its mandate. Focus should remain on macroeconomic stabilization and financial sector work, including participation in the Financial Sector Assessment Program and the implementation of the recommendations of the Financial Action Task Force (FATF) against money laundering and the financing of terrorism. Generating a stable and transparent macroeconomic environment conducive to private sector initiative, in our view, is the best way in which the IMF can be of added value.

In this regard, Malta continues to support initiatives administered by the IMF and the World Bank, which seek to avoid the re-emergence of unsustainable external debt problems, and has taken note of the recommendations made in the Report on Applying the Debt Sustainability Framework for Low-Income Countries post debt relief.

Although Malta plays a very minor role compared to other creditors, it has always stood ready to make contributions to the clearance of arrears or to the pledging of financial resources under initiatives benefiting low-income countries. This commitment is also reflected in recent decision to pledge our contribution in the Special Contingent Account-1 to help secure a financing package for Liberia. Moreover, the Maltese authorities remain committed to adhere to the expected benchmarks in terms of Overseas Development Assistance.

I conclude by stating that we keep the work of the Fund and the Bank in high regard and thank the Boards of the two institutions, management, and staff for their continued efforts in engendering an environment conducive to international financial stability and poverty reduction. We wish them continued success in these endeavors.

MAURITANIA: OUSMANE KANE

Governor of the Fund

(on behalf of the African Caucus)

Over the recent years, macroeconomic performance has been strong in African countries. Economic growth rates have reached levels unseen before, supported by prudent policies and sustained macroeconomic stability. At the same time, it has become common perception that many African countries will not achieve any of the Millennium Development Goals, while others will at best meet only a few of them.

In order to improve the prospects for attaining the MDGs, these countries certainly need to register higher growth rates. Yet, the repeated efforts that our countries make to accelerate growth are often undermined by the poor quality of infrastructure, which is perpetuated by the difficulty of mobilizing the necessary financing. To fill the gap, the Bretton Woods Institutions must be more supportive of efforts to implement innovative financing mechanisms and to improve access to concessional resources and international capital markets. In parallel, we see ample scope for more flexibility in their policies pertaining to low-income countries' access to non-concessional financing, provided that the returns and viability of related infrastructure investments are appropriate.

Improving the prospects for meeting the MDGs will also require that additional resources be made available to these countries. In this connection, it is regrettable that, despite the strong commitments made by the donor community, notably at the Gleneagles Summit held in July 2005, the scaling-up of aid has yet to materialize. On the contrary, aid flows, in particular official development assistance, appear to follow a declining trend.

We call on development partners—particularly the Bretton Woods Institutions—to assist our countries more actively in their efforts to mobilize the financial resources needed for attaining the MDGs. We expect these institutions, and particularly the World Bank, to play a leading role in supporting these efforts, which requires, among other actions, the replenishment of IDA resources, the expansion of the IDA's Regional Pilot Program, active involvement in the coordination of donor aid, and the streamlining of modalities for existing funds such as the Africa Catalytic Fund and the Africa Infrastructure Fund.

Ultimately, we see a major role for the Bretton Woods Institutions in support of the efforts that we are making to graduate our countries from aid dependence and increase their access to market-based financing.

Let me now turn to the issues of quota, voice, and representation: African members remain very concerned that the decision- and policy-

making processes as well as the legitimacy and effectiveness of the Bretton Woods Institutions have been weakened by the continued erosion of the voice and representation of African countries, as well as by the lack of diversity in their staffing.

To ensure ownership of these institutions by all members, and thus enhance their credibility and effectiveness—beginning with the Fund, which has undertaken a package of reforms approved by its Board of Governors in Singapore—, it is essential to reverse the current trend by substantially increasing basic votes, which best protect the voting power of small member countries. Furthermore, the relative importance of the basic votes ought to be protected from shrinking at all times, by ensuring that any further re-alignment of quotas is synchronized with a commensurate increase in basic votes. This is precisely the spirit and the letter of the Singapore Resolution.

On the quota formula, the ongoing work at the Fund should not aim at maximizing the benefits of some individual countries, and we stress the need for a give-and-take spirit in reaching a consensus. A new quota formula should not aim at maintaining the status quo either, nor should it be skewed towards raising the quota shares of developed countries from their current level. Such moves would compound the current imbalance in voice created by the very formula we intend to change.

Good representation of the membership also implies that the Offices of Executive Directors representing a large number of countries can effectively fulfill their mandate. We call upon the Executive Board of the Fund to implement a more meaningful increase in the staffing of those offices as agreed by the Board of Governors. It is also important to expedite the amendment of the Fund's Articles of Agreement to enable those Executive Directors to appoint more than one Alternate Executive Director.

As for the World Bank, this institution should, in due course, engage in similar reforms. In addition, we advocate better representation of the African borrower countries in the IDA negotiations.

Last, but not least, let me add a few words on the issue of diversity within the staffs of the Bank and the Fund. Promoting staff diversity is an integral part of the mandates of the management of the Bank and the Fund. It is regrettable that meaningful progress is yet to be seen on this front. In particular, Africans are being left out when it comes to recruitment and even career promotion. We urge the two institutions to draw up effective action plans to increase the number of African staff at all levels, including the highest managerial positions, and to carefully monitor promotions and career streams, with a view to ensuring fairness and evenhandedness.

MYANMAR: HLA TUN
Governor of the Bank

It is indeed a great pleasure as well as a privilege for me to address these 2007 Annual Meetings, on behalf of the Myanmar Delegation. At the outset, I would like to congratulate you, Mr. Chairman, on your election to chair these prestigious meetings.

I would now like to take this opportunity, along with my colleagues, to welcome Mr. Zoellick on taking over the responsibilities as the president of the World Bank. I wish him all the best in stewarding the World Bank effectively. With his vast experience I am confident that he will be able to work for the benefit of the developing countries and look forward to working closely with him.

I would like to express our regret at Mr. Rodrigo de Rato leaving the Fund after these Meetings. At the same time, I would also like to congratulate and welcome Mr. Dominique Strauss-Kahn for being elected as Managing Director of the International Monetary Fund.

We meet here today at a time when global growth has been good. Especially, our region's developing countries are expected to maintain their growth momentum in the coming year and to be able to overcome any turmoil or disturbances that may occur. Geopolitical tensions and inflationary pressures still remain while some economies, especially the ones in our region, are repeatedly facing natural disasters. However, I am confident that the Asian economies with concentrated efforts will be able to weather these risks and challenges and continue to contribute to global growth.

I would like to take this opportunity to inform the Meeting, briefly, of Myanmar's economic performance. Since 1992–93 successive short-term plans have been formulated and implemented with emphasis placed on agriculture as a base and development of the other sectors as well. 2006–2007 is the first year of the fourth five-year short-term plan, and Myanmar has been able to maintain its growth momentum. Economic growth of our country is attributable to accelerated growth in all sectors of the economy.

Inflation has remained moderate. However, it is on the rising trend due to the raise of the salaries of civil servants last year and increase in energy prices this year. FDI has been increasing yearly and we have a favorable balance of payments position in recent years.

Measures have been taken to strengthen the Central Bank's supervisory and regulatory power. Necessary instructions and guidelines have been issued in order to maintain the stability of the banking sector. At present our banking sector is strong and stable.

With regard to the fiscal front, on the revenue side, the government has continued its efforts at increasing revenue income by broadening

the tax base, improving tax administration and reducing tax evasions. On the other hand, on the expenditure side, efforts have been made to prioritize spending and cut unproductive expenditures. Despite the steps taken, Myanmar's budget is still in deficit due to continuation of developing the infrastructure as well as developing the social sectors by mainly depending on its own resources.

Myanmar is making its utmost efforts to achieve the MDGs through its own national plans. The MDG indicators are good. Therefore, I am pleased to inform the meetings that Myanmar has been able to make much progress in attaining some of the MDG targets. However, there is no denying that there still remain some challenges that need to be overcome for Myanmar to be able to meet all the MDG targets by 2015.

At this point, as have been done in previous years, I would like to point out that Myanmar has been able to attain the above-mentioned achievements by mainly relying on its own resources as multinational institutions have suspended their financial assistance to Myanmar for nearly two decades.

Needless to say much more would have been achieved if we have had some financial assistance from the multilateral financial institutions. Although continued efforts for maintaining our growth momentum, and achieving the MDGs in time would be taken, we do wish that normal relations with the Fund and the Bank could be resumed in the near future so that our national objectives could be achieved faster and be more robust.

In this globalized world a country should not be left alone to stand on its feet only. Much better and healthier growth, for the benefit of the region and subsequently the world, could be achieved if our efforts have been combined together with that of the international community.

We would like to give credit to where it is due. Therefore, we would like to express our gratitude to the international institutions and donors concerned for their assistance through the UN, for the prevention of avian flu in Myanmar. We would also like to thank the Bank and the Fund for their efforts to give TA to Myanmar, for the enhancement of its AML/CFT framework. We look forward to receiving TA for the AML/CFT from the institutions by 2007.

There has been absence of financial assistance from international financial institutions to Myanmar for nearly two decades. We are of the view that we have been cut off from having normal relations with them based on non-economic factors. We do not think that a member of these prestigious constitutions should be treated on a different level from that of other members. We do look forward to resuming normal relations in the near future. In the time being, we will continue to take steps to further maintain our growth momentum, and achieve the MDG targets in time, by giving priority to the development of the social sectors and also

to human resource development, which is essential to attain our main objectives.

Last month the 2007 IMF Article IV Consultation mission came to Myanmar on its regular yearly mission. We have always emphasized for continuity in the composition of the yearly Article IV mission members and we are very much happy to note that our request have been noted and taken seriously. We think that both sides would benefit from this practice and therefore request the Fund to continue this practice in the coming years.

I will now conclude by thanking the managements and staffs of the Bank and the Fund for the excellent arrangements made for the success of this Meeting.

NEPAL: RAM SHARAN MAHAT

Governor of the Bank

I congratulate President Mr. Zoellick and offer best wishes for your success. Your observation at the National Press Club in Washington, DC on October 10, 2007 that poverty breeds instability is quite appropriate. I would like to express my heart-felt thanks to the Managing Director Mr. de Rato for leading the Fund with great competence. I appreciate your program of reform to ensure that the IMF remained attuned to the needs of its members in a globalized economy. I also congratulate and welcome Mr. Dominique Strauss-Kahn who is taking over as the Managing Director on November 1, 2007. I take this opportunity to offer Mr. Strauss-Kahn best wishes for his success.

My sincere appreciation goes to the government and the people of the United States for the warm hospitality extended to us.

Despite the recent volatilities, uncertainties and defaults that marked the functioning of the financial markets, it is heartening to note that the immediate impact of the market turbulence would be modest and the world economic growth would remain solid, buoyed by strong growth in emerging market and developing countries. However, we need to be constantly vigilant about the occasional dangers and risks inherent in the financial markets and make utmost efforts toward strengthening the international financial infrastructure and addressing the weaknesses in the global financial and economic system.

We noted with appreciation the theme of the World Development Report 2008—Agriculture for Development. The report covers the major features underlying the economic structure and performance as well as the development prospects and priorities in the developing economies. Agriculture and the agriculture-linked industry account for a significant share of GDP in majority of these economies. It is disheartening to note that such an important sector of the economy in

these countries is still suffering from a very low level of productivity. In my country Nepal, the dominant role of this sector is reflected in its contribution to GDP, employment, livelihoods and interlinkages with the other sectors. However, its productivity is very low and the country has turned to a net food-importing country from its past position of a food-exporting country. We strongly support the Report's conclusion that the agriculture has a special role in reducing poverty and that GDP growth originating from agriculture would have a far greater income impact than the growth generated outside the agriculture.

We have also taken note of the World Bank Group's Report entitled *Doing Business 2008*. The Report mentions that, in South Asia, the cost of employing and laying off workers, registering property, getting credit, trading across borders, and closing a business is high. These problems need to be addressed for making the individual country systems less burdensome, less time-consuming and less costly. We would like to urge the Bank, especially the IFC, to substantially enhance its efforts to help countries like Nepal in creating a favorable investment climate and reducing the cost of doing business.

Achieving Millennium Development Goals remains a continued challenge for many of us. Nepal is making sincere efforts toward meeting these goals, especially halving the number of people below the poverty line by 2015. However, goals on primary education and HIV/AIDS would be hard to achieve primarily because of the resource constraint. I would, therefore, like to urge the development partners to enhance their support level as per the agreed commitments.

Focus on clean energy by the Bank is a welcome step. Nepal has huge potential of hydropower, which is a prime source of clean, renewable energy. This resource could be harnessed for the benefit not only of Nepal but also of the neighboring countries. I encourage and welcome both, the official development assistance and the private investments, and domestic and foreign, for tapping this potential.

As mentioned in the communiqués of both the DC and the IMFC in their 2006 Annual Meetings, Nepal would like to see a successful conclusion of the Doha Round after its unfortunate suspension last year. We continue to encourage the Bank to engage in Aid for Trade with the focus on trade-related infrastructure development so as to help developing countries in a meaningful way in the expanding global trade.

I support the Bank's initiative in the field of Global Public Goods through policy support, advocacy, financing, and technical assistance. Countries are facing a severe risk of climate change, flooding, pandemics, conflicts, civil strife, etc. These risks need urgent and collective global action with particular focus on risk mitigating strategies at the regional and national level.

I also support the country-based scaling up of efforts by the Bank and acknowledge the progress made so far. Certainly, scaling up should be based on the country performance. However, special consideration needs to be given to the specific country contexts where, despite persistent efforts, the performance level has not been met for reasons of natural calamities, conflicts, and so on.

We have observed that much of the rise in aid has been for debt relief. We are supportive of debt relief measures as a financing instrument, but we firmly believe that this should be treated as a supplement rather than a substitute to the ODA.

Now, allow me to briefly mention Nepal's current situation. The country is in the midst of political transition after more-than-a-decade-long insurgency. Our imminent task is to hold free and fair elections for the Constituent Assembly that would pave the way for building a truly democratic and inclusive Nepal. Though the election slated for November 22 this year has been postponed because of some new political developments, we are holding consultations with the concerned parties for a new date. The march toward sustained peace, democracy and development is not without hiccups and challenges, but we are clear about the direction to take and the goal to achieve. Our commitment to the evolving peace process remains unequivocal and unfaltering, and we are particularly grateful to the international community for their support at our difficult times.

Nepal's development efforts in recent years have been severely constrained due to violent insurgency. This is reflected particularly in the slower rate of economic growth, which averaged 2.8 percent a year during the last three years. Nepal's merchandise exports/GDP ratio also fell from 10 percent in FY 2004/05 to 8.4 percent in FY 2006/07. Nepal's macroeconomic management has remained under control. The government revenue increased by 20.8 percent in FY 2006/07, which pushed the revenue/GDP ratio to 12.1 percent from 11.2 percent in the preceding year. The government has also been able to maintain the fiscal deficit/GDP ratio below 4 percent. The monetary expansion has been contained at the targeted levels and the treasury operations resulted in the surplus situation. The rate of inflation has come down to 6 percent.

The fourth PRGF Review Report on Nepal mentions that economic outcomes have been in line with the program, macroeconomic policies have remained sound, the PRGF-supported program is broadly on track, and Nepal's economic prospects have improved despite some risks. According to the Report, the authorities' efforts and achievements as reflected in the continued macroeconomic stability and further progress in structural reforms under trying circumstances merit international support. I assure that the government would not at any cost let the reform measures be weakened. I request the international commu-

nity to adequately support Nepal in these endeavors in this period of difficult transition.

Nepal needs immediate resources for reconstruction, rehabilitation and reform. People displaced due to the conflict need immediate support to return home and lead a normal life. Problems of hunger, deprivation, disease and unemployment, which provided fertile ground for violent insurgency, need to be addressed with utmost urgency. International community has been supportive, but additional and timely support is crucial.

Before I close, I would like to reaffirm our commitment to consolidating gains achieved to date in stabilizing political and economic situations in the country. Our journey to peace, democracy and development will continue until we reach the goal of building a just, prosperous and democratic Nepal.

Finally, I would like to thank the Bank and the Fund for their continued support for Nepal's overall development in the past and hope for the enhanced support in the future.

I wish the Annual Meetings a grand success!

NETHERLANDS: WOUTER BOS

Governor of the Bank

I would like to discuss three issues. First, I will shortly reflect on the quota discussion. After that, I will address the turmoil that financial markets have recently experienced. Finally, I will outline my views on the World Bank strategy.

The debate on the distribution of quota and voting shares goes to the heart of the Fund. A proper governance structure is eminent to any organization, and especially to a multilateral. This is why I am very pleased by the progress made this weekend.

As we have discussed this issue lengthily, I will not further delve into it or the Dutch position now and will turn to the other issues.

The past several months have been an eventful period for financial markets. The international financial markets were severely tested by spillover effects from the US subprime housing market. I do not want to delve into the origins, as by now these are reasonably clear. What I feel is most striking is that no one had foreseen the contagion effects of the slump in the US housing market. The baseline scenarios of all major forecast institutions assumed that the problems would be confined to the US. Have we underestimated the likelihood of contagion? Or has an unlikely risk manifested itself? These are the questions that we should be asking ourselves.

An important feature of the recent turbulence has been the lack of information. First of all, this raises the issue of transparency of complex

products. Furthermore, questions arise on how these products are valued, monitored and treated within the framework of prudential regulation and supervision. Recent events also underscore the importance of better insight into the incentive structures faced by credit rating agencies, including possible conflicts of interest. In addition, excessive reliance on credit ratings by investors without carrying own risk assessments has to be dealt with.

Fortunately, the financial system has proven its resilience and central banks have prevented a vicious circle from developing. The latest projections of the Fund show that the turmoil will have a moderate impact on the real economy.

Then, the World Bank Strategy. I very much welcome President Zoellick's vision as laid out in his 100-day speech. We support his idea of the World Bank as a "catalyst for market dynamism that seizes the opportunities of globalization, inclusively and sustainably."

We also broadly agree with the six themes he has identified.

Nevertheless, there is a risk that the goal of inclusive and sustainable globalization could overburden the Bank's agenda, where it tries to do "everything everywhere." The following criteria are crucial in determining what the Bank should do and where.

First and foremost, strategic priorities should be in line with the Bank's mandate, which is to reduce poverty and promote sustainable economic growth.

Second, we should keep in mind that the Bank is a financial and not a political institution, it should have a solid capital base, necessary to carry out its mandate.

And finally, the Bank should focus on areas where it has value-added and comparative advantage vis-à-vis the market and other partners.

Within this context, let me elaborate on the specific role of the Bank in middle and low-income countries.

In my eyes, it is essential that the Bank remains relevant to all its clients; middle-income as well as low-income countries. In order to remain relevant to MICs the Bank must respond to their wishes, for example by developing new and innovative products. The Bank should also adapt its engagement to the specific characteristics of each country. Some countries require financing; in others advice is the more appropriate instrument.

In low-income countries, the Bank should primarily focus on building a basis for sustainable development. It can thereby provide the "glue" in the international aid architecture. In the specific case of fragile states, the Bank should focus on strengthening institutional capacity. This should take place in close coordination with the UN and bilateral donors and in line with the ongoing policy dialogue with these countries.

Only then the Bank will be able to effectively help countries coming out of conflict or seeking to avoid a possible breakdown of their economies.

NEW ZEALAND: MICHAEL CULLEN

Governor of the Bank and the Fund

Strategic Direction of the World Bank Group

This year the strategic direction of the World Bank Group is a primary area of focus. New Zealand supports the energy being put into the review of the Bank's strategic direction, and we particularly appreciate President Zoellick's efforts to move this important issue forward.

The Bank's core role—poverty reduction—should strongly guide the development of the strategy, with the Bank focusing in those areas where it has the comparative advantage. We see the Bank's support of long-term sustainable growth as a key element in reducing poverty.

We also consider it important that the strategy adopt a thematic or sector, rather than a client group, approach. This should be firmly based on the Bank's areas of experience and expertise, thus helping to define the Bank's mandate and focus in assisting its client members. Reference in the strategy to strengthening partnerships in pursuit of the implementation of the Paris Declaration would complement such operational focus.

There is reason to be concerned by what appears to be an expansion of the Bank's business into the area of global public goods. Our view is that any moves in this direction should be determined by the poverty reduction and comparative advantage tests.

An effective strategy needs to have a clear focus. Deciding what is not done can be as important as identifying what is to be done. New Zealand would advocate the development of a crisp, clear strategy supported by results (specified in advance), with the strategy able to be modified according to the achievement of those results.

We would specifically emphasize the need for the establishment of clear governance and management arrangements. The strategy should not only reflect the Banks' poverty reduction goal based on its comparative advantage, but also ensure the conditions are set for its effective implementation. From New Zealand's shareholding perspective, setting the right conditions to implement the strategy effectively may be as important as getting the content of the strategy broadly right.

It is highly important to achieve real progress in the development of the strategic direction. New Zealand wishes to know when and how the strategy is to be further developed and finalized, and to what extent the Board and the Development Committee will be involved in this process.

Appointments of World Bank President and IMF Managing Director

New Zealand congratulates Robert Zoellick and Dominique Strauss-Kahn on their recent appointments to these positions.

We wish to note that New Zealand has supported and continues to support an open and transparent process for the appointment of these positions, which must be open to candidates from all regions of the world based on merit. Remarks made by Dominique Strauss-Kahn that support this direction have been very welcome. The fact that these appointments are now in sync creates an opportunity for change. It will be important to get agreement on the new process in the next two years.

World Bank-IMF Collaboration

New Zealand is pleased to see the development of a Joint Management Action Plan (JMAP) following the Malan report. The Plan should form a good foundation for working together effectively into the future.

While the JMAP focuses currently on procedural issues, there is scope for evolution. As the Bank progresses with its long-term strategy and Dominique Strauss-Kahn settles in as IMF Managing Director, there should be opportunity for a more strategic stocktaking of the roles, expertise, and comparative advantages of the two institutions.

New Zealand expects to see early and concrete results arising from the JMAP in the Pacific. These should emerge especially in the area of technical assistance, including through an expanded mandate and scope of operations for the Pacific Financial Technical Assistance Centre.

IMF Quota and Voice Reform

The commitment to complete IMF Quota and Voice reform by the 2008 annual meeting has New Zealand's full support. We are concerned that if the progress made to date is not consolidated, the process will unravel. Given the inherently political nature of the process, we are looking for leadership from Dominique Strauss-Kahn.

New Zealand accepts that compromise and flexibility are needed if the necessary consensus is to be reached, and urges all parties to approach the debate in the same spirit. Any solution has to be open and transparent in order to be fair and durable. In addition, an increase in the stake of lesser developed countries and emerging market economies is needed if the Fund is to retain its legitimacy.

Global Public Goods

The development of a framework for the Bank's work on Global Public Goods is to be encouraged. Going forward it will be necessary that the Bank build or maintain strong partnerships with the relevant international organizations that might have primary responsibility for each of the areas suggested for its work on global public goods. The Bank should also focus the applicability of its work on the relevant development aspects of global public goods, particularly in the context of its work in developing countries, and in alignment with client country priorities.

Scaling up the Role of IDA

New Zealand generally supports the directions taken in the paper on the Role of the International Development Agency (IDA) and the broad parameters being set as to where the IDA should be positioned in the international aid architecture. However, generally donors, including New Zealand, have doubts that the IDA has yet achieved a satisfactory level of either development effectiveness or country presence.

The Bank has very actively advocated an "ambitious" outcome for the negotiations for the IDA-15 replenishment. New Zealand considers the Bank must demonstrate a high level of development effectiveness in order to attract financial support, noting that development agencies generally find it easier to attract stakeholder (parliaments, publics) support for bilateral and issues-focused (such as HIV/AIDS) work than for multilateral support.

We expect that enhanced development effectiveness will be based on a strengthened management for results focus by the Bank, full alignment with client country strategies and priorities and strengthened partnerships with other development partners. New Zealand is also particularly concerned that access to IDA by small Pacific Island states should be protected.

Global Economy and Financial Market—Outlook and Risks

The global economy is currently experiencing a generalised tightening in credit conditions triggered by losses in the United States sub-prime mortgage market. From small beginnings, these losses triggered pressures that spread quickly around the world. It is still unclear how large the lasting effects will be, but this event has again highlighted the increasingly interconnected nature of national economies and financial

markets and the way in which financial strains can (potentially) affect each of our economies.

Looking ahead, the continued integration of emerging markets into the global economy, coupled with financial globalization, will no doubt serve to underline the importance of economic externalities in general, and economic contagion in particular. The IMF has a key role in analysing the implications for the global economy in a macro-prudential sense of such phenomena, as well as articulating appropriate policy responses. The IMF has a vital part to play in promoting international policy debate and effective policy responses, which fully recognize the international implications of national choices.

In this regard, New Zealand welcomes efforts to strengthen the bilateral and multilateral surveillance regime as part of the Medium-Term Strategy.

PAKISTAN: SALMAN SHAH

Governor of the Bank

It is a great honor, Mr. Chairman, to address this Annual Meeting of the Boards of Governors of the Bank and the Fund. First, let me congratulate you, Mr. Chairmen, on your election as Chair of the 2007 Annual Meetings of the Board of Governors.

Global Economic Outlook

We note the recent financial market turbulence and revised IMF forecast on the prospects of global growth. Although, the foundations of global economy appear strong, recent events have forced a reassessment of the outlook on growth. Open economies in the developing world may face serious challenges in a more difficult global trading and worsening external environment; especially those oil importing and export dependent countries with significant current account deficits that are currently being financed by external resources. The implications of downside risks to global growth and our poverty reduction mission will be serious and the poor and most vulnerable will suffer the most.

Scaling up Assistance

Fellow Governors, as we reach the halfway mark for the realization of the Millennium Development Goals, we share the concern that at the present slow rate of progress millions in the developing world will be left behind, and more than 23 countries in Sub Saharan Africa would not meet the MDGs. We also note that official development assistance to low income countries has not increased, despite renewed pledges by

international community. Assisting through IDA, the World Bank Group has brought about notable successes in poverty reduction as IDA grants and credits are critical to the attainment of MDG, especially for the poorest and the weakest of our membership. We, therefore, cannot emphasize enough that success in achieving MDGs will require a significant scaling up of resources and an ambitious replenishment of IDA-15 to spur pro poor growth and scale up human development. By pledging \$3.5 billion, the WBG has set an example of doubling its commitments to IDA. We urge all donors to also commit generously to IDA-15.

Inclusive and Sustainable Globalization

Global challenges are our shared responsibility and require global solutions, global resources, and leadership. To meet the major challenges of our times, our international institutions have also to reform, improve their internal governance, adjust their business model and strategies to remain relevant and deliver effective results. In this context, we fully support the strategic directions set out for the WBG by President Zoellick in his vision for an inclusive and sustainable globalization. The underlining principles and the framework clearly articulate the value proposition the WBG can offer to its diverse client segments through a more differentiated menu of products, services, and support. We also welcome the reaffirmation to integrate group-wide services to bring synergy within all the institutions of WBG, improve internal governance, address issues of voice and under representation of the developing countries, and develop closer cooperation with other multilaterals to foster regional and global public goods in pursuance of its poverty reduction and development mandate. However, to be operationally successful and responsive to the differentiated and evolving demands across its membership, the strategy must retain flexibility, promote use of country ownership and country systems, scale up access to banks financial resources and knowledge services, reduce non-financial costs of doing business with the Bank and, strengthen countries' institutional capacities.

Climate Change and Clean Energy

We welcome the initial progress made by the WBG in implementing its Clean Energy Investment Framework. While implementing this Agenda, we would urge the Bank to strive for the right balance between access to modern energy services for the poor and the promotion of low carbon emission economy without in any way compromising its developmental and poverty reduction mission. The urgency and the scale of

challenge in addressing the causes and impact of Climate Change are enormous. All of us, therefore, need to work together on the basis of principles of “common but differentiated responsibilities” to meet the challenge of adaptation and mitigation and pursue a responsible development strategy for a low carbon growth. We would also encourage the WBG to develop a strategic framework of engagement to assist developing countries in their efforts to reduce vulnerability to climate change, fighting deforestation and drought, and take a lead role in mobilizing additional public and private resources including confessional resources in achieving low carbon growth.

Pakistan Economy

I am happy to state that Pakistan’s economy continues to gain traction as it experiences the longest spell of its strong growth in years. Economic growth accelerated to 7.0 percent last year and most importantly, Pakistan has sustained this rate of growth for the last five years in a row, and as such, it has positioned itself as one of the fastest growing economies in the Asian region. The good performance has resulted from a combination of generally sound macroeconomic policies, ongoing structural reforms, and maintenance of consistency and continuity in policies. Other major achievements include a sharp pick up in domestic and foreign investment; continuously improving debt profile; build up in foreign exchange reserves and the country’s exchange rate remains stable.

Strong economic growth on sustained basis coupled with large inflows of workers’ remittances and massive spending on social sector and poverty-related programs have resulted in sharp reduction in poverty and improvement in key living standards indicators.

To sustain the ongoing growth momentum within a stable macroeconomic environment is the biggest challenge going forward. Linked with this are the challenges of job creation, further reducing poverty and meeting the MDGs targets, strengthening the country’s physical infrastructure to support 7–8 percent growth in the medium term. Mr. Chairman, Pakistan is the sixth largest country with a population of 160 million of which, 100 million is less than 25 years old. Over the years, as Pakistan’s population growth has slowed and dependency ratio has declined. The country is currently witnessing demographic transition with rising share of working age population. Going forward, our challenges include turning the large proportion of young people into a sustainable economic boom; converting demographic transition into demographic dividend; managing domestic demand and expansion of domestic markets; improving competitiveness for exports growth; increasing savings and investment to support growth momentum to cre-

ate job opportunities for the young generation. The challenges are enormous but we have a clear road map to meet these challenges. We have undertaken second-generation reforms with the view to enhancing our global competitiveness we are spending enormous amount of resources on strengthening and expanding the country's physical infrastructure. We are also investing heavily on people, that is, on education, health, skill development and training, and re-training of our work force.

Pakistan greatly values its partnership and engagement with the Fund and WBG. We look forward to continuing to work together to achieve our shared goal of reducing global poverty and promoting inclusive and sustainable development.

PAPUA NEW GUINEA: WILSON KAMIT

Governor of the Bank

I would like to thank the President of the World Bank Group, Managing Director of the IMF, and the United States Government for hosting the 2007 Annual Board of Governors Meeting and for the warm welcome and hospitality given to us. We look forward to a fruitful round of meetings, sharing and discussing experiences and issues relevant to all of us.

I also convey my country's congratulations to Mr. Robert B. Zoellick on his appointment as the new President of the World Bank Group and to the in-coming IMF Managing Director, Mr. Dominique Strauss-Kahn. We thank the out-going IMF Managing Director, Mr. Rodrigo de Rato, in this, his last Annual Meetings for his support, guidance, and stewardship during his tenure. The new leaders bring to our institutions a wealth of experience and I am confident they will continue to carry on the good working relationship with all member countries.

Papua New Guinea's macroeconomic performance has improved in recent years. This year (2007) will mark the fifth year in a row of economic growth, with growth now expected at 5.4 percent. While economic growth is at its highest rate in over a decade, we now face the challenge of sustaining and further improving our performance, as well as translating these gains into tangible benefits for our people. A strong and sustainable economic growth is also required to make a noticeable improvement in income per capita growth, given our population growth rate of 2.7 percent per annum.

Political stability has also improved over recent years, and this year, we held our first general elections using the Limited Preferential Voting system. The same Government, which held power for a full term (2002–2007), was returned to office in August 2007. With enhanced political stability, we now aim to sustain and grow the economy through removing impediments to growth and investment, and improving our

physical infrastructure. The Government has continued with its medium term strategies—the Medium-Term Fiscal Strategy, the Medium-Term Development Strategy, and the Medium-Term Debt Strategy—, which provides a coherent medium term policy framework, maps out our future plans and builds on the gains achieved to date.

Papua New Guinea has benefited from the favorable global economic conditions and high international commodity prices. The country has pursued prudent economic, financial and fiscal management which have together, resulted in improved consumer and investor confidence in the economy. Recently, the international credit rating agency, Standard and Poors upgraded its long-term foreign currency rating on PNG to B+ and long-term local currency rating to BB-. Our long-term growth prospects are also favorable.

Inflation has remained low, with the outcome in 2006 of 2.6 percent on a year-on-year average. Interest rates also remained low by historical standards while the exchange rate has remained relatively stable, with a slight appreciation against the United States dollar, although it has depreciated against the Australian dollar over 2006 and 2007. Foreign exchange reserves continued to increase to historical levels. We will continue to maintain the floating exchange rate regime, with intervention only to smoothen out short-term exchange rate volatility. The Bank of Papua New Guinea has been liberalizing exchange control regulations since September 2004, mainly to encourage easy flow of funds and improve investment in the country.

Papua New Guinea as a small, open and developing economy still face several risks to our economic outlook. These risks include any: downturn in the global economy; fall in major export commodity prices; depreciation of our currency, especially against the Australian dollar; and natural disasters such as pests, frosts, floods, landslides, cyclones and volcanic eruptions.

In the fiscal area, expenditure controls and higher-than-expected revenues have resulted in continued budget surpluses since 2004. Public sector debt has declined from a high of 72 percent of GDP in 2002 to 39 percent of GDP in 2006 and should continue to decline. The Government plans to use the windfall revenues this year to repay outstanding debts and other liabilities, fund district improvement programs, as well as invest in priority infrastructure projects and maintenance aimed at boosting the productive capacity of the economy.

Despite these achievements, our challenges remain daunting. The increasing HIV/AIDS pandemic represents a threat to our population, while public health and education facilities need improving, and our transport infrastructure needs rehabilitating. We continue to face the challenge of raising the efficiency of public utilities to provide vital services to businesses and the population at large. We acknowledge that

there is still more to be done in the years ahead to bring these utilities up to acceptable standards and performance, which are needed to provide affordable, reliable, and efficient service to support private sector development in Papua New Guinea.

The Government of Papua New Guinea is making efforts to improve the delivery of public services, and is continuing with its reform agenda it started in 2003 under its broader public sector reform. The Public Expenditure Review and Rationalization process and implementation of its recommendations has had solid donor support including from the World Bank. The financial sector liberalization and reforms have contributed to reducing business impediments, enhance competition, and supported private sector growth. Reform work is also continuing in the trade and the public utilities.

We acknowledge our limitations and are therefore grateful to the continued assistance of our development partners. As we work towards building on our gains and growing the economy further, we seek the support, understanding, and counsel of the World Bank Group and the IMF. By working together as partners, we can ensure that our efforts complement each other and are directed in the most effective way for the benefit of all of us. I therefore look forward to the discussions at this meeting and the insights of the participants.

To conclude, I would like to acknowledge and express my country's sincere gratitude to the management and staff of the World Bank and the Fund for their continuous support in Papua New Guinea's development efforts.

PHILIPPINES: MARGARITO B. TEVES

Governor of the Bank

First, please allow me to welcome the new President of the World Bank, Mr. Robert Zoellick and assure him of our confidence in his leadership and support for his stewardship of the Bank.

At a time when its constituents are seeking to reexamine the Bank's role and relevance, the Philippines welcomes the Bank's strategic framework to seize opportunities from globalization and achieve inclusive and sustainable globalization. We highlight the thrust to develop an appropriate business model for middle-income countries (MICs) that would be more responsive to its diverse development challenges. In particular, we support the approach that envisions providing financial support and customized services to MICs designed to cater to specific country needs and conditions. Learning from the past, there is no "one size fits all" formula in the Bank's engagement with its developing member countries.

Likewise, we very much welcome the Bank's recognition that there is a need for the World Bank Group to play a more active role in fostering regional and global public goods. The Bank must again refocus its resources and efforts on its core development roles. Accordingly, the Bank should continuously adapt and innovate in order for it to more effectively respond to new global as well as country specific challenges. The inventory of knowledge it has accumulated from its development work, if shared and harnessed effectively, can be a tremendous tool in enabling its developing members to successfully overcome its challenges.

The Bank has made the global challenge of reducing poverty, its challenge as well. We look forward for the Bank to face this challenge by increasing its relevance to the middle-income countries. We note the continued strong growth of the global economy, driven to a large extent by the dynamism of emerging economies. Still 70 percent of the poor still live in India, China, and middle-income countries (MICs). The Bank, with its limited resources, would have to adopt new paradigms on how it can, effectively and efficiently serve as a catalyst in generating and mobilizing resources to address the development demands arising from the high poverty incidence in many middle income countries.

The move of the Bank to cut its lending cost to pre-1999 levels and adopt a simplified process is a positive signal on the Bank's engagement in the middle-income countries. These are significant steps in the right direction. However, we still need to see how the Bank's articulated strategy, including streamlined procedures, is going to be implemented with indicative timeline, for more effective and timely response to the countries' demands.

We also await the specific innovative financial products and services of the Bank that will help enhance the capacity of middle-income countries mobilize financial resources.

During the Annual Meeting in Singapore last year, we talked about promoting greater use of country systems given its importance in reducing the non-financial costs of doing business with the Bank and in strengthening the countries' institutional capacities. We acknowledge the efforts of the Bank in meeting this expectation with increased lending activities on national program support operations.

We welcome the Bank's active collaboration and harmonization with member countries and other development partners for aid effectiveness. However, we strongly advocate a more proactive harmonization process converging towards adoption of country systems so that recipient countries are not unduly burdened with varying conditions and practices imposed by development partners in availing of funding assistance.

We take this opportunity to echo our full support for stronger partnership and collaboration among the agencies of the World Bank Group.

The strong economic growth of middle-income countries during the past decade has brought with it greater demands to upgrade competitiveness and productivity. Growing requirements for infrastructure development and social service delivery call for better complementation among development agencies of the Bank in providing technical expertise, advisory services and financing. For the Philippines, more effective partnership between the IBRD and IFC in their engagement with the country would optimize the benefits of their assistance. We appreciate IFC's engagement in the promotion of private sector participation in the country. However, we strongly believe that given increased allocation of resources to the country, IFC can do more beyond its advisory services, in the underserved areas and sectors, such as local power, water, health, and education. A higher resource allocation to the country, complemented by a better balance between big volume and smaller but high impact transactions will be more effective in enabling the Philippines face its challenge in providing more and better infrastructure and social services. We believe the IFC remains well equipped to meet the increasing requirements of the private sector and local government in contributing to infrastructure development and provision of social services.

A key factor in sustaining economic growth is a well-developed financial system. The World Bank Group is well positioned to share its expertise in developing the financial sector of the country, particularly in deepening the domestic capital market and the insurance industry. We would welcome the World Bank to be forthcoming in this effort.

In closing, allow me to update you on the recent performance of the Philippine economy, which has been encouraging.

Our macroeconomic environment has been improving. This is providing a strong platform for the economy to move to a higher growth path in the near term. In the first half of the year, GDP accelerated by an average of 7.4 percent, the highest in 20 years and outperforming the high-end of our projections. Inflation has been benign at 2.6 percent and interest rates remain at relatively low levels. The national currency continues to strengthen as a result of sustained capital inflows and foreign remittances. We are on track with our fiscal consolidation program and the fiscal deficit is projected to go down to 0.9 percent of GDP this year from 1.1 percent of GDP in 2006. While most macroeconomic indicators register healthy levels, our main challenge is to improve tax effort to which Government is committed to vigorously pursue through tax administration reforms.

As the Philippines implements key reforms to enhance productivity and competitiveness, boost the investment climate, sustain macroeconomic stability, and ensure increasing growth over the medium term, we look forward to the World Bank Group's active engagement in pursuing

its mission of poverty reduction and sustained growth for the developing countries.

POLAND: ARKADIUSZ HUZAREK
Alternate Governor of the Fund

For a relatively long period, the global economy has been experiencing a sustained, strong growth, accompanied by moderate inflation and robust growth of international trade. It is also worth emphasizing that the geographic base of the world growth has broadened and its volatility has visibly declined.

Growth pattern rebalancing is among the prominent features of the performance of the global economy over the 2000s. The driving forces of global growth have been shifting towards emerging market and developing countries, with many of these economies participating in the process. They now account for a substantial share of the world growth. Several most dynamic emerging economies are increasingly playing a systemic role in the global economy. The rebalancing process also shows the capability of Central European economies to use the opportunities and to cope with the challenges of economic integration and globalization.

Since the April WEO, the balance of risks to the global economy has clearly shifted to the downside. Recent turbulence in the financial markets, which originated from the US sub-prime mortgage market, is a major downside risk to the global growth. The tightening of financial conditions, prompted by re-pricing of risk, can be seen as restoration of more sustainable price levels and more discipline to the credit markets. However, the risk of a protracted financial markets adjustment may lead to a visible slowing down of the global growth. This perspective might be reinforced by a set of other risks, such as volatile oil markets, disorderly unwinding of global imbalances, protectionist sentiments or geopolitical conflicts.

Against this background, Central European countries are a strong component in the growth pattern of emerging economies. The robust growth is the outcome of substantial structural and macro-policy improvements as well as of strengthening integration with the European Union. The main risk for Central Europe would be a slowdown in the Euro area whereas in case of the risk from the financial markets, a big and sudden shift in sentiment producing a flight to safety would disturb the growth of emerging European economies. In this context, a responsible fiscal policy, sizeable foreign exchange reserves in relation to gross external financing requirements and an appropriate exchange rate regime are helpful in cushioning the real economy from financial

volatility. Improving prudential and banking supervision and the visible progress in the soundness of the banking sector are significant as well.

Recent developments in the global economy call for a clear and determined IMF action. It has to be emphasized that the Fund has been and is responding to those challenges, including by an adoption and implementation of the Medium-Term Strategy. However, further action by the IMF is necessary.

The Fund's surveillance has to cope with strong challenges. A thorough analysis of the role of the financial sector and its closer integration with the macroeconomic assessments is a step in the right direction. More emphasis could be put by the Fund on the issues of complex financial instruments and institutions that deal with them. It is also highly relevant to strengthen surveillance of systemically important economies and exchange rates, which helps better integrate bilateral with multilateral surveillance. In this respect, Poland welcomes the adoption of the 2007 Decision on Bilateral Surveillance over Members' Policies. It is instrumental in upgrading the principles of the Fund's bilateral surveillance. The 2007 Decision should help to reduce misalignments in exchange rates more effectively and thus positively contribute to international stability.

We also acknowledge the conclusion of the first round of multilateral consultations on global imbalances. This new procedure well complements other instruments of the IMF multilateral surveillance. The main players involved in the global imbalances have agreed on policy responses necessary for the orderly unwinding of imbalances. A significant issue that lies ahead for the Fund is the monitoring and assessment of the implementation of country plans.

Quota and voice is a prominent issue among the IMF governance reforms. These reforms should strengthen the credibility of the Fund as a global financial institution. It is very significant to timely agree on the reform of quota and voice, aiming at ensuring fair and adequate representation for all IMF members. Simultaneously, the reform should set adequate incentives to pursue policies consistent with the IMF principles. Poland is in favor of a transparent, principle-based quota formula, with a clear and strong rationale in economic terms. We consider compression as a useful instrument of rebalancing the quota distribution between advanced and emerging economies as well as we see an adequate increase in basic votes as a way of enhancing representation of low-income countries.

Efforts aimed at developing a new income model for the IMF are needed to provide medium term sustainability of the Fund's financing. Whereas we consider the proposals of the Crockett report as correctly diversifying IMF sources of income, we also believe that they should be integrated with the analysis of Fund's expenditures.

Profound changes in the global economy and in the architecture of aid flows call for refocusing and enhancing the IMF—World Bank collaboration. Whereas we support procedural recommendations of the Joint Management Action Plan, we also see as reasonable going beyond these recommendations and focusing on a clearer division of labor between the two institutions. In that regard, it is important that the Fund is involved in tasks that fall within its core competences.

PORTUGAL: FERNANDO TEIXEIRA DOS SANTOS

Governor of the Bank

It is a great pleasure for me to be here and I would like to start by thanking the Bank and Fund staff for their efforts in organizing this year's Annual Meetings.

World economic activity remains robust, despite some cooling down of the pace of economic growth due to the financial market turmoil. Therefore, these recent developments lead to downward revisions in expected economic growth for global economy.

Portuguese economy will likely be influenced by these events. Nevertheless, the gradual recovery of the Portuguese economy will continue in the next years, and the gap vis-à-vis European average is expected to be reduced in coming years.

The acceleration of economic growth for the next year will be the result of an investment recovery, both on entrepreneurial investment and public investment and of the continued good performance of exports.

In a context of increasing globalization, competitive pressure is growing, and consequently important efforts have been put in place in Portugal to increase competitiveness and productivity growth.

Structural reforms have been implemented in areas such as social security, public administration, in raising the workers skill level, in promoting innovation and technological development and in developing a more favorable environment for investment.

A rigorous implementation of the budgetary consolidation strategy has also been a priority. In 2007 the deficit is going to be 3 percent of GDP, ending the excessive deficit situation one year earlier than initially expected. In sum, the Portuguese macroeconomic fundamentals are strong which should have positive spillovers on the fight against social exclusion, poverty, and inequality.

Portugal remains fully committed to the global fight against poverty.

The partnership between developed and developing countries established during the Monterrey, Johannesburg and Doha summits and reaffirmed in New York in 2005 remains the only way to make further progress towards the achievement of the Millennium Development

Goals. These are not only objectives but also a means to measure progress in this quest. The first of these goals, poverty reduction, has been the World Bank's overarching objective for many years and it is a priority of the Portuguese cooperation.

Portugal welcomes the new President of the World Bank, Mr. Robert Zoellick and wishes him success in this challenging but very important mission. We very much support the concept of an inclusive and sustainable globalization, presented by President Zoellick, as the vision underlying the Bank's work. We believe multilateralism remains the best means to achieve this daunting task. We urge the Bank to continue working closely with its multilateral partners—the UN, the IMF, the WTO and regional development banks. In this context, we welcome the six strategic themes proposed by President Zoellick as a framework for the future work of this important Institution.

This is a particularly challenging year for Portugal—as we currently hold the Presidency of the European Union—and I would say it is also a challenging year for the World Bank Group as it prepares, together with the international donor community, to mobilize crucial resources for development through IDA 15 Replenishment. IDA remains the most important multilateral development institution, especially in Africa. Portugal will make its best to help create an atmosphere conducive to a successful IDA replenishment.

We welcome the Bank's work in addressing the special needs of fragile states. These countries are the least likely to attain the MDGs and should not be left behind. To engage more effectively in these difficult environments, the international community needs to develop an integrated approach that takes into account security, political and developmental concerns. Portugal thinks the World Bank is well positioned to play a key role in these countries and to make a difference due to its adaptability character and by making quick disbursements.

The Bank should continue working closely with other development partners and relevant institutions, both public and private, in order to help build capable, accountable, and responsive states, reflecting each other's mandate and comparative advantages.

In its 60 years of existence, the World Bank has been a driving force for development in middle-income countries by providing financing, technical assistance and knowledge services. The Bank needs to remain engaged and competitive in middle-income countries in order to fulfill its mandate, but it must also continue to use its development knowledge and expertise for the benefit of other developing countries, such as IDA countries.

Global and regional public goods should clearly be on top of the World Bank's agenda. Climate change and global warming concerns are a paradigmatic example. In this area, where there are clear market

failures, a global institution like the World Bank has a key role to play in fostering country and regional strategies for the promotion of environmentally sustainable low-carbon economic development, while maintaining countries' growth rate and their path towards poverty eradication.

We recognize that developed countries need to provide stronger support to the least developed countries through increased market access. Portugal urges the international community to make a renewed effort to achieve a successful closing of the Doha Development Round. We also strongly support World Bank and IMF efforts to step up the Aid for Trade agenda and commend their advocacy role in seeking a positive outcome of the negotiations.

Portugal believes that the private sector development plays a crucial role in the fight against poverty. We, therefore, encourage the World Bank Group to continue, through IFC, to promote private sector ventures in developing countries and frontier markets. The ambitious IFC strategy that includes a sensible increase in its activity goes, in our opinion, in the right direction. In this context, let me share with you that the Portuguese Government, in collaboration with private partners, has recently established a new financial instrument—International Financing Corporation for Development (SOFID)—with the aim of supporting private sector development through partnerships in least developed countries.

The establishment of this Institution was formally announced at the International Conference on Promoting of Investment Partnerships for Sustainable Development in Africa, an Initiative organized jointly by the Portuguese Government, the European Investment Bank, and the International Finance Corporation, which took place in Lisbon, on October 11.

I would like to finish by thanking the Bank and Fund Staff and management for their excellent work and the Boards of Directors for their strategic view and guidance. I would like to thank Managing Director Rodrigo Rato for his excellent work in the time spent leading the IMF and wish him well in his future endeavors.

RUSSIAN FEDERATION: ALEKSEI L. KUDRIN

Governor of the Bank and the Fund

Developments in the Global Economy and Financial Markets

Since the spring meeting of the IMFC there have been some changes in the global economy due primarily to turbulence in financial markets in August–September. After many years of very rapid global growth, there is now increasing doubt that this trend will continue. Although the

latest World Economic Outlook (WEO) predicts only a minor slowdown in global growth over this year and in 2008, the existing risks, if realized, may cause more pronounced deceleration.

The situation in financial markets remains the key source of uncertainty. Currently it is hard to foresee how quickly the re-pricing of financial assets will occur, the magnitude of losses that leading financial institutions will have to recognize, and whether there will be a significant increase in interest rates. However, we can already derive some preliminary conclusions about the necessary policy measures. For example, there is undoubtedly a need to have more transparency in the trading of complex financial instruments. Additional measures will likely be required with respect to regulating the banking sector.

There is also a considerable risk that the housing market correction in the U.S. may turn out to be deeper and more prolonged than previously expected. Combined with a tighter lending environment this may negatively affect both consumer demand and investments.

For the emerging market countries, the main risk is associated with the deterioration in external financing conditions. A sudden stop in capital inflows may significantly increase the likelihood of a “hard landing” for countries running large current account deficits and/or relying on large external borrowings to finance domestic credit booms.

Finally, there also remains substantial uncertainty regarding world oil prices. At the same time, even the quadrupling of oil prices that occurred over the last several years has not resulted in any significant increase in inflation. A great deal of credit for this undoubtedly goes to the central banks, whose monetary policy has prevented higher energy costs from translating into higher prices for end consumers. On the other hand, throughout all those years the work of the monetary authorities has been made easier by the fact that wage increases have lagged substantially behind the fast growth of labor productivity. Currently labor productivity growth is slowing in the developed countries, which will make the task of containing inflation more difficult.

According to the latest WEO, the decline in growth will be observed primarily in the developed countries and especially in the U.S. At the same time, it is expected that high growth rates will be preserved in the large emerging market countries, which will help compensate to some extent for the slower growth in the developed economies. These developments should contribute to a gradual reduction of global imbalances. Specifically, the lower growth in the U.S. economy may result in some reduction in the current account deficit. At the same time, rapid growth in the emerging market countries will increasingly rely on domestic demand.

The situation in Russia is illustrative in this context. In 2007, growth is expected to be about 7.5 percent. In the last couple of years, the

contribution of net exports to GDP growth has been negative, even despite continued high oil prices. At the same time, private consumption and investments, including foreign direct investments, are growing very rapidly.

Reform of the IMF

Reforming quota and voice at the Fund in line with a changing structure of the global economy is a necessary condition for restoring the weakening legitimacy of the Fund. New realities should be duly reflected in the way that country quotas are calculated.

We believe that a blended GDP variable should play a dominant role in a new formula. The weight of PPP-measured GDP in the blended GDP variable should be substantial. We also think that the quota formula should stand on its own merits and be convincing and publicly defensible from the point of view of both its design and outcomes.

We believe that new ways to finance the Fund's administrative budget should be found as soon as possible. A prolonged period of uncertainty is having a negative effect on the morale of Fund's staff and is hampering the recruitment of new highly qualified staff. In this regard, we are prepared to discuss all proposals of the Crockett report, including the use of a portion of members' quota resources for investment purposes and the sale of a part of the Fund's gold.

We do not support a rigid link between the adoption of a new income model for the Fund and a reduction in its expenditures. The Fund needs a new income model regardless of the level of its expenditures. At the same time, we do not object to considering different options for improving the efficiency of the Fund and reducing its expenditures. From our point of view, expenditures should be reduced selectively, in full accordance with a clarification of the Fund's mandate and responsibilities. Without a sound plan, a reduction in expenditures would only lead to undermining the Fund's capacity to carry out its current obligations.

The World Bank Strategic Directions

We welcome the achievement of a broad consensus on the Bank's strategic directions. The World Bank President should personally receive much of the credit for this accomplishment. We broadly share Mr. Zoellick's vision of the Bank's strategic direction that was outlined in his last week's speech. In this regard, we would like to make just a few clarifying remarks.

Poverty alleviation and sustainable growth-based development have always been and should remain the main objective of the Bank. Today,

we should focus our attention on addressing these issues in Sub-Saharan Africa and the post-conflict countries. External aid should help to put in motion mechanisms of sustainable development, facilitate mobilization of internal resources, and thus gradually reduce aid dependency.

The lag in industrial development appears to be the main reason for the widening gap in progress towards the MDGs between the countries in Sub-Saharan Africa and other developing countries. Without in any way questioning the importance of agriculture for the poor countries—particularly in the short- and medium-term perspective—is it not the time to acknowledge that it is industrialization, coupled with the infrastructure that supported it, that has always been the primary vehicle of development? We believe that the World Bank can and should lead a movement aimed at the industrialization of Africa and other poor countries. In doing so, the Bank can rely on its experience in assisting clients that since have joined the most developed nations. IDA and IFC should increase their financing in this area. In this regard, we particularly welcome the expansion of IFC programs in Africa.

We should examine what impedes a greater use of the already available Bank instruments. A case in point is provision of guarantees to the IDA clients. Such guarantees are meant to facilitate private sector development, foreign investments, and the overall economic development. Although appropriate decisions were taken about ten years ago, such instruments have virtually never been used.

Assistance to the post-conflict countries is another important area of the Bank's work. Among the principles of post-conflict assistance, one should stress impartiality and non-interference in internal political affairs. Political neutrality, which is a cornerstone of the Bretton Woods system, is particularly critical the context of the post-conflict work. This is why the Bank should be careful and considerate, and cooperate with all the bilateral and multilaterals donors while preserving its complete political neutrality.

The principles of Bank's cooperation with the middle-income countries (or, to be precise, with IBRD borrowers) are changing. One should recognize that the majority of IBRD borrowers have reached a new level of development and want to see the Bank as their partner of choice. From this angle, we are satisfied that the new model of the World Bank Group country partnership strategies, with their increased flexibility and country-defined prioritization of activities, reflects the new realities.

Modernization of the IBRD lending terms is of paramount importance. Transition to country systems announced almost ten years ago, is extremely slow and should be accelerated. The costs of doing business should be further reduced, and operating procedures reviewed in order to identify and abolish outdated requirements.

Another strategic direction of the World Bank's work is assistance in the provision of the Global Public Goods, such as fighting infectious diseases or resolving the climate change problem. With regard to the latter, we should note that the crucial role of the energy sector for poverty reduction in developing countries cannot be called into question. The developing countries will never give up their plans to bridge the huge energy gap in their fight against poverty. We should support their efforts and focus on the most efficient conventional energy generation technologies and refurbishment of the existing power facilities. This presents us with an opportunity to integrate two global priorities—climate and energy.

In this respect, it is appropriate to reiterate the proposal we made one and a half years ago. We need to revisit the World Bank taboo on all things nuclear. In our opinion, this holds a great potential to advance on an entire spectrum of issues—from clean energy to safety monitoring and nonproliferation.

IDA and the Global Aid Architecture

We believe that IDA remains a key element in the global aid architecture. At the same time, the effectiveness of the Association can and should be increased. The necessary steps should include simplification and modernization of its operational procedures, better alignment with recipient countries' priorities in determining the sectoral composition of aid, bringing more flexibility into the use of financial instruments, enhancing the objectivity of CPIA as well as reaching out to the new categories of donors.

We have already witnessed some important steps in the right direction. These are facilitated access to the additional financing, new mechanisms for rapid response to crises and emergencies, simplification of investment lending as well as increased allocations for infrastructure and energy. Further steps should include more active use of guarantees and improved collaboration with donors in designing and implementing large national and regional investment projects.

SAUDI ARABIA: IBRAHIM A. AL-ASSAF

Governor of the Bank and the Fund

I am honored to deliver the joint Arab speech this year on behalf of my colleagues, the Governors of the Arab Group in the International Monetary Fund and World Bank. I would first like to welcome Mr. Robert Zoellick, the President of the World Bank, and Mr. Dominique Strauss-Kahn, the IMF Managing Director. I would like to express our deep gratitude to Mr. Rodrigo de Rato for his wise leadership of the Fund during

the most recent period. We wish him success in his future endeavors. The coming period will see new leadership in both institutions. We are prepared to put forth the support and effort needed to assist the executive boards of both institutions in achieving their goals.

During the past year, the global economy has seen a recovery, testifying to its resilience. However, new challenges are now being posed by the recent turbulence in the financial markets, the credit pressures affecting the American real-estate market, and the potential effect of such pressures on developing countries. These challenges require greater efforts by the major countries to correct imbalances and maintain stability.

Nonetheless, most of the developing countries have seen record capital flows. This is reassuring, as these flows present opportunities to support long-term growth. However, they also pose major, short-term economic challenges. The concerned countries must adopt realistic policies for dealing with these flows, particularly sound fiscal policies, and must strengthen prudential standards.

In this context, the countries of the Arab region have seen high growth during the past year, with average growth expected to exceed 6 percent in 2006 and to continue at this rate in 2007. Factors contributing to this growth include sound fiscal policies, structural reforms, and the Arab governments' desire to bolster economic integration among the Arab countries. The Greater Arab Free Trade Area began operating in 2005. Discussions are currently being held to establish an Arab customs union and to liberalize the services trade among the Arab countries. The countries of the Cooperation Council for the Arab States of the Gulf have completed the requirements for establishing a common market this year. In another development, the Arab oil exporting countries—cognizant of the importance of oil price stability and meeting the global economy's energy needs—have increased their output and cooperation with consumers. However, oil demand has not risen sufficiently to justify the recent price increase. Responsibility for the increase also lies with political tensions, speculation, and the shortage of refinery capacity.

The International Monetary Fund plays a primary role in maintaining the stability of global financial and money markets. This role is particularly important in view of the risks posed by the current credit crisis to the global economy. In this regard, we commend the international monetary policy measures taken. They have had an appreciable effect in lessening the gravity of the crisis.

Concerning emerging economies, we encourage the Fund to study a new mechanism for providing quick financing to such economies, if needed. Regarding the sovereign funds, we urge the Fund and other agencies to seek to deal with this subject prudently. We also underscore

the need for the Fund to maintain its activity as stipulated in its Articles of Agreement. To enhance the Fund's role, it is important to increase the developing countries' voting power and role in decision-making.

Concerning development and poverty-reduction efforts in the developing countries, global economic developments and reform policies in the developing countries have helped bring about tangible development and poverty-reduction accomplishments. However, major challenges still face the international community, particularly the slow rate at which the Millennium Development Goals are being achieved in a number of Arab and African countries, and the concentration of financial flows in a limited number of countries. Official assistance has stagnated, and there is uncertainty about the main donor countries' commitments to the debt-relief programs and financing for the 15th replenishment of the International Development Association's resources.

These challenges place substantial burdens on the international community, especially the World Bank Group. To meet these challenges, we look to the discussions being held to reformulate the World Bank's strategy. We hope this strategy will focus on the development of the real economy sectors to meet the needs of medium-income member countries in particular, as they are home to more than 70 percent of the poor. It is especially necessary to maintain the World Bank Group's constants, which focus primarily on providing the necessary financing and knowledge transfers. These challenges and aspirations require strengthening the long-term financial capacity of World Bank institutions. In this regard, we would like to express our gratitude to Mr. Zoellick's for recognizing the importance of the Arab region and making it a priority region for the expansion of World Bank activity.

It is important to achieve positive results in the negotiations on the 15th replenishment of IDA resources, including compensation of the Association for the burdens it has assumed under the Multilateral Debt Relief Initiative. The Arab countries attach importance to international economic and development conditions. Therefore, the donor countries and regional development institutions in our region have undertaken to provide major assistance to the developing countries and to increase Arab private investment in a number of such countries. In this regard, we call for strengthening cooperation among regional development institutions, the Fund, and the World Bank through joint activities and programs, especially programs designed to support economic reform efforts and achieve sustainable development goals in our region.

Regarding the multilateral trade negotiations, it is important to achieve positive results in the Doha round, which has reached a critical stage. We are disappointed by the stalled negotiations and look forward to positive results once the negotiations resume. We call on the con-

cerned parties to make greater efforts to complete this task. In particular, we call on the advanced countries to show greater flexibility regarding the elimination of subsidies for producers and exporters and the provision of greater assistance for developing the production capacities and infrastructure of the developing countries to help them benefit from trade opportunities.

We also advocate greater concern for countries that are facing difficulties, suffering from the effects of conflicts, and experiencing a shortage of the resources needed to promote economic and social development. Such countries are home to a third of the world's poor, and their negative conditions have regional and global effects. We commend the World Bank Group for its concern and its policy in this connection. We call for promoting this policy and for greater flexibility on the part of the World Bank and the Fund in providing the necessary resources, including debt relief, to these countries.

Here, we refer especially to the worsening of the Palestinian people's suffering under the occupation and besiegement. We also point to the urgent, pressing need for: international assistance for Lebanon, whose economy and infrastructure have been subjected to extensive destruction by the war launched against it; support for the reconstruction of Iraq; and efforts to enable Sudan and Somalia to rebuild their economies.

In conclusion, we note the paucity of IMF and World Bank officials from the Arab countries compared to other geographic regions. We thus repeat our urgent call for the Fund and World Bank to employ more citizens from the Arab countries.

SPAIN: DAVID VEGARA FIGUERAS

Alternate Governor of the Bank

Let me start by greeting a warm farewell and wishing the best to the current IMF Managing Director, Mr. De Rato, to whom we should credit his leadership in setting the ground for IMF reform. We look forward to continuing working in this fundamental process with the next Managing Director, Mr. Strauss-Kahn, as well as with Mr. Zoellick, who attends his first Annual Meetings.

World Economic Outlook

In spite of the recent financial turmoil, the world economy has continued to grow at a very significant rate in 2007, keeping a pace of around 5 percent. It is particularly relevant that the main impulse has come from emerging markets as a consequence of the implementation of sound macroeconomic policies, which is excellent news.

Risks and Recent Developments in Financial Market

In this generally favorable context, we are also observing that, while financial innovation contributes to the efficiency of financial markets, it also poses new challenges for regulatory and supervisory authorities. In this regard, the European Ministers of Finance have recently agreed on a road map aimed at reinforcing transparency, improving valuation standards and reinforcing prudential surveillance. With all necessary prudence, we are confident that the implementation of this road map, jointly with the soundness of the financial sector and the solid base of economic growth will overcome the current situation.

Global Imbalances

Along with the recent financial turbulences, there still remain some global imbalances, whose adjustment should occur in an orderly way in all areas involved. The weight of the adjustment should not rely solely on the euro exchange rate, as the multilateral consultations have rightly concluded.

Spanish Economy

As far as Spain is concerned, our outlook is that we will end up the current year growing at a rate close to 3.8 percent. Moreover, the composition of growth provides a solid base to face the new international environment. Our financial sector is sturdy, profitable, solvent and highly endowed for risk. In the next quarters we expect a soft slow-down, in synchrony with the world economy, but maintaining the strong growth pattern of the latest years. We trust in the capacity of the Spanish economy to withstand the current uncertainties, supported additionally on our firm commitment to a prudent fiscal policy and on an economic policy oriented towards productivity gains.

IMF—Medium Term Strategy

IMF's role and relevance. Focusing now on the IMF agenda, firstly I would like to underline the IMF's essential role in maintaining international economy's stability. The IMF's relevance cannot only be measured by the amount of outstanding credits but also by its vital nature of coordination forum and its importance as supervisor.

Quota and Voice Reform

In this context, quota and voice reform is essential to reinforce the IMF's legitimacy. The current distribution of quotas does not reflect the

current economic situation of its members. This is the problem we agreed to solve in Singapore one year ago and this is why the IMF can not afford a deadlock in this process.

We have made some progress on some technical issues in the last year, but we have now reached the moment of commitment and decision-taking. There are valid and balanced technical options and I therefore encourage all members to take up our joint responsibility and commit ourselves to find a solution within the timeframe established.

Other Reforms

Fortunately, there have been some improvements in other areas. We welcome the important steps taken in Surveillance reform, particularly the recent 2007 Decision. We also look forward to implementing other necessary reforms, such as improving the equity and stability of IMF's finances, and setting up a new liquidity instrument.

World Bank

We are extremely pleased to acknowledge that the World Bank Group has successfully overcome the institutional crisis it faced some months ago. The challenges ahead should be seen as a tremendous opportunity for the Bank both to better respond to the needs of its clients in the fight against poverty and inequality, and to effectively contribute to reaching the MDGs.

Strategy

Spain shares the view that the basic pillar of the Bank's strategy should be inclusive and sustainable development. In the process of elaboration of the strategy, some key aspects will have to be kept in mind: flexibility, permanence, consensus, coordination, financial sustainability and impact on the Bank's organisational structure.

In addition, in the long run, we must be aware that around two thirds of the population fighting poverty will live in middle income countries. How the Bank adjusts and reshapes its engagement with these countries will become key to its future relevance.

International Development Association (IDA)

Although we have seen progress in terms of growth and poverty alleviation in poorer countries, we are still far from reaching the MDGs, particularly in Africa. We believe there is an urgent need to accelerate and step up our joint actions, which calls for a successful replenishment

of IDA. In the growingly complex aid architecture, IDA plays a pivotal role in delivering aid to poorer countries. Spain would like to restate its commitment to the Institution and encourage other donors, including new and emerging donors, to act likewise.

Global Public Goods: Environment

Climate change is without doubt one of the major challenges the world faces today. I would like to strongly support the Bank for all its activities in this field. The Group has been a pioneer and exercised leadership in advancing the agenda, accumulating a valuable experience that needs to be scaled up. We encourage the Bank to keep broadening the scope of the Clean Energy Action Plan, defining clear and ambitious targets, in close coordination within the group, with Regional Banks and other actors.

Let me conclude by stressing, once again, Spain's commitment to contribute to overcome the challenges our institutions are currently facing.

**SRI LANKA: SARATH LEELANANDA
BANDARA AMUNUGAMA**
Governor of the Bank and the Fund

We are meeting at a time when the global economy is performing strongly. But the high risks and vulnerabilities, which we noted at our meeting in Singapore a year ago, have become more apparent today. The turbulence in the sub-prime loan mortgage market in the United States has caused some degree of turmoil in financial markets in many other parts of the world. Fortunately, the adverse impact of this volatility on financial markets has been contained. It also did not exert an adverse impact on emerging economies. However, these market events have delivered a very strong message to policy makers, both in developed and developing economies that they cannot afford to be complacent.

The events also demonstrate that financial globalization, which has brought about many benefits through an efficient allocation of international savings, can also be a source of vulnerability for small nations like Sri Lanka. In view of such circumstances, it is in our interest to call for increased surveillance of the financial sectors of countries, particularly the large advanced economies, by both domestic regulators and the international lending organizations.

We firmly believe that time has now come for both IMF and World Bank to critically review their long-followed strategies relating to emerging economies. The past development strategies adopted by these

institutions by supporting public initiatives have overburdened many governments with fiscal constraints and ever-rising debt ratios. Instead, as an alternative, we should look for new development strategies that harness the possibilities of private initiatives for sustainable development. This could be achieved through public private partnerships, also known as the PPP model, for development. Donors, specially the World Bank and its subsidiary IFC, could facilitate this process by linking their country programs to such home driven strategies.

Let me now turn to my own country of Sri Lanka. Although we are an island, we are certainly not insulated from the developments around us. The unprecedented high price of oil in international markets has taken a heavy toll. Volatility in major markets and any slow down in world output would certainly bring about a deleterious impact on our economy. Rising food prices is also a significant challenge. The recent price hike of wheat grain in the international market has added to our problems, even though we are self-sufficient in rice. Despite the challenges we face, our economy grew strongly, by 7.4 percent, last year. The growth in 2007 is expected to be around 6.5 percent, but in the medium term, the economy envisages to grow around 7–8 percent per annum. We have been successful in bringing down unemployment to around 6.5 percent, which is a historically low level. The Sri Lankan Government is committed to fiscal prudence and sound macro economic policies. We appreciate the need for continued investment to sustain our economic growth and eradicate poverty.

Given the limitations of domestic resources for continued high growth, we are encouraging international investors to come to Sri Lanka. I am happy to report that in 2006 Sri Lanka received the highest foreign direct investment inflows. This trend is expected to continue in a similar fashion in this year as well as in the near future.

We are focusing on measures to reduce poverty and bring about broadbased, regionally equitable economic growth. This is an important aspect of a just and lasting settlement to the ethnic conflict in the country. The multi-ethnic Eastern Province of Sri Lanka, which has recently been cleared of all terrorist activity, will be developed on a priority basis.

Sri Lanka was recently able to make successful debut bond issue, which was over subscribed by more than three times, and is a mark of confidence in the resilience of our economy. This has paved the way for the Sri Lankan private sector to tap this global market for infrastructure development. In the sea around Sri Lanka, a vast offshore oil field has now been discovered. There has been considerable international interest in the venture and bidding will begin early next year.

Let me now conclude by stressing the need for economic policy makers everywhere to be vigilant and willing to take concerted action

to ensure that the dynamism experienced by the world economy is continued and its growth momentum maintained.

SWEDEN: ANDERS BORG

Governor of the Bank

(on behalf of the Bank Nordic Countries)

I am honored to address the 2007 Annual Meeting on behalf of the five Nordic countries. Let me first welcome the new World Bank President Mr. Zoellick. The Governors of the Nordic countries strongly believe that the World Bank plays a crucial role in the fight against poverty and in the achievement of the Millennium Development Goals. The time has come to agree on a common vision globally, and then implement it, locally. We strongly support the vision for an inclusive and sustainable globalization that has been brought forward by Mr. Zoellick, and we look forward to participate actively in further discussing and refining it.

Today, I will focus on:

- (1) global economic development
- (2) the needs of Africa, especially Sub-Saharan Africa, and
- (3) addressing challenges of climate change.

I will also stress the need for:

- (4) women's economic empowerment for growth and development, and
- (5) effective use of available resources.

Global Economic Development

We have a global responsibility for the world economy and its resilience to shocks. Recently we have seen some turbulence on financial markets. To ensure sustained economic growth we must strengthen the functioning of financial markets and continue to strive for macroeconomic stability.

In such favorable economic environment, it is the responsibility of the developed countries to seize this opportunity and decrease budget deficits. Likewise, structural reforms should be carried out and economies should be further opened up to trade.

The developing countries must, on their side, show commitment and ownership to carry out essential reforms, such as promoting a sound business environment and private sector-led development. One precondition is to have an institutional and legal framework in place and firmly work against corruption.

The recent large debt reductions for many poor countries have been important to facilitate growth and development. Now it is vital to avoid the accumulation of new unsustainable debts. Developed and developing countries share the responsibility to take wise borrowing and lending decisions.

The Needs of Africa

Sub-Saharan Africa is experiencing promising economic progress. It is important to build on this momentum and the Nordic countries are committed to strengthening our focus on the challenges facing this region. We therefore welcome the Bank's increased attention and involvement in this region.

To ensure sustained progress, a number of institutional features are of utmost importance. Respect for human rights, democracy, rule of law and well functioning economic markets are important as such, but also significant for economic development. Further, reforms must be socially acceptable and inclusive. We should listen to the voices of the poor.

Although the prime responsibility for social and economic development, including good governance and sound economic policies lies with the countries themselves, development assistance makes an important contribution to further progress in Sub-Saharan Africa.

The Nordic countries have long been committed to the agreed UN ODA (Official Development Assistance) target of 0.7 percent of Gross National Income. We urge all donors, including non-OECD DAC donors, to deliver on their ODA commitments as well as to fully finance the Multilateral Debt Relief Initiative (MDRI) and the Heavily Indebted Poor Countries initiative (HIPC). The ongoing replenishment of IDA (International Development Association) will be one evident occasion for all donors to deliver on their commitments.

Addressing Challenges of Climate Change

Climate change is a challenge to the world as a whole. However, the poorest countries are the most vulnerable to the effects of climate change. Therefore, we have to address this challenge forcefully and through well-coordinated international efforts.

We believe that the Bank has an important role to play in mitigating the negative effects of climate change and in promoting a reorientation towards clean energy. The Bank is also a key player in helping developing countries adapt to climate change. The Bank's work with the Global Environment Facility (GEF), as well as the initiative to establish the Carbon and Deforestation Funds, are good examples of successful work

in this area. We support activities to develop and launch additional mechanisms for long term carbon trading and investment.

We encourage constructive action in reaching agreement on a post-Kyoto Protocol climate treaty. We will work hard for a new treaty to be adopted at the international climate conference in Denmark in 2009.

Sweden has recently launched an International Commission on Climate Change and Development. The main task of the Commission will be to explore and promote effective ways to integrate risk reduction and adaptation to climate change into development and poverty reduction plans in developing countries. And to ensure that future investments in Official Development Assistance take full account of climate stresses and increased disaster risks. I hope that the work of the Commission can contribute to a successful outcome of the international climate negotiations in 2009.

Women's Economic Empowerment for Growth and Sustainable Development

I am a firm believer that equal rights and opportunities between individuals—women as well as men, girls as well as boys—are essential for sustainable development. Gender equality is necessary to ensure individual freedom and give people equal access to resources and opportunities to shape their own lives. Promoting gender equality contributes not only to women's and their households' own economic security, but also to national development, to broad-based growth and stability. Promoting gender equality is therefore essential for sustainable poverty reduction and the achievement of the Millennium Development Goals.

The implementation of the World Bank's Gender Action Plan is a welcome and important step in the right direction. I would also like to express our appreciation for the focus on gender issues in this year's Doing Business Report.

Effective Use of Available Resources

We must all work to ensure that development assistance is spent effectively and to achieve clear and measurable results at country level. What really matters is the real impact for the poor of our joint efforts. The Nordic countries commend the World Bank for being at the forefront in terms of focus on results. Aid effectiveness and management for results at the country level is crucial. Of special importance are country ownership and the alignment of donors to the partner countries' Poverty Reduction Strategies. The road map for this work is pro-

vided in the Paris Declaration on Aid Effectiveness. The World Bank must show leadership in the implementation of these commitments.

We support all measures to increase transparency, promote democratic governance and fight corruption. We welcome the World Bank's implementation plan for the Governance and Anticorruption Strategy and will work constructively with the Bank to maintain the momentum in this important task. At the global level, the Bank should continue its advocacy role and active involvement in international effort to strengthen good governance.

In light of the global challenges that we are facing, not least the pressing issue of climate change, the need for international cooperation clearly remains of utmost importance. The ultimate goal is to promote equitable and sustainable global development and growth that is inclusive and to the benefit of all.

SWITZERLAND: JEAN-PIERRE ROTH

Governor of the Fund

This year's Annual meetings take place against the background of the recent financial market disruptions. Unlike several financial crises of the past, the current problems have mostly affected advanced economies. An encouraging feature is that emerging market economies have escaped essentially unscathed. The consequences of these financial market difficulties for global economic growth are not fully clear yet. So far, the most likely scenario is a modest but contained slowdown. One important outcome is that market participants have started to reappraise financial risks. Even though this reassessment is in some cases painful and its consequences are not yet totally known, it is a necessary and welcome development.

So far, the international financial system has proved sufficiently resilient. However, the current events have highlighted weaknesses in the way risks are appraised not only by banks, but also by rating agencies and supervisory authorities. There is clearly scope for improvements.

- Banks and financial firms need to take a broader view of risks: reputation and liquidity risks, for instance, have been underestimated. The same applies to contingent liabilities associated with new off-balance sheet financial instruments.
- Rating agencies should revisit the methods they employ to analyze credit derivatives and structured products.
- Supervisory authorities should put greater emphasis on more regular stress testing; and these tests should rely on more elaborate and diversified scenarios.

Furthermore, recent events have shown that it cannot be safely assumed that markets always remain liquid. Thus, ways have to be found to put a correct price on complex products when markets have become illiquid. While these events call for responses from both market participants and authorities, short-term activism should be avoided.

The Fund clearly has a role to play in enhancing global financial stability. We welcome the efforts to improve its financial sector surveillance activities, making them more focused, more regular, and better integrated with macroeconomic surveillance. Furthermore, Switzerland supports a possible second round of multilateral consultations on financial stability issues. It is important, though, that the Fund avoids duplicating the work of other institutions and fora. The Fund should rely upon their technical competences, but not infringe on them. A starting point for a sensible division of work could take into account the unique position the Fund is in: it is the only financial institution with a global membership.

The Annual Meetings provide a welcome opportunity to take stock of the work done by the Fund and the World Bank. At the Fund, an important project has been the revision of voice and representation. What we need is, of course, a quota formula that is at the same time simple, transparent, and in keeping with the Fund's mandate. There has been some progress. But no one could have realistically expected a smooth process in developing a new formula. In moving forward, I want to emphasize once again that, for Switzerland, the new formula and the quota adjustment must meet three principles:

- First, GDP should be measured at market exchange rates. GDP measured in PPP terms would be a highly misleading indicator. The basic fact is that both the financial contributions to the Fund and lending by the Fund are priced at market exchange rates and not in purchasing power parity terms.
- Second, openness should continue to play a major role in the formula. In addition, this variable should be modernized to include financial openness. After all, the Fund's mission and its objectives make it first and foremost a monetary institution. One of its key mandates is to help safeguard international financial stability. Including financial openness in the formula would therefore give an appropriate weight to those countries with most at stake in this respect.
- Third, we continue to believe that the prime driver behind any general rise in quotas should be a need for increased liquidity at the Fund. Without any clear need at the current juncture, we could, agree to an overall increase of ten percent.

Beyond these core principles, we are ready to work constructively towards a revised allocation of quota and voting shares to reflect the

changes in the international economic environment. To this effect, Switzerland supports at least a doubling of basic votes as well as the mechanism to keep this higher share of basic votes constant in the future. The representation issue is clearly at the heart of efforts to ensure the continued relevance of the Fund today and in the future. Switzerland is ready to compromise so that an acceptable solution can be found, but we are not willing to discard the basic principles underlying the Fund's mission. I sincerely hope and indeed have great confidence that we can reach a broad consensus on this issue.

A second topic has been high on the agenda of the Fund: its new income model. New sources of income are certainly necessary, but expenditure reductions are at least as important to achieve financial soundness over the medium term. I welcome the reductions in administrative real expenditure already planned in the medium-term budget, but more ambition is warranted. We would like to see further proposals on how to control expenditures and additional efforts towards achieving greater cost efficiency. Such efforts should be accompanied by a serious discussion about the optimal size of the Fund. We would like to see an institution with a stronger focus on its core mandate: to secure macroeconomic and financial stability.

This being said, I broadly agree with the two main pillars of the new income model: first, to broaden the investment mandate of the Fund; second, to increase the amount of resources that can be invested. One way to achieve this would be a limited sale of gold. I have to admit that I feel uncomfortable with gold sales as a panacea to deal with financial difficulties. However, I could agree to a one-off and limited gold sale, with the proceeds contributing to an investment endowment. It is important, though, that any such gold sales should be handled in a way that avoids disruptions to the gold market. A second way to raise funds is to mobilize quota resources specifically for investment purposes. We consider this a promising approach, but believe that there should be an upper limit on the share of quota that can be used for this purpose. There are also equity issues to be addressed if, what is likely, not all countries would contribute.

A third important topic concerns what role the Fund should play in low-income countries. Switzerland believes that the Fund must focus its support for these members on macroeconomic stability and debt sustainability. Here it should resume its traditional role: giving advice and providing temporary balance of payments support. However, the Fund should not fill gaps in the provision of public services—such as coordinating aid flows—or in the delivery of development aid. Long-term lending should be phased out. There are other institutions more suitable to these jobs. A clear division of labor with the World Bank is essential, and we welcome the efforts currently undertaken to achieve this.

Greater specialization would help increase the effectiveness of the services provided by both the Fund and the World Bank to their low-income members.

The World Bank, in a context where rapid globalization continues to create new opportunities as well as global challenges, has embarked on a reflection about its role and its mandate. We welcome President Zoellick's commitment to develop a strategy for the World Bank Group in a consultative manner with the guidance of the Board and we broadly share the general thematic orientation proposed. A sustained engagement in low-income countries, fragile states, and middle-income countries, as well as renewed efforts towards global and regional challenges and the promotion of the knowledge and learning agenda, all constitute critical areas for action.

This orientation should be further elaborated based on the value added and the comparative advantage of the World Bank Group across the suggested themes. To support the prioritization process four criteria appear particularly important to us: (i) value added and comparative advantage of the World Bank Group, (ii) subsidiarity, (iii) consistency with the Bank's core mandate of poverty reduction and economic growth, as well as (iv) coherence with the country-based model.

Inclusiveness and sustainability must be acknowledged as building blocks for the long-term strategy of the Group. Moreover, good governance remains central. The recent approval of the Implementation Plan for strengthening the Bank's engagement on Governance and Anticorruption (GAC) provides a sound platform for implementing the GAC strategy, and we expect the Bank to act resolutely on this important agenda. We encourage the Board and management to consider all opportunities and modalities for mainstreaming the issues of inclusiveness, sustainability, and good governance in the Group's long-term strategy.

On the themes suggested by President Zoellick, we would like to comment as follows:

First, we support the World Bank Group's commitment to play a more active role in addressing challenges and opportunities related to regional and global public goods. In our view, efforts to address global public goods should include all member countries. High-income countries are affected by global challenges as well, for example in the field of climate change and communicable diseases. They can significantly benefit from the experience of the Bank. As a competent policy and technical advisor, the Bank has a major role in providing assistance to all countries affected by global challenges.

We agree that climate change represents the biggest challenge on the global public goods agenda. Mitigation and adaptation to climate change will be essential to overcome poverty in many countries. The

Bank has made good progress in mapping these challenges, and we welcome the activities undertaken so far under the Clean Energy Investment Framework. Further progress on the agenda will however imply to go beyond energy to address related concerns and bottlenecks in transportation, agriculture, and forestry. We hence support the need for a multi-sectoral approach and we encourage the Board and management to deepen their discussion and to review options in that matter. To secure funding, new financing windows should be envisaged with caution and only with the assurance that market distortions are avoided.

Switzerland is currently reviewing its climate change strategy and it is setting new pillars of action to reduce GHG emissions. Switzerland will continue to participate actively in the multilateral discussion related to the United Nations Framework Convention on Climate Change (UNFCCC). The current negotiations should allow to find a global consensus on a Post-Kyoto climate regime and to reduce drastically GHG emissions. We will support more actively low and middle-income countries so that they can integrate the global climate change normative framework.

Second, the Bank's engagement in low-income countries has significantly contributed to the results achieved in poverty reduction over the last decade. The country-based approach and Poverty Reduction Strategies have been instrumental in facilitating this progress. In the current context of increasing aid fragmentation, we encourage the Bank and development partners to seek further ways to strengthen the effectiveness of the country-based model, and to explore additional opportunities to promote higher growth through private sector development in low-income countries. Agriculture, business environment, trade, local financial markets, and infrastructure for regional integration are areas where the World Bank Group should scale up its work. Results and performance should remain at the center of the resource allocation system in low-income countries and the governance weight should remain strong.

Third, although the World Bank Group has since long been recognized as a leading contributor to the world's knowledge and learning, this domain has not yet translated into a true business line of a 'knowledge institution'. The Bank has the potential to learn from experiences worldwide and to share competences and lessons among all shareholders and stakeholders. We encourage the Bank, in the context of the long-term strategy, to reflect on the opportunities and constraints to better tap the wealth of knowledge and learning which exist in the institution and in partner countries, and to avail this to all members, borrowing and non-borrowing countries. We are convinced that the Bank may establish a dynamic and successful new business line in focused areas without crowding out service providers of the private sector.

We encourage President Zoellick to sustain efforts in finalizing the strategy rapidly; we would welcome a full-fledged discussion of the strategy by the 2008 Spring Meeting of the Development Committee.

Regarding the scaling up of aid and the role of IDA, we acknowledge and welcome progress achieved in poverty reduction, macroeconomic performance, and institution development in low-income countries, and we commend IDA for its contribution to this encouraging trend. With a strong presence at the country level worldwide, IDA is in a position to play a pivotal role in promoting coordination among partners, addressing regional and global issues, and leveraging private and public, financial and human resources. In particular, we expect IDA to support partner countries to increase domestic resources mobilization. To produce effective and sustainable development results, the quality of lending and advice is key. IDA should continue to improve the quality of these products to ensure maximum benefits to clients and to avoid re-accumulation of debt, in addition to the proposed agenda for the Bank to support scaling-up efforts.

THAILAND: CHALONGPHOB SUSSANGKARN

Governor of the Bank

Let me start by expressing my appreciation to the World Bank/IMF and the United States for their warm hospitality in hosting the 2007 World Bank/IMF Annual Meeting in Washington D.C. I would also like to join my fellow Governors in extending a warm welcome to Mr. Robert Zoellick on his appointment as the new President of the World Bank Group. I am confident that his vast knowledge and experience will enable the Bank to meet increasingly complex development challenges in the coming years. Also, I would like to express my appreciation to Managing Director de Rato for his contributions during his tenure. At the same time, I would like to welcome Mr. Dominique Strauss-Kahn as the new Managing Director of the Fund and look forward to working closely with him in the future.

This year's meetings take place against a global economic background characterized by growing uncertainties as a result of a surge in oil prices, the turmoil in the subprime market, continued global imbalances and growing capital market and exchange rate volatilities due to excessive liquidity in the global financial markets. These volatilities impose tremendous policy challenges to countries that need to shield their economies from the risks associated with the volatilities. The challenges are particularly severe for middle-income countries in general. Most advanced economies are better able to cope with the volatilities. They have deep financial markets, a diverse array of financial instruments for hedging risks, sophisticated market participants, and large

financial resources to ease potential problems that may arise. Middle-income countries on the other hand lack these characteristics. They have relatively thin markets so that moderate capital inflows and outflows can lead to large changes in asset prices. They do not have sufficient risk hedging instruments; market participants are not sophisticated in dealing with risks; and they have limited financial resources to deal with market disruptions.

As in many other middle-income countries, the current global financial volatilities have certainly put tremendous strains on Thailand's ability to achieve a stable macroeconomic policy environment consistent with the maintenance of competitiveness and sustainable growth. We have had to impose capital control measures as additional tools to help moderate the impacts of large capital inflows into our capital markets on the exchange rate. While these controls may be regarded as second-best or even third-best policies in theory, analyses in text books do not deal with the kind of financial volatilities that we are experiencing today, and in practice, with such volatilities capital control measures are likely to become part of the tool-kits for policy makers in middle-income countries out of necessity.

As far as Thailand's economic performance is concerned, I am happy to report that in spite of the volatile external environment and the uncertain domestic political situation Thailand should be able to achieve a reasonable growth rate of about 4.5 percent this year with a low rate of inflation of around 2 percent. The government has also given the go-ahead for three major mass transit projects amounting to more than US\$3 billion. Construction for these projects will begin in 2008. Other large-scale investment projects in the petrochemical sector are also in the pipeline. In addition, in spite of the political uncertainties, foreign direct investment has picked up. Applications to the Board of Investment during the first eight months of this year increased by more than 50 percent compared to last year, and over the last couple of months there have been announcements of major investment expansions by many multinational companies, particularly in the appliance and automotive sectors. These various investment projects, both by the public and private sectors, will stimulate domestic demand starting next year. This will help to cushion the impact of a potential slow down in exports as a result of potentially unfavorable external environment. Elections are due on December 23 of this year. With political clarity after the elections and the investment stimulus from the groundwork laid by this government, it is expected that Thailand's economic growth in 2008 should easily exceed that in 2007.

Let me now turn to matters relating to the World Bank Group. On behalf of the Thai government, I would like to thank the World Bank for its continued fruitful engagement with Thailand even though Thailand

has not borrowed from the World Bank for a number of years. Our relationship with the Bank is now evolving from a borrower-lender relationship, to more of a development partnership. As a development partner, the Bank has supported Thailand in a number of areas; namely human and social capital, competitiveness, poverty and income inequality, natural resources and environment, as well as on governance issues. Currently a Country Development Partnership between the World Bank and Thailand is under preparation and we look forward to a broadening and deepening of engagement with the World Bank over the next 5 years.

With regard to this year's agenda, we are fully in agreement with the Bank's emphasis on closing the development gaps among members and that specific attention should be given to the poorest countries while flexible policy should be utilized in engaging with fragile and post-conflict states. We are also in full support of the Bank's goal of greater engagement with middle income countries. As a middle-income country, Thailand can still benefit a great deal from the expertise of the Bank, whether in project related issues or broader policy issues. With greater flexibility in the Bank's lending policy, particularly in terms of local currency lending, Thailand hopes to expand our engagement with the Bank in the future.

On Fund matter, I believe that much work remains to be achieved for the Fund to remain relevant, credible, and effective in the changing global environment. While some of the progress has been laid out in a "Report of the Managing Director to the International Financial and Monetary Committee on the IMF's Policy Agenda," we would like to take this opportunity to highlight a couple of issues.

First and foremost, the issue of quota and voice reform needs to be addressed to tackle the long overdue problem of the Fund's governance. In this connection, we view that the new quota formula should be simpler and transparent, yet comprise variables that reflect not only members' ability to contribute to the Fund, but also their relative economic positions in the world economy. In addition, a sizeable quota increase for the most underrepresented members would be needed to achieve a meaningful change and credible reform, realigning the quota shares of developing countries with their relative importance to the global economy.

Second, on the issue of surveillance, it is important that the Fund continue to strengthen its surveillance framework while ensuring evenhandedness among members. The recently adopted 2007 Decision on Bilateral Surveillance remains to be tested whether it could provide greater clarity on the Fund's surveillance exercise to members. We would like to emphasize that the Fund would need to pay due regard to the different exchange rate regimes as well as specific conditions and

challenges of individual members in conducting surveillance over members' exchange rate policies. Too much attention of exchange rate policies as a key macroeconomic adjustment variable would be unproductive. At the same time, the Fund would also need to focus much more on how to reduce the global financial market volatilities that are major sources of risks to member countries, particularly the middle-income countries. Focusing solely on members' policies without trying to reduce the external sources of risks faced by members would also be unproductive in my opinion.

Last but not least, I would like to express my appreciation to the Board of Governors, management, and staff of the Bank and the Fund for their continued support and fruitful co-operations. Also, I wish them every success in their tasks of promoting global financial stability and eradicating poverty.

TONGA: SIOSIUA T. T. 'UTOIKAMANU
Governor of the Bank

It is an honor for me to address the Board of Governors of the International Monetary Fund and the World Bank Group on behalf of the Government of the Kingdom of Tonga at the 2007 Annual meetings.

I would like to congratulate and welcome Mr. Robert B. Zoellick on his appointment as President of the World Bank Group. I also take this opportunity to thank his predecessor Mr. Paul Wolfowitz for guiding the World Bank Group during his tenure in office.

Since the Singapore Annual Meetings, the global economy continues to show strong growth, projected at 5.2 percent in 2007 and 4.8 percent in 2008. Despite this, the recent financial market turbulence has heightened global uncertainty about future economic outlook. The role of the Fund in safeguarding global stability and growth is even more critical.

Amidst an uncertain global economy, rapid globalization has heightened economic interdependence. This has subsequently escalated the level of concern over a list of global challenges, which can no longer be treated separately from national development efforts. Amongst the most pronounced concern is climate change.

There is overwhelming evidence of the speed of climate change, the source of the problem and its consequences for developing countries and in particular Small Island Developing States (SIDS). Tonga joins other members in echoing its concern over the impact of climate change and calls for more committed and concerted effort to establish collective actions to combat the impact of climate change.

Tonga's national sustainable development strategies aligns with the Bank's work in global public goods, and in particular the five priorities that the Bank will continue to maintain, with climate change as the

biggest challenge. Recognizing this, Tonga has made progress in translating its commitment to addressing the impact of climate change, by enhancing its policy focus on energy efficiency, as it remains the most effect way to reduce green house gas emissions.

Aid Effectiveness

Against a backdrop of increasingly complex aid architecture which has manifested in a multitude of aid channels, fragmentation of aid flows, and aid earmarking, it is undeniably clear that if aid is to be effective and has impact, it can no longer be business as usual when it comes to aid management. Tonga is pleased to see that the Bank has renewed its commitment to country-based development model, which focuses on country led development strategies. This approach is critical in any international effort to align multiple sources of financing with national priorities and systems.

The recent ratification of the Paris Declaration on Aid Effectiveness by Tonga, followed by the signing of the Joint Declaration on Aid Effectiveness between Tonga and its development partners is a milestone in the country's effort to ensure that aid coherence is aligned to development results. Notwithstanding this optimism, how effectively aid is aligned and integrated within Tonga's country program will require further consultation and engagement at the local level. Furthermore, Tonga urges the international community to accord more attention to transparency in aid allocation, and clearer and simpler rules for disbursements linked to performance.

Domestic Economic Developments

Turning to the domestic front, at the last Annual Meetings, an assessment of the economic condition and the economic challenges Tonga faced at the time suggested increasing economic stability. Since then, Tonga has experienced severe shocks caused by civil unrest in November 2006, resulted in the destruction of 80 percent of the central business district of the capital, Nuku'alofa, or the equivalent of 20 percent of GDP, which has once again put severe pressure on government's fiscal situation.

However, Tonga's economy has demonstrated considerable resilience in the face of severe shocks. The government's recovery and reconstruction initiatives in late 2006 and early 2007 have helped to offset some of the damage caused by the social unrest. Macroeconomic stability remains the cornerstone of government's economic and fiscal policies, together with restoring social stability.

By far the biggest challenge for Tonga is to unite in building a more dynamic domestic economy led by an internationally competitive private sector offering employment opportunities. After bouncing back from earlier fiscal crises, oil shocks, cyclones and so forth, the Tongan economy has recently had to recover from two domestic shocks comprising a large public sector pay settlement and the civil disorder.

Once again, the economy's foundations of macroeconomic stability and local and international confidence are being restored, but the far bigger challenge is ahead of us: to unite in building a more dynamic domestic economy led by an internationally competitive private sector offering growing employment and incomes.

Tonga's domestic economy has achieved only moderate growth in production as measured by real GDP growth. However, Tonga has enjoyed increasing real domestic living standards largely due to a combination of:

- high levels of formal qualifications within a system of universal education;
- high migration of skilled workers to higher-income countries; and
- high remittances from those skilled workers back to Tonga;

Tourism is one of the few sectors that offer a realistic prospect of sustainable growth in incomes and employment, especially for younger people.

The external sectors' performance is summed up in structure of the balance of payments, which clearly shows Tonga's trade imbalance and the importance of private transfers in funding this appetite for imports. This structure also underscores that despite the serious implications of the standard benchmark estimates of debt sustainability, there needs to be more work on the long-term implications of the importance of remittances and its impact on policy prescriptions.

Remittances

Remittances are the main source of maintaining the standard of living, as they constitute an important source of income for the household. The World Bank Study on labor mobility in the Pacific in 2006 concluded recipient household migration and remittances have positive impact on poverty alleviation; induces higher savings and stimulates business activities and results also in larger investments in education. Strong and stable remittance growth has strengthened liquidity with the level of gross official external reserves exceeding 5 months of import cover.

In terms of inflation, the annual inflation rate has been falling since December 2005 and dropped to 3.9 percent at the end of March 2007.

This decrease in the rate of inflation has largely been due to falling domestic prices. In the year to March 2007, the domestic rate of inflation was close to the rate of inflation for imported goods, whereas previously domestic inflation had been higher than imported inflation. Monetary policy plus reduced reliance on taxes on imports has both helped in restraining domestic inflation. This has contributed to higher real living standards.

The emphasis on macroeconomic stability has been maintained as the driver for prudent monetary and fiscal policies.

The Government has managed to ensure that there is sufficient credit to enable the private sector to borrow and expand without threat to the economy from the private sector having to compete against government domestic borrowing. Legislation has been passed this year to strengthen the inflation-fighting capability and focus of the central bank.

Fiscal controls have protected core services for the public, and a successful program of revenue reforms is now nearing completion. An excessive reliance on taxes on imports is being overcome.

While in 2003/04 taxes on international trade provided 53 percent of government revenue leaving only 47 percent to be raised from domestic sources, the government's revenue reform effort aims to move away from trade taxes to domestic taxes on incomes, general goods and services (consumption tax), and excise goods (alcohol and tobacco). By 2006/07, with the passage of revenue related legislation, it is expected that domestic taxes will account for almost 90 percent of government revenues, with only around 10 percent being raised from border taxes.

This modernizing of the tax system prepares the way for domestic-based businesses to compete on an equal footing with foreign-based businesses without the artificial disincentives and commercial distortions arising from over-reliance on trade taxes. These microeconomic impacts are being supplemented by reducing regulatory costs and barriers to the private sector.

The new tax system is compatible with the Kingdom's international obligations to members of the global trading community on a multilateral and bilateral basis. This represents progress towards preparing the Kingdom's economy for trade liberalization, especially as we have become the most recent member of the WTO.

In summary, the development challenges for Tonga and other small island states are numerous and varied.

Tonga's domestic economy is expected to return to a positive growth in 2007/08 following a softening of economic activities in 2006/07 as a result of the wage settlement and the social disorder in November 2006.

The recovery after the shock of 16 November 2006 testifies to the buoyancy of government's fiscal management situation. With prudent

fiscal management policies in place, Tonga has managed to maintain economic stability.

The experience of Tonga demonstrates the important nexus between international migration and development. The established relationship between migration and its contribution to poverty alleviation and economic development, and the significant contribution of remittances to development is clear. As the World Bank Study illustrated, labor mobility is a potential vehicle for achieving our commitments to pro-poor strategies such as the MDG and other global commitments to achieving national sustainable development strategies.

The development constraints faced by the Pacific Small Island States, such as Tonga, can be significant, and are exacerbated by the region's fragility and high vulnerability to natural disasters and external shocks. Apart from challenges relating to macroeconomic management, social development concerns and pressures for political reform, there are also the pronounced threats relating to energy security and climate change. Recognizing these global concerns, Tonga has made positive steps to integrate these issues into a pragmatic country led program.

The strategic directions of the Fund and the Bank can make a difference to Tonga and other small island countries. To promote an outward looking economy, we must collectively adopt a shared vision for regional integration and cooperation. Our efforts to expand outwards can be more effectively and successfully accomplished through regional integration and cooperation.

Finally, we would like to acknowledge with appreciation the technical and financial assistance that both institutions have provided to the government and people of Tonga. The assistance contributes to improving the standard of living of the Tongan people and we look forward to a continued close working relationship with the Fund and the Bank in the future.

May I conclude by wishing the Bank and the Fund continued success in resolving the difficult challenges that lie ahead.

TURKEY: MEHMET ŞİMŞEK
Governor of the Fund

Let me at the outset extend our thanks to Mr. de Rato for his achievements as the Managing Director of the Fund and congratulate Mr. Strauss-Kahn on his appointment as the new Managing Director. We also warmly welcome Mr. Robert Zoellick as the new President of the World Bank Group. We believe that his very high qualifications and strategic vision will bring a strong transformational leadership to the institution in its fight against poverty.

We welcome the progress made in the quota and voice reform issues in the Fund. We view quota reform process as a historic opportunity to enhance the ownership and credibility of the Fund. In this regard, a desirable outcome should be the one, which increases both the calculated and actual quota shares of developing and dynamic emerging market economies in the Fund.

We continue to favor a simple, linear, and transparent formula with a PPP blended GDP. As also adopted in the IMFC communiqué, GDP should have the highest weight in the new formula. We also support an increase in the weight of “variability” to better reflect the demand-side functions of the quotas. I should add that the needs of seriously under-represented countries must be addressed by adoption of specific mechanisms at the distribution stage of the quota increase.

Needless to say, Turkey will remain supportive of the process and will continue to cooperate with all member countries to reach a viable and satisfactory result in quota reform.

We welcome the work on developing a new income model for the Fund. The cooperative nature of the Fund should be the guiding principle for the new model. New model should avoid cross-subsidization and involve the whole membership in the financing of the Fund. New model should also prevent shifting of the cost of the expanding activities of the Fund to emerging market economies that would be borrowing from the Fund. We also call for a substantial revision of the existing burden sharing mechanism with this understanding.

On the Bank side, we share the President’s strategic vision. We commend him, among others, for his clear understanding of importance of strengthening the Bank’s engagement with the IBRD client countries in eradication of poverty. We welcome the renewed emphasis put on MICs in World Bank strategic directions. To attain our dream of a world free of poverty and Millennium Development Goals, continued and enhanced engagement of World Bank with MICs is crucial. We have convincing reasons for that: 70 percent of the world’s poor lives in the IBRD client countries, and even in those with relatively higher income levels, there remain large pockets of poverty where the social and economic challenges are no less difficult than the challenges we see in the poorest countries. Moreover, experience and knowledge gained in MICs will help World Bank to serve better in low income countries.

We highly appreciate the Bank management’s efforts to respond to the needs of MIC clients. We are pleased to see that some important progress is being made. The recent reduction in the loan charges and the simplification of the pricing structure was an important step in the right direction. We believe that it will contribute significantly to the Bank’s efforts to strengthen its engagement with IBRD partner countries. However, the task is not completed yet. The Bank should redou-

ble its efforts to reduce the non-financial cost of engaging with the Bank.

Finally let me briefly touch upon the most recent developments in the Turkish economy. Turkey's economic performance remains strong. The economy grew by 6 percent last year. Annual average growth rate was 7.4 percent during the last five years, making Turkey one of the fastest growing economies in the world. 2007 growth is projected at 5 percent.

Fiscal discipline continues to be the cornerstone of our economic policy. The primary surplus for 2007 is expected to be 4.3 percent of GNP. We aim at reaching a primary surplus target of 5.5 percent of GNP for 2008. As a result of fiscal policy implementation, net public debt fell to 45 percent of GNP in 2006 and expected to below 40 percent of GNP this year. Inflation is on a downward path to converge towards our 4 percent medium term target. The current account deficit is stabilizing and FDI inflows remain robust.

Strengthened economic fundamentals helped Turkey to weather well the most recent turmoil in global financial markets. Prudent policy implementation and commitment to a structural reform agenda should further enhance the growth potential of the economy and provide the necessary buffer against any adverse shocks.

UNITED STATES: HENRY M. PAULSON, JR.
Governor of the Bank and the Fund

Welcome to Washington. I am pleased with the new leadership we have at the World Bank and the IMF. I have great confidence in Bob Zoellick and he has clearly hit the ground running. I am really looking forward to working with Dominique Strauss-Kahn—a proven leader. And a big thank you to Rodrigo de Rato for his leadership over the last few years. I wish him the best in his future endeavors.

The Changing Global Economic and Financial Landscape

The context to these annual meetings is continued strong global economic conditions and the recent financial turbulence. This context reminds us of the changing and challenging financial landscape and how imperative it is that we adapt ourselves and our institutions to meet these challenges. Let me hit on a few of the key changes we see. First, deeper, more sophisticated, more globally-interconnected capital markets have helped underpin growth in both developed and developing countries, but have also created new complexities. Second, global growth and financial soundness depend increasingly on dynamic

emerging market economies, rather than overwhelmingly on industrial countries. Finally, accelerating globalization has heightened our awareness of the links between energy and environmental policies and longer-term global economic prospects.

International capital markets have become more efficient and offer a growing array of innovative financial instruments. The volume of cross-border financial flows has expanded substantially in just the last five years, as has the daily volume of foreign exchange transactions. Innovation brings important economic benefits, promoting growth through the efficient allocation of capital, increasing access to credit and helping spread risks more broadly. But innovation has also brought increased complexity, new risks, new challenges, and some new problems, which are now being examined by policymakers and regulators. We need to continue to be vigilant, because all of our capital markets are not yet functioning normally. As we move to address current problems, we must also address policy issues to prevent a repeat of recent excesses. Cooperative bodies like the Financial Stability Forum, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions have a key role to play internationally, complementing domestic regulatory responses.

Global economic trends are increasingly impacted by developments in emerging markets. China, India, and Russia presently account for half of global growth. Emerging markets as a whole are growing more than twice as fast as industrial economies, and account for a rising share of global trade and investment. Such realities need to be reflected in international financial and economic institutions, both in the focus of their work, and in their governance structures.

Any long-term view of global economic prospects must take into account energy security, deal with the global challenge of climate change, and address environmental impacts for future generations. The cross-border nature of this challenge points to the need for international approaches. President Bush's major economies initiative, to work with the world's largest producers of greenhouse gas emissions to reach agreement by 2009, and his proposal for an international clean technology fund are important steps in this direction.

Modernizing the International Financial Institutions

To remain relevant in this changing landscape, the international financial institutions must better define their core missions, and align staff and other resources accordingly. Future credibility of the institutions also requires that governance structures evolve to reflect new global realities.

International Monetary Fund

A defining issue for the IMF is how to exercise effective surveillance over member country exchange rate policies in a world of fixed and flexible exchange rate regimes. The recent updating of the IMF's exchange rate surveillance mandate was an essential step, and implementation is equally critical. IMF staff needs to roll up their sleeves, undertake thorough analysis, and put forward their judgments. Without meaningful exchange rate surveillance, governance and management reform will ring hollow.

Fundamental changes to the IMF's governance structure to reflect the growing role of dynamic emerging markets in the global economy must remain a priority. While such changes are not easy to achieve, a strong, credible IMF is in all of our interests. On behalf of the U.S., it is time that we ask emerging markets to take on greater responsibility in the international financial system. But it is fair for them to ask for a greater share in representation in return.

Changes are also needed to put IMF finances on a sustainable footing. One part of the solution must be to reduce expenditures by re-evaluating the IMF's core mission and making difficult decisions on priorities. Hand-in-hand with this, we recognize that we need to consider longer-term sources of income for the IMF over the next year.

Multilateral Development Banks

Multilateral development banks also must adapt while continuing to focus on their core missions of economic growth and poverty reduction. On the one hand, there is the challenge of their continuing relevance in countries whose economic success means they no longer need MDB finance. On the other, the poorest countries—especially in Africa—continue to need concessional assistance that is results-oriented, performance-based and focused on each bank's comparative advantage. We look forward to a successful replenishment of IDA to help meet those needs.

Fighting corruption, a fundamental challenge to growth and development, must continue to be central to World Bank operations and policies, as the Volcker committee has recently reminded us. In addition, access to energy and the consequences of climate change have clear implications for growth in the developing world, and the World Bank can and must respond.

The World Bank must also enhance coordination among the World Bank Group itself to serve as one institution on behalf of its clients. At the same time, it must maintain a rigorous focus on defining, managing for, and achieving the desired results. Addressing these multifaceted

challenges is no small task, but one that shareholders are demanding and deserve.

I look forward to working together to advance this important agenda.

VANUATU: ODO TEVI

Governor of the Fund

(on behalf of the Federated States of Micronesia, Kiribati, Marshall Islands, Samoa, Solomon Islands and Vanuatu)

It is with great pleasure that I address these 2007 Annual Meetings of the International Monetary Fund and the World Bank Group, on behalf of the Pacific Constituency comprised of Kiribati, Republic of the Marshall Islands, the Federated States of Micronesia, the Republic of Palau, Samoa, the Solomon Islands and Vanuatu. Let me at the outset convey my utmost appreciation to you, Mr. Chairman, for the excellent arrangements for this year's meetings. We also welcome the appointment of Mr. Zoellick as the President of the World Bank, and also congratulate the outgoing Managing Director of the Fund, Mr. Rodrigo de Rato for the outstanding leadership over the last two years in office. At the same time, we look forward to working with the new Managing Director, Mr. Dominique Strauss-Kahn.

Over the last decade, most of our member countries have been undertaking substantial reform, to strengthen their economies in order to minimise the impact of external shocks, while also preparing for greater adaptation to globalization. Admittedly, the pace of reforms has been slow for some of our member countries, reflecting the varying strengths and capacities of our local institutions, and the need to ensure strong ownership and support by our people.

Our growth prospects, however, are encouraging, and it is worth noting some of the following features:

- boost in remittance receipts from the newly introduced Recognized Seasonal Employer scheme by New Zealand that took effect at the beginning of 2007. The scheme will progressively allow some 5000 workers from Vanuatu, Tonga, Samoa, Tuvalu, and Kiribati to enter and work in New Zealand;
- development funding is also due to rise through a renewed Compact of Free Association between the Micronesian countries of FSM, RMI, and, potentially, Palau with the United States. There is a potential impact anticipated from the new institutional arrangements put in place to improve the effectiveness of these transfers;
- Samoa, Tonga, and Vanuatu are in the process of establishing, or in some cases have commenced, more reliable airline services, in part-

- nership with an international airline—this is certainly seen as an impetus for tourism growth; and
- tourist numbers to the Pacific have the potential to continue to grow due to favorable growth in Australia and New Zealand and an economic rebound in Japan.

Representation and Presence

We acknowledge the presence of the World Bank and the Fund, through its offices in Sydney and Suva respectively, and express our appreciation for their ongoing efforts to further expand their services to member countries in our region. This arrangement may even draw on local expertise reinforcing the Bretton Woods institutions' understanding of the special needs of the Pacific region. Innovative approaches like the co-location of the World Bank and IMF staff to the offices of PFTAC is welcomed and we believe this will help bring Bank and Fund expertise closer to where it is really needed.

Quota and Voice Reform

On the quota and voice reform, we welcome the progress made so far, but note that fundamental challenges still remain. While we agree with the Fund's Board that the quota and voice reform would need to enhance the representation of dynamic economies, many of which are emerging market countries that have become underrepresented, we would like to underscore that such increase should not come at the expense of other developing countries, such as our own.

Climate Change

The visible effects of climate change we are now witnessing on a global scale is frightening for all of us and in particular, the low-lying, small Pacific island countries. Without immediate, comprehensive and concerted action, the future of some of our countries such as the low-lying atoll countries of Kiribati, Tuvalu and Marshall Islands among others, are greatly at risk. In fact, some of our members are seeing increases in cyclone intensity, drought and change in sea levels. In that context, we strongly encourage the Bank and the Fund to support clean energy initiatives through projects that will encourage the use of renewable resources as well as those raising greater energy efficiencies.

Effective development and implementation of mitigation and adaptation initiatives are matters of national survival, not only for Pacific states but also for other developing member countries. We are hopeful

therefore that the Bank and the Fund can assist by exploring the relevance of the Caribbean Catastrophe Risk Insurance Facility to the Pacific region to mitigate against the devastating impact of natural calamities on our communities.

Replenishment of International Development Association (IDA)

Let me emphasize that access to concessional resources is a key measure in achieving the national priorities of our Pacific constituency. We note, with much concern, the low level of commitment of IDA lending to the Pacific, especially in the context of helping to achieve the Millennium Development Goal of halving poverty by 2015, which requires significantly higher resources, especially in key sectors such as education, health and infrastructure.

In this regard we are very much encouraged by the prospect of a scaled-up IDA replenishment, and especially, if access to resources are also improved significantly.

It is important in the context of the ongoing IDA15 negotiations that the Bank examine how best to maximize the Pacific's share of IDA resources. We also urge the Bank, in its review of the criteria used for performance assessment to take into account the special circumstances and vulnerabilities of small island states not shared by larger countries. There should be no disparity in access between weakly performing countries and those enjoying better economic conditions, in our view, as these criteria inherently ignore the problems of smallness, isolation and vulnerabilities, not shared by larger countries.

Integrated Medium Term Strategy (MTS)

I wish to welcome the Bank's steps towards an integrated medium term strategy. This framework is very important and an opportune one, as most of the other multilateral institutions in which we, small island states, affiliate, such as the United Nations, are also reviewing regional strategies. Given our shared concern on issues such as poverty, it makes economic sense to work together with other institutions and development partners to develop appropriate solutions to such problems.

In this context, we recognize that the current Pacific Strategy runs until 2009 and therefore preparations for the next phase will be undertaken shortly. In this regard, we would like to see the Bank and Fund play a greater role in supporting individual country and regional programs in the next strategy.

World Bank Group Engagement and Knowledge Products

The World Bank has comparative advantage in its cross-country experience in a number of sectors and because of this we would like to see more integrated and enhanced engagement of the Bank Group in the Pacific Region. I cite the example of the assistance that the IFC granted to Samoa in successfully restructuring its airline industry. This experience has become the platform for further engagement of the IFC to look into the Air Vanuatu case. I also cite the new focus by the Bank on the northern Pacific Island members.

While smallness remains an issue that brings with it an economic cost, we believe that the diagnostic survey that the World Bank is carrying out towards reducing the costs of doing business is going to provide a useful tool for addressing transaction costs in small states, including the Pacific, to encourage private sector development and growth as well as direct foreign investment.

We commend the advocacy role played by the Bank and the Fund in trade and globalization matters focusing in particular on trade as a crucial element to development. To this end, we thank the Bank for its study of labor markets and labor mobility in the Pacific which has helped facilitate a seasonal labor mobility scheme for members in our region. Its advocacy work on the reduction of transaction costs of remittance transfers will be invaluable to our communities and we look forward to the changes which are likely to occur to further assist our people in obtaining the full benefit of such transfers.

Private Sector Development

Private investment trends in the Pacific region over the last few decades have been relatively poor. Many of our countries have undertaken reforms in a bid to address these issues. Thus, while good governance undertaken through these programs is necessary, private sector investment, particularly in the context of the small size of our markets, high transportation costs and in some cases labor, remain a problem.

We would therefore welcome the World Bank working with the other multilateral and bilateral development partners, to work together on this important sector.

Building Institutions and Technical Capacity

Economic Ministers in my region, at their annual meeting this year considered the issue of strengthening the level of macroeconomic and microeconomic technical assistance mechanisms in the Pacific. Our

deliberation recognized the important role of the International Financial Institutions, particularly the Bank and the Fund together with other development partners to continue to focus on enhancing capacity for improved policy formulation.

We believe that existing TA providers, such as the World Bank and the Fund must work together, as recommended in the recent Malan Report, which highlighted the costs to members of insufficient collaboration between the Fund and the Bank, which can result in poor and conflicting advice, wasted resources, and unmet needs.

In this respect, Economic Ministers have endorsed the implementation of a pilot arrangement to expand the Pacific Financial Technical Assistance Centre capacity. This will be done by drawing in staff from other International Financial Institutions, Forum Island Countries and development partners, to allow for expansion of economic advice that will include microeconomic and macroeconomic technical assistance to our countries.

We are strongly encouraged by the commitment of the World Bank and the IMF to the Pacific by working together in partnership to ensure efforts are complementary to those of other development partners, to strengthen technical assistance capacity. In this context, we welcome the commitment of the World Bank to increase their presence in the Pacific, co-located with the good offices of PFTAC in addition to sharing resources with the Asian Development Bank for representation in the field.

Regional Cooperation

One cornerstone of these improvements is greater co-operation between the Pacific Island Countries themselves. This is being done through a course of action devised and expressed as the Pacific Plan. The Plan complements national efforts in pursuit of economic growth for the Pacific region. I therefore urge the Fund and Bank to continue your support for the Pacific Plan and, in particular, those initiatives agreed upon by recent meetings of the Pacific Islands Forum Economic Ministers', which include customs harmonization, labor mobility, financial sector supervision and strengthening of economic regulation.

Common approaches and sharing of resources and capacity offer the hope of sustained improvements in governance among members whose resources and capacity are limited by their small size and their geographical isolation. We urge the Bank and Fund to continue to give prominence to this work. The Pacific Plan—the Pacific's own strategy for fostering growth and cooperation in the region—includes regional approaches as a central element. The Pacific Constituency looks for-

ward to the support of the Bank and the Fund in helping to progress the relevant initiatives of the Pacific Plan.

Small States

In the last few years the World Bank has played a major role with other development partners in organizing a forum for small states. To this end, we commend the efforts by the Maltese Government with the assistance by the World Bank to establish a secretariat as well as a Network in Malta to facilitate communications between members. This is a tremendous step forward to further consolidate our association of small states with common problems and challenges; we may be able to resolve together.

Finally let me express our appreciation to the management and staff of the Bank and the Fund for their ongoing commitment and support of our development objectives. We continue to benefit from the financial and technical assistance that have augmented our limited resources and enhanced our efforts to improve growth, and to achieve better outcomes for sustainable development of our small island economies.

VIETNAM: NGUYEN VAN GIAU

Governor of the Fund

It is a great honor for me to join this 61st Annual Meetings of the International Monetary Fund and the World Bank. Let me take this opportunity to thank our hosts for their hospitality and excellent arrangements for this event.

I wish to extend our warm congratulations to Mr. Dominique Strauss-Kahn on his appointment as the next Managing Director of the Fund and to Mr. Robert Zoellick on his first annual meetings in the capacity of the Bank's President. I would also like to express our appreciation to Mr. Rodrigo de Rato for his significant contribution to the work of the two institutions.

We are meeting at a time when the world economy is moderating after several consecutive years of broad-based growth. Activities in the United States have been slowed down as a result of the downturn in housing sector. Nevertheless, the euro zone and Japan are performing well and serving as locomotives of growth. Developing Asian economies are on positive track, led by sustained high growth in China and India. However, there are still significant vulnerabilities worldwide, including political instability, persistent high oil prices, mounting global imbalances and financial market volatility. The recent subprime mortgage turmoil signals how problems in a specific financial segment could have repercussions throughout the whole macroeconomic

system, representing an immediate challenge for policy makers in ensuring that stability goes in tandem with growth.

In this connection, Vietnam welcomes efforts made by the Fund and the Bank in safeguarding global financial stability, promoting sustainable growth and reducing poverty. We attach special importance to the reforms under Medium-term Strategy being put forward by the Fund for it to remain relevant and responsive to the needs of member countries, especially the developing ones. The recent Board's adoption of revised 1977 Decision on Surveillance was an essential step to enhance effectiveness of the Fund's surveillance. We noted, however, that members' macro conditions are diverse and rapidly changing. Therefore, Fund surveillance activities under the revised framework should take into account of country-specific socio-economic conditions while refraining from putting further obligations on member countries. Such direction would go in line with the principles of flexibility and candidness in this core function of the Fund.

Another key element of the Fund's Medium-term Strategy is Quota and Voice reform. Following the ad hoc quota increase, we acknowledge the ongoing work of the Fund to come up with different formulas for quotas recalculation and appreciate the time and focus exerted given the complexities of this issue. While a lot of factors are to be considered, we believe that the new quota distribution should be better aligned to recognize the increasing role of developing countries in the global economy. It is for the benefit of the Fund's mandate that voice and representation of developing countries are strengthened.

On another aspect of Bank and Fund operations concerning Millennium Development Goals (MDGs), we are fully aware that the achievement of MDGs is a great challenge to countries even those with rapid growth track record. In this regard, we commend the Bank's continued focus on assisting poverty reduction cause in Asia, where still half of the world's poor are living. We share our common viewpoint with the approach of integrating MDGs in development programs and projects of the Bank. In addition, enhancing aid effectiveness is equally essential to MDGs attainment, which requires closer coordination between international donors and aid recipients. We fully support the Bank's initiative of formulating new financing modalities based on national development strategies, which help promote ownership and capacity of recipient countries.

The intensified level of globalization and interdependence among nations remind us that we are living under a common roof. While confronting the same challenges such as the devastating impacts of climate change, or the spread of communicable diseases, we are also having the same needs such as knowledge sharing and mutual trading. Thus, we hold that the Bank's role in providing global and regional public goods

remains relevant. We see a consistency between the Bank's framework on global and regional public goods and our national priorities.

In the context of more complex and fragmented aid architecture, the Bank's work on strengthening country-based development model is of vital importance to ensure concerted actions of development between international and national partners. This would not only boost aid effectiveness but also help us have a common vision and go together on the way to achieve it. We think that extensive dialogue with and capacity building for aid recipients is necessary elements for a solid and viable country-based development model.

As a final note to the Bank's operations, we highly appreciate commitments by international donors to IDA 15 replenishment. Such resource has been a very valuable assistance to developing countries including Vietnam.

Next, let me take this chance to provide a briefing of the latest developments in my country since our last gathering. The last months have been a turning point in Vietnam's international integration process with the country's landmark accession to WTO in November 2006. WTO membership brings about enormous opportunities for the economy but new challenges are emerging as well. The improved access to international market is expected to have positive impact on production and export. Foreign capital continues to flow in dramatically, providing an important source of financing for investment, yet also causing difficulties for the conduct of monetary policy and overall macroeconomic management. At the same time, heightened pressures from foreign competition will necessitate bolder reforms from both the state and private sectors.

Against that background, the economy continues to perform strongly although high inflation rate, rising trade deficit, agricultural epidemic and natural calamities remain major challenges for the country in remaining months of the year. As of the end of September, GDP growth went up to 8.16 percent and is expected to reach the set target of 8.2–8.5 percent for the whole year. In the same period, export turnover reached US\$31.2 billion, making a year-on-year increase of 19.3 percent. Foreign capital inflows struck a new record on all three channels of foreign direct investment (registered capital), official development assistance (commitment figure), and foreign indirect investment, at US\$9.6 billion, 4.5 billion and 6.2 billion respectively. The stock market experienced a boom in late 2006 and early 2007.

The Government has been pushing up reforms in various aspects of economy, banking, and finance, fiscal and administration. In the financial sector, progresses are being made with regard to enhancing considerably the legal framework for the sector through the drafting of new laws on the State Bank of Vietnam, Credit Institutions, Bank Supervision, and

Credit Insurance. Equitization of the state owned commercial banks (SOCBs) is on track, with the first SOCB's IPO expected to take place soon. Bank supervision and governance are being improved steadily.

Looking back at the development path of the country, with ceaseless efforts of broad-based reform and international integration, we have gained significant achievements in various socio-economic fields so far. As compared with 1986 when the reform process was initiated, GDP have increased over four times after 20 years and recorded the second-highest growth rate in Asia during the last decade. Poverty incidence has been reduced at a fast pace, falling around 3 percentage points per year since 1990. We have already achieved five out of the ten main MDG targets for 2015 and are on track to achieve another four ahead of time.

The new Socio-Economic Development Plan (SEDP) 2006–2010 reaffirmed the country's vision of becoming a middle-income one by the year 2010 while ensuring equal and sustainable development. In recognition of the huge challenges on the way ahead, we are committed to furthering reforms and international integration so as to realize this vision. At this important junction, we look forward to receiving continued assistance from the international community, especially the Bank and the Fund as the leading development partners of Vietnam.

In concluding, I would like to convey our sincere thanks to the management and staff of the Fund and the Bank for efficient support extended to Vietnam thus far. I wish the Meetings a splendid success.

**CONCLUDING REMARKS BY
ROBERT B. ZOELICK
THE PRESIDENT OF THE WORLD BANK GROUP**

I very much appreciate the excellent work that you have provided. I want to thank again Minister Carstens, the Chair of the Development Committee, for his fine leadership role and his willingness to be flexible in structuring the meetings so that we could have a fuller discussion.

I know that many people worked extremely long hours for many days, weeks, and months in advance to help prepare this meeting. They did a very excellent job. They had a smoothly run session.

I also want to thank the officials of Washington, D.C., for letting us extend the session another day. I think that was very, very helpful.

I am sorry that I will not have a chance to mention all, but I do want to thank the staffs of the Bank and the Fund for the preparation that they put into this, particularly for a new President it is very helpful. And in particular, the staffs of the Bank-Fund Conferences Unit, who turned in a superb performance led by Neena Sachdev, who has guided the unit to deal with a host of challenges, some of which we know and many of which we'll probably never be aware.

I also want to thank our two Corporate Secretaries, Paati Ofosu-Amaah and Shail Anjaria, who were skillful in steering both the preparations and the meetings themselves. And also the security staff and the general services personnel who have always taken excellent care in making sure that needs were supplied with great sensitivity and attention.

And finally, I want to thank the translators who have the challenge of trying to cope with fast speakers, long sentences, awkward phrasing. And I find it exceptionally wise to thank you because you never know, in the next meeting, where I may need to rely on you to straighten out some of my comments. So I appreciate it.

CONCLUDING REMARKS BY THE CHAIRMAN THE HONORABLE KARIM DJOUDI

Now that these full and worthwhile Annual Meetings have ended, allow me to briefly reflect on the issues that have been discussed and the implications for our two institutions and member countries.

First, we took note of the lessons that are emerging from the recent financial market turbulence, which has raised the prospect of a more challenging environment going forward. We emphasized the need for the Bretton Woods institutions to be fully equipped to manage unpredictable developments. Sound domestic policies, strengthened financial sector supervision and heightened vigilance, as well as enhanced transparency and communication by member countries, are essential.

Second, we discussed some of the longer-term sustainability challenges confronting us. With regard to aid, we reaffirmed that the country-based development strategy should provide the essential platform for donors in order to reinforce aid effectiveness in the context of an increasingly complex aid architecture. We agreed that climate change is a global problem that requires firm commitment from all. Our two institutions are well placed to explore innovative financing mechanisms following the principle of shared but differentiated responsibility to help the developing countries address the challenges of adaptation and mitigation. An agenda of this magnitude requires strong partnerships that reflect the concerns of all stakeholders.

Third, rising global challenges have underscored the need for a fair multilateral framework. One year ago, in Singapore, we reached agreement on a comprehensive two-year program of IMF quotas and voice reforms. This year, we took note of the progress made so far in this area and we strongly urged the IMF to forge ahead with its work. We also called on the Bank to actively continue its work on the issue of voice in order to achieve an equitable and consensus-based solution for the member countries of this institution. We pledged to support the efforts of the Bank and the Fund to remain legitimate and effective institutions.

Finally, it is in the face of an increasingly complex outlook that we are reminded of why the World Bank Group and the International Monetary Fund were created, and are ever more convinced of the relevance of multilateral cooperation. To this end, further steps to enhance Bank-Fund collaboration so as to make it more efficient and better focused remain crucial.

It has been a great honor to serve as Chairman of this year's Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund. Allow me to thank you all, on behalf of my country, Algeria, for your hard work, support, and cooperation, which

have resulted in fruitful meetings. I would like to thank Mr. Zoellick and Mr. de Rato for their effective leadership, and the staff of the two institutions for their dedication. I reiterate my welcome to Mr. Zoellick and thank him for the efforts he has begun in promoting refinements of the strategic directions of the Bank. I would particularly like to wish Mr. de Rato well as he leaves the IMF, and to commend him for launching the IMF's Medium Term Strategy. I am confident that Mr. Strauss-Kahn will provide the impetus that this institution needs to face its current challenges.

I also thank Mr. Ofosu-Amaah and Mr. Anjaria and the staff of the Joint Secretariat for their work in arranging the meetings, as well as the authorities of the United States for hosting them, and for making possible the return to a three-day format.

Finally, let me welcome and congratulate the Minister from the Former Yugoslav Republic of Macedonia, who will succeed me as Chairman of the Annual Meetings.

This concludes the 2007 Annual Meetings. I wish you all safe journeys home, and I look forward to seeing you here again next year.

MACEDONIA: ZORAN STAVRESKI

Alternate Governor of the Bank

Mr. Chairman, Mr. Zoellick, Mr. de Rato, fellow Governors, dear colleagues, ladies and gentlemen. It is a great honor for my country to accept the chairmanship of the Board of Governors for 2008. Please join me in thanking H. E. Karim Djoudi for the remarkable manner in which he conducted this year's meetings.

Our discussions over the past three days covered many aspects of the interdependence that characterizes the world economy. In taking stock—at this preliminary stage—of the recent period of financial disturbances, we reasserted the Fund's unique vantage point from which to analyze events and provide a forum for discussion and action. In this context, we welcomed the adoption of the new Surveillance Decision and expressed confidence that its effective implementation will lead to greater candor, clarity, and accountability in the conduct of surveillance.

We also discussed longer-term development issues. With a proliferation of donors, we took note that the global aid architecture has become more complex. In this regard, we reaffirmed that the World Bank Group can help countries integrate the efforts of all development partners within the country-based model, which provides an essential platform for improving aid effectiveness and for integrating global public goods initiatives.

In sum, this year we have been strongly reminded that the World Bank Group and the International Monetary Fund were created in a spirit of multilateral cooperation, and that spirit remains crucial today, more than sixty years later. We were encouraged that the Bretton Woods Institutions continue to press forward at the heart of multilateralism, and we remain committed to build on progress to ensure their continued effectiveness and credibility.

Fellow Governors, let me thank Mr. Zoellick and Mr. de Rato for their strong leadership of the World Bank and the International Monetary Fund in these important times. Mr. Strauss-Kahn, I welcome you to the Fund, and keenly anticipate our joint efforts in the year of our chairmanship. Let us thank the staff of both institutions for their hard work in making these meetings worthwhile.

Please let me convey our appreciation to our hosts, the people and authorities of the United States and Washington DC, especially for their willingness to return to the three-day format.

All that remains is for me to wish you a fruitful year, and to say that I look forward to seeing you here again next year.

DOCUMENTS OF THE BOARD OF GOVERNORS
SCHEDULE OF MEETINGS^{1,2}

Sunday

October 21	4:45 p.m.	Joint Procedures Committee
	4:55 p.m.	MIGA Procedures Committee

Monday

October 22	9:30 a.m.	Opening Ceremonies Address from the Chair Annual Address by President, World Bank Group ³ Annual Address by Managing Director, International Monetary Fund Annual Address by Chairman, International Monetary and Financial Committee Annual Address by Chairman, Development Committee Annual Discussion
Following the conclusion of the Annual Discussion	2:30 p.m.	Annual Discussion (continued) Procedures Committees Reports Chairman, ICSID Administrative Council Chairman Designate for 2008 Closing Remarks from World Bank President Closing Remarks from Managing Director, International Monetary Fund Closing Remarks from Chair Adjournment

¹ *The Meetings were held at DAR Constitution Hall (Monday A.M. session) and Fund Headquarters 2 Conference Hall (Monday P.M. session) and all sessions were joint sessions.*

² *The International Monetary and Financial Committee met on Saturday, October 20, 2007 at 10:00 A.M. in IMF HQ2 Conference Hall. The Development Committee met on Sunday, October 21, 2007 at 9:00 A.M. in the Preston Auditorium, World Bank HQ.*

³ *The World Bank Group consists of the following:
International Bank for Reconstruction and Development (IBRD)
International Finance Corporation (IFC)
International Development Association (IDA)
International Centre for Settlement of Investment Disputes (ICSID)
Multilateral Investment Guarantee Agency (MIGA)*

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS¹

ADMISSION

1. Session of the Boards of Governors of the World Bank Group and the International Monetary Fund will be joint and shall open to accredited press, guests and staff.
2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

PROCEDURES AND RECORDS

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they ask to speak.
4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.
5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the President of the World Bank Group, the Managing Director of the International Monetary Fund, and the Secretaries.
6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Members.

PUBLIC INFORMATION

7. The Chairman of the Boards of Governors, the President of the World Bank Group and the Managing Director of the International Monetary Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

¹ *Approved on January 30, 2007 pursuant to the By-laws, IBRD Section 5 (d), IFC Section 4 (d), and IDA Section 1 (a).*

AGENDA

BANK¹

Annual Report
Financial Statements and Annual Audit
Allocation of FY2007 Net Income
Administrative Budget for FY2008
Annual Report of the Development Committee
Selection of the Members of the Joint Procedures Committee
and its Officers for 2007–2008

IFC¹

Annual Report
Financial Statements and Annual Audit
Use of IFC's FY07 Net Income: Retained Earnings and Designated
Retained Earnings
Administrative Budget for FY2008

IDA¹

Annual Report
Financial Statements and Annual Audit
Administrative Budget for FY2008

MIGA²

Annual Report
Financial Statements and Annual Audit
Selection of the Members of the MIGA Procedures Committee
and its Officers for 2007–2008

¹ *Approved on September 5, 2007 pursuant to the By-Laws, IBRD Section 5 (a), IFC Section 4 (a) and IDA Section 1 (a).*

² *Approved on September 5, 2007 pursuant to Section 4 (a) of the MIGA By-Laws.*

JOINT PROCEDURES COMMITTEE

<i>Chairman</i>	Algeria
<i>Vice Chairmen</i>	Fiji
	Portugal
<i>Reporting Member</i>	Panama

MEMBERS

Algeria	Japan
Angola	Panama
Austria	Portugal
Bolivia	Romania
Botswana	Saudi Arabia
Canada	Senegal
Central African Republic	Sri Lanka
China	Tajikistan
Fiji	United Kingdom
Finland	United States
France	Venezuela
Germany	

**REPORT OF THE
JOINT PROCEDURES COMMITTEE
REPORT I**

October 21, 2007

At the meeting of the Joint Procedures Committee held on October 21, 2007, items of business on the agenda of the Boards of Governors of the Bank, IFC, and IDA were considered.

The Committee submits the following report and recommendations on Bank and IDA business:

1. *2007 Annual Report*

The Committee noted that the 2007 Annual Report and the activities of the Bank and IDA would be discussed at these Annual Meetings.

2. *Financial Statements, Annual Audits, and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 2007 Bank and IDA Annual Report, together with the Report dated June 19, 2007.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft Resolutions. . . .¹

3. *Allocation of FY07 Net Income*

The Committee considered the Report of the Executive Directors, dated September 27, 2007, on the Allocation of FY07 Net Income. . . .²

¹ See page 195 and 205.

² See page 221.

The Committee recommends that the Board of Governors of the Bank adopt the draft Resolution. . . .¹

The Committee submits the following report and recommendations on IFC business:

1. *2007 Annual Report*

The Committee noted that the 2007 Annual Report and the activities of the IFC would be discussed at these Annual Meetings.

2. *Financial Statements, Annual Audit, Administrative Budget and Designation of Retained Earnings*

The Committee considered the Financial Statements and Accountants' Report, the Administrative Budget and the Designations of Retained Earnings based on IFC's FY2007 Net Income contained in the 2007 Annual Report, dated September 27, 2007.

The Committee recommends that the Board of Governors of IFC adopt the draft Resolution. . . .²

Approved:

/s/ Karim Djoudi
Algeria—Chairman

/s/ Hector E. Alexander
Panama—Reporting Member

(This report was approved and its recommendations were adopted by the Board of Governors on October 21, 2007)

¹ See page 195.

² See page 198.

JOINT PROCEDURES COMMITTEE REPORT III¹

October 21, 2007

The Joint Procedures Committee met on October 21, 2007 and submit the following report and recommendations:

1. *Development Committee*

The Committee noted that the Report of the Chairman of the Joint Ministerial Committee of the Boards of Governors of the Fund and the Bank on the Transfer of Real Resources to Developing Countries (Development Committee) would be circulated to the Boards of Governors of the Fund and Bank pursuant to paragraph 5 of Resolutions Nos. 29-9 and 294 of the Fund and Bank, respectively . . .² and subsequently entered into the record.

The Committee recommends that the Boards of Governors of the Fund and the Bank note the report and thank the Development Committee for its work.

2. *Officers and Joint Procedures Committee for 2007/2008*

The Committee recommends that the Governor for the Former Yugoslav Republic of Macedonia be Chairman, and that the Governors for Costa Rica and Namibia be Vice Chairmen, of the Boards of Governors of the Fund and the World Bank Group, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: Argentina, Bangladesh, Brazil, Costa Rica, France, Germany, Greece, Grenada, Guinea-Bissau, Japan, Korea, Former Yugoslav Republic of Macedonia, Namibia, Qatar, Russia, Saudi Arabia, Switzerland, Togo, Turkey, Uganda, United Kingdom, United States, and Vietnam.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for the Former Yugoslav Republic of

¹ *Report II related to business of the Fund.*

² *See page 17.*

Macedonia and the Vice Chairmen shall be the Governors for Costa Rica and Namibia and that the Governor for Qatar shall serve as Reporting Member.

Approved:

/s/ Karim Djoudi
Algeria—Chairman

/s/ Hector E. Alexander
Panama—Reporting Member

(This report was approved and its recommendations were adopted by the Board of Governors on October 21, 2007)

MIGA PROCEDURES COMMITTEE

<i>Chairman</i>	Algeria
<i>Vice Chairmen</i>	Fiji Portugal
<i>Reporting Member</i>	Panama

MEMBERS

Algeria	Japan
Angola	Panama
Austria	Portugal
Bolivia	Romania
Botswana	Saudi Arabia
Canada	Senegal
Central African Republic	Sri Lanka
China	Tajikistan
Fiji	United Kingdom
Finland	United States
France	Venezuela
Germany	

¹ See page 195 and 205.

**REPORT OF THE
MIGA PROCEDURES COMMITTEE
REPORT I**

October 21, 2007

At the meeting of the MIGA Procedures Committee held on October 21, 2007, the items of business on the agenda of the Council of Governors of MIGA were considered.

The Committee submits the following report and recommendations on MIGA business:

1. 2007 Annual Report

The Committee noted that provision had been made for discussion of the 2007 Annual Report and the activities of MIGA at this Annual Meeting.

2. Financial Statements and Annual Audit

The Committee considered the Financial Statements and Accountants' Report contained in the 2007 Annual Report.

The Committee recommends that the Council of Governors adopt the draft Resolution. . . .

3. Officers and Procedures Committee for 2007/08

The Committee recommends that the Governor for the Former Yugoslav Republic of Macedonia be Chairman and the Governors for Costa Rica and Namibia be Vice Chairmen of the Council of Governors of MIGA to hold office until the close of the next Annual Meeting.

It is further recommended that a Procedures Committee be established to be available, after the termination of this Annual Meeting and until the close of the next Annual Meeting, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this committee shall consist of the Governors for the following members: Argentina, Bangladesh, Brazil, Costa Rica, France, Germany, Greece, Grenada, Guinea-Bissau, Japan,

Korea and the Former Yugoslav Republic of Macedonia, Namibia, Qatar, Russia, Saudi Arabia, Switzerland, Togo, Turkey, Uganda, United Kingdom, United States and Vietnam.

It is recommended that the Chairman of the Procedures Committee shall be the Governor for Former Yugoslav Republic of Macedonia and the Vice Chairmen shall be the Governors for Costa Rica and Namibia, and that the Governor for Qatar shall serve as Reporting Member.

Approved:

/s/ Karim Djoudi
Algeria—Chairman

/s/ Hector E. Alexander
Panama—Reporting Member

(This report was approved and its recommendations were adopted by the Board of Governors on October 21, 2007)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF THE BANK
BETWEEN THE 2006 AND 2007 ANNUAL MEETINGS**

Resolution No. 582

Membership of the Republic of Montenegro

WHEREAS, the Government of the Republic of Montenegro has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank;

WHEREAS, pursuant to Section 19 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of the Republic of Montenegro, have made recommendations to the Board of Governors regarding this application;

WHEREAS, pursuant to its national legislation, the Republic of Montenegro does not issue a currency of its own but uses the euro as legal means of payment, which for the purposes of the Articles of Agreement of the Bank is deemed to be the currency of the Republic of Montenegro;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Montenegro shall be admitted to membership in the Bank shall be as follows:

1. *Definitions:* As used in this Resolution:
 - (a) "Bank" means International Bank for Reconstruction and Development.
 - (b) "Articles" means the Articles of Agreement of the Bank.
 - (c) "1979 Additional Capital Increase Resolution" means Board of Governors' Resolution No. 347 entitled "1979 Additional Increase in Authorized Capital Stock and Subscriptions Thereto" adopted on January 4, 1980, as amended by Resolution No. 419 adopted on August 17, 1987.

2. *Membership in the Fund:* Before accepting membership in the Bank, the Republic of Montenegro shall accept membership in and become a member of the International Monetary Fund.
3. *Subscription:* By accepting membership in the Bank, the Republic of Montenegro shall subscribe to 438 shares of the capital stock of the Bank at par on the terms and conditions set forth or referred to in paragraph 4 hereof.
4. *Payments on Subscription:*
 - (a) Upon accepting membership in the Bank, the Republic of Montenegro shall pay to the Bank under Article II, Section 7(i) of the Articles on account of the subscription price of each of the 438 shares subscribed pursuant to paragraph 3 of this Resolution:
 - (i) Gold or United States dollars equal to 0.6% (six-tenths of one percent) of the said subscription price; and
 - (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 5.4% (five and four-tenths of one percent) thereof.
 - (b) The Bank shall call the amounts of subscription under paragraph 3 of this Resolution payable under the said Article II, Section 7(i) which are not required to be paid under paragraph 4(a) above only when required to meet obligations of the Bank for funds borrowed or on loans guaranteed by it and not for use by the Bank in its lending activities or for administrative expenses.
5. *Acceptance of Subscription:* Before the Bank shall accept the Republic of Montenegro's subscription to the shares set out in paragraph 3 of this Resolution, the following action shall have been taken:
 - (a) The Republic of Montenegro shall have taken all action necessary to authorize such subscription and shall furnish to the Bank all such information thereon as the Bank may request; and
 - (b) With respect to and on account of the subscription price of the said shares, the Republic of Montenegro shall pay to the Bank the amounts set forth in paragraph 4(a) above.
6. *Representation and Information:* Before accepting membership in the Bank, the Republic of Montenegro shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraphs 7(d) and (e) of this Resolution and the Republic of

Montenegro shall furnish to the Bank such information in respect of such action as the Bank may request.

7. *Effective Date of Membership:* The Republic of Montenegro shall become a member of the Bank with a subscription as set forth in paragraph 3 of this Resolution as of the date when the Republic of Montenegro shall have complied with the following requirements:
 - (a) become a member of the International Monetary Fund;
 - (b) made the payments called for by paragraph 4 of this Resolution;
 - (c) furnished the representation, and such information as may have been requested by the Bank, pursuant to paragraph 6 of this Resolution;
 - (d) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and
 - (e) signed the original Articles held in the archives of the Government of the United States of America.

8. *Additional Subscription on Terms and Conditions of the 1979 Additional Capital Increase Resolution:* The Republic of Montenegro may subscribe 250 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 2 and 3 of the 1979 Additional Capital Increase Resolution, provided, however, that notwithstanding the provision of paragraph 2(b) of the said Resolution, the Republic of Montenegro may subscribe such shares up to June 30, 2007, or such later date as the Executive Directors may determine.

9. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of Montenegro may fulfill the requirements for membership in the Bank pursuant to this Resolution until June 30, 2007, or such later date as the Executive Directors may determine.

(Adopted December 29, 2006)

Resolution No. 583

*Transfer from Surplus to Replenish the
Low-Income Countries Under Stress Implementation Trust Fund*

RESOLVED THAT:

The Bank transfer from surplus, by way of grant, thirty million dollars (US\$30,000,000) to the LICUS Implementation Trust Fund (the “Trust Fund”), such transfer to be drawn down by the Association immediately and used in accordance with the resolution establishing the Trust Fund, as amended in Resolution No. 2006-11 and Resolution No. IDA 2006-8 adopted on November 28, 2006.

(Adopted January 10, 2007)

Resolution No. 584

*Transfer from Surplus to Replenish
the Trust Fund for Gaza and West Bank*

RESOLVED:

That the Bank transfer from Surplus, by way of immediate grant, US\$50,000,000 to the Trust Fund for Gaza and West Bank; provided, however, that the amount of such grant may at any time be changed by the Association into an equivalent amount in other currencies.

(Adopted January 31, 2007)

Resolution No. 585

*Transfer from Surplus to Fund the Caribbean
Catastrophe Risk Insurance Facility Trust Fund*

RESOLVED

1. THAT the Bank transfer from IBRD surplus, by way of grant, US\$10 million as of the effective date of this resolution to a trust fund for support of the Caribbean Catastrophe Risk Insurance Facility, administered by the International Development Association (the Association), such transfer to be made to the Association

immediately upon the establishment of the trust fund, and used in accordance with the resolution establishing the trust fund; and

2. The amount of such grant may at any time be converted in whole or in part into other currencies as may be needed for the purposes of the trust fund.
3. The transfer referenced in paragraph 1 is contingent upon establishment of the trust fund proposed therein.

(Adopted April 23, 2007)

Resolution No. 586

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 2007, the remuneration of the Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be paid in the form of salary without a separate supplemental allowance, and such salary shall be paid at the annual rate of \$219,800 per year for Executive Directors and \$190,140 per year for their Alternates.

(Adopted August 13, 2007)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF THE BANK
AT THE 2007 ANNUAL MEETINGS**

Resolution No. 587

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Bank consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 2007 Annual Report, as fulfilling the requirements of Article V, Section 13, of the Articles of Agreement and of Section 18 of the By-Laws of the Bank.

(Adopted October 22, 2007)

Resolution No. 588

Allocation of FY07 Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated September 27, 2007 on "Allocation of FY07 Net Income" is hereby noted with approval;
2. THAT the addition to the General Reserve of the IBRD of \$911 million, plus or minus any rounding amount less than \$1 million, and the addition to the pension reserve of \$51 million for the reasons given in the Report of the Executive Directors, are hereby noted with approval;
3. THAT the IBRD transfer to the International Development Association, by way of a grant out of the FY07 allocable net income of the IBRD, \$600 million, which amount may be used by the Association to provide financing in the form of grants in addition to loans, such transfer to be drawn down by the Association immediately upon approval by the Board of Governors of the IBRD; and
4. THAT the IBRD retain \$97 million as surplus.

(Adopted October 22, 2007)

**RESOLUTION ADOPTED
BY THE BOARD OF GOVERNORS OF IFC
BETWEEN THE 2006 AND 2007 ANNUAL MEETINGS**

Resolution No. 245

Membership of the Republic of Montenegro

WHEREAS, the Government of the Republic of Montenegro has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of the Republic of Montenegro, has made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Montenegro shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this Resolution:
 - (a) "Corporation" means International Finance Corporation.
 - (b) "Articles" means the Articles of Agreement of the Corporation.
 - (c) "Dollars" or "\$" means dollars in currency of the United States of America.
2. *Subscription:* By accepting membership in the Corporation, the Republic of Montenegro shall subscribe to 1,035 shares of the capital stock of the Corporation at the par value of \$1,000 per share.
3. *Payment of Subscription:* Before accepting membership in the Corporation, the Republic of Montenegro shall pay \$1,035,000 to the Corporation representing payment in full for the 1,035 shares of the capital stock subscribed.
4. *Information:* Before accepting membership in the Corporation, the Republic of Montenegro shall furnish to the Corporation such

information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* The Republic of Montenegro shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this Resolution as of the date when the Republic of Montenegro shall have complied with the following requirements:
 - (a) become a member of the International Bank for Reconstruction and Development;
 - (b) made the payment called for by paragraph 3 of this Resolution;
 - (c) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this Resolution;
 - (d) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and
 - (e) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of Montenegro may fulfill the requirements for membership in the Corporation pursuant to this Resolution until June 30, 2007, or such later date as the Board of Directors may determine.

(Adopted December 29, 2006)

**RESOLUTION ADOPTED
BY THE BOARD OF GOVERNORS OF IFC
AT THE 2007 ANNUAL MEETINGS**

Resolution No. 246

*Financial Statements, Accountants' Report,
Administrative Budget and Designations of Retained Earnings*

RESOLVED:

1. THAT the Board of Governors of the Corporation consider the Financial Statements and Accountants' Report included in the 2007 Annual Report and the Administrative Budget contained in the Report of the Board of Governors on IFC's FY08-10 Business Plan and Budget (the "Report"), as fulfilling the requirements of Article IV, Section 11, of the Articles of Agreement and of Section 16 of the By-Laws of the Corporation;
2. THAT the Report is hereby noted with approval;
3. THAT the Corporation's FY07 net income of \$2,618 million be transferred to retained earnings;
4. THAT the designation of \$170 million of retained earnings from FY07 in the Corporation's FY08 First Quarter financial statements for the Corporation's Funding Mechanism for Technical Assistance and Advisory Services is hereby noted with approval;
5. THAT the designation of \$100 million of retained earnings from FY07 in the Corporation's FY08 First Quarter financial statements for the Global Infrastructure Project Development Fund is hereby noted with approval;
6. THAT the designation of \$100 million of retained earnings from FY07 in the Corporation's FY08 First Quarter financial statements for a private equity fund for the provision of micro equity funds in IDA countries is hereby noted with approval; and
7. THAT the designation of \$500 million of retained earnings from FY07 in the Corporation's Fiscal Year 2008 financial statements for a Private Sector Development Grant program for IDA 15, consisting of a grant by the Corporation to International Development Association for use by the Association to provide financing in the

form of grants in addition to loans, all in furtherance of the Corporation's purpose, which, as set forth in Article I of the Corporation's Articles of Agreement, is "to further economic development by encouraging the growth of productive private enterprise in the Corporation's member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development," is hereby noted with approval.

(Adopted October 22, 2007)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF IDA
BETWEEN THE 2006 AND 2007 ANNUAL MEETINGS**

Resolution No. 214

Membership of the Republic of Montenegro

WHEREAS, the Government of the Republic of Montenegro has applied for admission to membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association;

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of the Republic of Montenegro, have made recommendations to the Board of Governors regarding this application;

WHEREAS, pursuant to its national legislation, the Republic of Montenegro does not issue a currency of its own but uses the euro as legal means of payment, which for the purposes of the Articles of Agreement of the Association is deemed to be the currency of the Republic of Montenegro;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Montenegro shall be admitted to membership in the Association shall be as follows:

1. *Definitions:* As used in this Resolution:
 - (a) "Association" means International Development Association.
 - (b) "Articles" means the Articles of Agreement of the Association.
 - (c) "Dollars" or "\$" means dollars in currency of the United States of America.

2. *Initial Subscription:*
 - (a) The terms and conditions of the membership of the Republic of Montenegro in the Association other than those specifically provided for in this Resolution shall be those set forth in the

Articles with respect to the membership of original members listed in Part II of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscriptions, usability of currencies and voting rights).

- (b) Upon accepting membership in the Association, the Republic of Montenegro shall subscribe funds in the amount of \$470,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960, that is to say, pursuant to the decision of the Executive Directors of the Association of June 30, 1986 on the valuation of initial subscriptions, \$566,985 in current United States dollars, and shall pay the latter amount to the Association as follows: (a) ten percent either in gold or in freely convertible currency, and (b) ninety percent in the currency of the Republic of Montenegro. As of the date the Republic of Montenegro will become a member of the Association, 594 votes shall be allocated to the Republic of Montenegro in respect of such subscription, consisting of 94 subscription votes and 500 membership votes.
3. *Effective Date of Membership:* The Republic of Montenegro shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this Resolution as of the date when the Republic of Montenegro shall have complied with the following requirements:
- (a) become a member of the International Bank for Reconstruction and Development;
 - (b) made the payments called for by paragraph 2 of this Resolution;
 - (c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and
 - (d) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.
4. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of Montenegro may fulfill the requirements for membership in the Association pursuant to this Resolution until June 30, 2007, or such later date as the Executive Directors may determine.

5. *Additional Subscriptions:* Upon or after acceptance of membership, the Republic of Montenegro shall also be authorized at its option to make an additional subscription in the amount of \$150,729, comprising subscriptions corresponding to the Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth and Fourteenth Replenishments, and to the Multilateral Debt Relief Initiative, which shall carry 43,677 votes, calculated on the basis of 5,377 subscription votes and 38,300 membership votes, and which shall be subject to the following terms and conditions:
- (a) Payment of such additional subscription shall be made in the currency of the Republic of Montenegro within 30 days after the Republic of Montenegro notifies the Association of its intention to make such additional subscription.
 - (b) The rights and obligations of the Association and the Republic of Montenegro with regard to such additional subscription shall be the same (except as otherwise provided in this Resolution) as those which govern the 90% portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles by members listed in Part II of Schedule A of the Articles, provided, however, that the provisions of Article IV, Section 2 of the Articles shall not be applicable to such subscription.

(Adopted December 29, 2006)

Resolution No. 215

Membership of the Republic of Estonia

WHEREAS the Republic of Estonia has applied for membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association;

WHEREAS the Republic of Estonia has indicated that it will make a subscription and contribution to the Association as part of the upcoming Fifteenth Replenishment of the Association.

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Republic of Estonia, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby
RESOLVES:

THAT the terms and conditions upon which the Republic of Estonia shall be admitted to membership in the Association shall be as follows:

1. *Definition:* As used in this Resolution:
 - (a) "Association" means International Development Association.
 - (b) "Articles" means the Articles of Agreement of the Association.
 - (c) "Dollars" or "\$" means dollars in currency of the United States of America.

2. *Initial Subscription:*
 - (a) The terms and conditions of the membership of the Republic of Estonia in the Association other than those specifically provided for in this Resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part I of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscription, usability of currencies and voting rights).
 - (b) Upon accepting membership in the Association, the Republic of Estonia shall subscribe funds in the amount of \$720,000 expressed in terms of United States Dollars of the weight and fineness in effect on January 1, 1960, that is to say, pursuant to the decision of the Executive Directors of the Association of June 30, 1986 on the valuation of initial subscriptions, \$868,572 in current Dollars, and shall pay the latter amount to the Association in US Dollars or in any other freely convertible currency. As of the date the Republic of Estonia will become a member of the Association, 559 votes shall be allocated to the Republic of Estonia in respect to such subscription, consisting of 59 subscription votes and 500 membership votes.

3. *Effective Date of Membership:* The Republic of Estonia shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this Resolution as of the date when the Republic of Estonia shall have complied with the following requirements:
 - (a) made the payments called for by paragraph 2 of this Resolution;
 - (b) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all

- steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and
- (c) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.
4. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of Estonia may fulfill the requirements for membership in the Association pursuant to this Resolution until December 31, 2007, or such later date as the Executive Directors of the Association may determine.
5. *Additional Subscription and Contribution:* Upon or after acceptance of membership, the Republic of Estonia shall also be authorized at its option to make the following additional subscriptions and contributions:
- (a) An additional subscription in the amount of \$205,128, comprising subscriptions corresponding to the Third through Fourteenth Replenishments, which shall carry 32,514 votes, calculated on the basis of 14 subscription votes and 32,500 membership votes, and which shall be subject to the following terms and conditions:
- (i) Payment of such additional subscription shall be made in a freely convertible currency within 30 days after the Republic of Estonia notifies the Association of its intention to make such additional subscription.
- (ii) The rights and obligations of the Association and the Republic of Estonia with regard to such additional subscription shall be the same (except as otherwise provided in this Resolution) as those which govern the 90% portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles by members listed in Part I of Schedule A of the Articles, provided, however, that the provisions of Article IV, Section 2 of the Articles shall not be applicable to such subscription.
- (b) Additional subscriptions and contributions to the Multilateral Debt Relief Initiative on terms to be agreed with the Association.
- (c) The Republic of Estonia's subscription and contribution to the upcoming Fifteenth Replenishment will be determined at the conclusion of the Fifteenth Replenishment discussions, which are tentatively planned for December 2007.

(Adopted July 30, 2007)

**RESOLUTION ADOPTED
BY THE BOARD OF GOVERNORS OF IDA
AT THE 2007 ANNUAL MEETINGS**

Resolution No. 216

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Association consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 2007 Annual Report, as fulfilling the requirements of Article VI, Section 11, of the Articles of Agreement and of Section 8 of the By-Laws of the Association.

(Adopted October 22, 2007)

**RESOLUTION ADOPTED
BY THE COUNCIL OF GOVERNORS OF MIGA
BETWEEN THE 2006 AND 2007 ANNUAL MEETINGS**

Resolution No. 78

Membership of the Republic of Montenegro

WHEREAS, the Government of the Republic of Montenegro has applied for admission to membership in the Multilateral Investment Guarantee Agency in accordance with Article 4(a) of the Convention Establishing the Agency;

WHEREAS, pursuant to Section 17(c) of the By-Laws of the Agency, the Board of Directors, after consultation with representatives of the Government of the Republic of Montenegro, has made recommendations to the Council of Governors regarding this application;

WHEREAS, pursuant to its national legislation, the Republic of Montenegro does not issue a currency of its own but uses the euro as legal means of payment, which for the purposes of the Articles of Agreement of the Agency is deemed to be the currency of the Republic of Montenegro;

NOW, THEREFORE, the Council of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Montenegro shall be admitted to membership in the Agency shall be as follows:

1. Definitions: As used in this resolution:
 - (a) "Agency" means Multilateral Investment Guarantee Agency
 - (b) "Convention" means Convention Establishing the Multilateral Investment Guarantee Agency.
2. Before becoming a party to the Convention, the Republic of Montenegro shall accept membership in and become a member of the International Bank for Reconstruction and Development.

3. Upon deposit of its instrument of ratification, acceptance or approval of the Convention, the Republic of Montenegro shall be obligated to:
 - (i) subscribe at par to 61 shares of the capital stock of the Agency; and
 - (ii) pay in full to the Agency the paid-in portions of the subscription price of such shares in accordance with Articles 7 and 8 of the Convention.

4. With effect from the date of the fulfillment of the conditions set forth in paragraphs 2 and 3 above, the Republic of Montenegro shall be admitted to membership and shall be classified as a Category Two (developing country) member for the purposes of the Convention.

(Adopted January 12, 2007)

**RESOLUTION ADOPTED BY
THE COUNCIL OF GOVERNORS OF MIGA
AT THE 2007 ANNUAL MEETINGS**

Resolution No. 79

Financial Statements and the Report of the Independent Accountants

RESOLVED:

THAT the Council of Governors of the Agency consider the Financial Statements and the Report of Independent Accountants included in the 2007 Annual Report, as fulfilling the requirements of Article 29 of the MIGA Convention and of Section 16(b) of the By-Laws of the Agency.

(Adopted October 22, 2007)

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

November 27, 2006

Membership of the Republic of Montenegro

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, Section 9 of the By-Laws of the International Development Association and Section 17 of the By-Laws of the International Finance Corporation, the applications of the Republic of Montenegro for membership in the Bank, IDA and IFC are hereby submitted to the Boards of Governors.
2. The draft Resolution on membership in the Bank, IDA and IFC conform substantially to the pattern for such Resolutions.
3. Representatives of the Republic of Montenegro have been consulted informally regarding the terms and conditions recommended in the attached draft Resolutions and they have raised no objection thereto.
4. The draft Resolutions. . .¹ are recommended for adoption by the Boards of Governors of the Bank, IDA and IFC, respectively.

(This report was approved and its recommendation was adopted by the Board of Governors on December 29, 2006)

¹ See page 190.

**Transfer from Surplus to Replenish the
Low-Income Countries under Stress Implementation Trust Fund**

WHEREAS:

- (1) The Low-Income Countries Under Stress Implementation Trust Fund (the “Trust Fund”) was established by Resolution No. 2004-1 and Resolution No. IDA 2004-1 (the “2004 LICUS Resolution”) of the Executive Directors of the International Bank for Reconstruction and Development (the “Bank”) and the Executive Directors of the International Development Association (the “Association”) (collectively, the “Executive Directors”) on January 15, 2004 and the Board of Governors subsequently approved the transfer of: (a) US\$ 25 million from surplus to the Trust Fund on March 4, 2004 and (b) US\$ 25 million from surplus to the Trust Fund on February 21, 2006 as recommended by the Executive Directors;
- (2) The Executive Directors modified the 2004 LICUS Resolution by amending and restating it through: (a) Resolution No. 2005-2 and Resolution No. IDA 2005-1 adopted on March 18, 2005 enabled the Trust Fund to operate as a multi-donor trust fund permitting it to accept contributions from bilateral organizations and other donors as well as transfers from surplus from the Bank, and to enable the Trust Fund to make contributions to certain Bank and non-Bank administered multi-donor trust funds (“MDTFs”); (b) Resolution No. 2006-2 and Resolution No. IDA 2006-2 adopted on February 28, 2006 clarified certain operational and governance issues, including with respect to contributions made from the Trust Fund to other MDTF and expanded the category of eligible recipients to consist of regional organizations and other public or private institutions; and (c) Resolution No. 2006-11 and Resolution No. IDA 2006-8 adopted on November 28, 2006 clarify the Trust Fund’s ability to promote delivery of visible results in support to peace building activities.
- (3) Since its inception, the Trust Fund has experienced strong demand from eligible countries with current funds being fully committed and over forty-two percent disbursed. In order to continue the momentum gained in the existing program and deepen the Bank’s support for transition in these countries, the Executive Directors recommend that the Board of Governors authorize the transfer from surplus, by way of grant, in the amount of US \$30 million to replenish the Trust Fund;

- (4) Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft Resolution. . . .¹

(This report was approved and its recommendation was adopted on January 10, 2007)

December 19, 2006

**Transfer from Surplus to Replenish the Trust Fund
for Gaza and West Bank**

1. On October 19, 1993, by the terms of Resolution No. 93-11 and IDA 93-7, the Executive Directors of the International Bank for Reconstruction and Development (Bank) and the International Development Association (Association) approved the establishment of the Trust Fund for Gaza. On November 11, 1993, by the terms of Resolution No. 483, the Board of Governors of the Bank approved the transfer from surplus, by way of grant, of US\$50 million to the Trust Fund for Gaza. On August 1, 1995, by the terms of Resolution No. 95-6 and IDA 95-3, the Executive Directors of the Bank and the Association amended Resolution No. 93-11 and IDA 93-7 by (a) expanding the territorial scope of the activities to be financed out of the Trust Fund for Gaza to include such areas, sectors and activities in the West Bank which are or will be under the jurisdiction of the Palestinian Authority pursuant to the relevant Israeli-Palestinian agreements; and (b) changing the name of the “Trust Fund for Gaza” to “Trust Fund for Gaza and West Bank”. On October 12, 1995, by the terms of Resolution No. 500, the Board of Governors approved the transfer to the Trust Fund for Gaza and West Bank, by way of grant out of the Bank’s FY95 net income, of US\$90 million. On December 19, 1996, by the terms of Resolution No. 96-11 and No. IDA 96-7, the Executive Directors of the Bank and the Association further amended Resolution No. 93-11 and IDA 93-7 by (a) introducing flexibility to the terms under which resources may be provided out of the Trust Fund for Gaza and West Bank; and (b) requiring that the repayment of trust fund credits made out of the Trust Fund for Gaza and West Bank accrue to the Association as part of its resources. On February 3, 1997, by the terms of Resolution 511, the Board of Governors approved the transfer from surplus, by way of grant, of US\$90 million to the Trust Fund for Gaza and West Bank. On July 13, 1998, by the terms of Resolution 519, the Board of Governors approved the transfer from

¹ See page 193.

surplus, by way of grant, of US\$90 million to the Trust Fund for Gaza and West Bank. On September 30, 1999, by the terms of Resolution 529, the Board of Governors approved the transfer to the Trust Fund for Gaza and West Bank, by way of grant out of the Bank's FY99 net income, of US\$60 million. On December 23 2003, in line with Board Papers No. IDA 2003-193 and IDA 2003-208, the Executive Directors of the Bank and the Association further amended Resolution No. 93-11 and IDA 93-7 by (a) establishing that service charges and commitment fees associated with credits from the TFGWB shall accrue to the TFGWB as part of its resources; and (b) establishing that if a TFGWB credit or grant is cancelled in whole or in part, all undisbursed funds associated with such credit or grant shall remain funds of the TFGWB. On February 4, 2004, by the terms of Resolution 556, the Board of Governors approved the transfer to the Trust Fund for Gaza and West Bank, by way of grant out of the Bank's FY03 net income, of US\$80 million.

2. In view of the material contribution that the Bank's financial assistance makes to Palestinian economic welfare and to the search for peace in the Middle East, the Executive Directors consider that the Trust Fund for Gaza and West Bank should be replenished. They recommend that the Board of Governors authorize the transfer from surplus of the amount of US\$50 million to the Trust Fund for Gaza and West Bank.
3. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft Resolution. . . .¹

(This report was approved and its recommendation was adopted by the Board of Governors on January 31, 2007)

¹ See page 193.

March 8, 2007

**Transfer from Surplus to Fund the Caribbean Catastrophe
Risk Insurance Facility Trust Fund**

1. In view of the need to provide a better mechanism for dealing with catastrophic risks, and in order to promote the purposes of the International Bank for Reconstruction and Development (the Bank) and the International Development Association (the Association) in these circumstances, the Executive Directors consider that the creation of a Caribbean Catastrophe Risk Insurance Facility should be undertaken forthwith as an initiative for the benefit of the members of the Bank and of the Association. The Executive Directors recommend that the Board of Governors authorize the transfer from surplus of the amount of US\$10 million to support the Caribbean Catastrophe Risk Insurance Facility.
2. The transfer will be made to a trust fund administered by the Association to be established for this purpose and is contingent upon the establishment of such trust fund upon approval by the Executive Directors of the Bank and the Association.
3. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft Resolution. . . .¹

(This report was approved and its recommendation was adopted by the Board of Governors on April 23, 2007)

¹ See page 193.

**Report to the Boards of Governors of the Bank
and the Fund by the Joint Committee on the Remuneration
of Executive Directors and their Alternates**

I. Introduction

1. Pursuant to Section 14(e) of the By-Laws of the Fund and Section 13(e) of the By-laws of the Bank, the undersigned were appointed to the 2007 Joint Committee on the Remuneration of Executive Directors and their Alternates (JCR).
2. The JCR met in Algiers, Algeria, on June 23, 2007.
3. The JCR undertook a streamlined review of the remuneration of IMF and World Bank Executive Directors and Alternates. This review was in line with the process recommended by the 1997 JCR and endorsed and followed by all subsequent Committees, which calls for a full-scale review once every four years, starting in 2000, and streamlined reviews in other years. The last full-scale review took place in 2004. The 2005 and 2006 JCRs conducted streamlined reviews.
4. The approach and methodology followed by the Committee are described in Section II of this report. Section III summarizes the remuneration developments taken into account by the JCR. The Committee's recommendations with respect to the remuneration and benefits of Executive Directors and Alternates are provided in Sections IV and V, respectively. Section VI contains recommendations on procedures to be followed by future JCRs. Recommendations on matters requiring a vote by Governors are in Section VII, with the draft resolutions in Attachments I and II.

II. Methodology Used by the 2007 JCR

5. The JCR took note of the fact that the 2004 Committee had undertaken a thorough review of aspects relating to the remuneration of Executive Directors and Alternates, including their role and responsibilities, the choice of external comparators, the relative position of Directors vis-à-vis the management and senior staff of the two institutions, major changes in benefits, and issues of parallelism between the two institutions.

6. As noted, this year's JCR followed the streamlined procedures recommended by previous Committees in the interest of a cost-effective review process. Under these procedures, a full-scale review would take place in 2008, unless exceptional circumstances arose that would warrant a more thorough consideration of factors affecting remuneration and benefits of Executive Directors at an earlier date. The JCR did not consider that this year's circumstances called for a full-scale review and has therefore formulated its recommendations by reference to a limited set of indicators.
7. Reflecting the practices of previous Committees, these indicators include the increases in the remuneration of the President of the World Bank and the Managing Director of the Fund, Bank and Fund staff salary increases, movements in the consumer price index for the Washington metropolitan area, and any real increases in the public sector salary scales of selected member countries. Like its predecessors, and as recommended by the 2004 JCR, the Committee also looked at the relative position of the remuneration of Executive Directors and of the remuneration of members of Bank and Fund managements and senior staff of the two institutions. The JCR also took note of the recommendation of the 2004, 2005 and 2006 JCRs that new benefits issues be addressed as they arise, and not deferred until the next full-scale review.
8. The JCR reviewed the roles and responsibilities of Executive Directors in the Bank and the Fund. It found that there had been no major changes in job content of Executive Directors from the previous year. However, the JCR members agree with their recent predecessors that the increasing complexity of the challenges faced by the Bretton Woods Institutions and the important role of Executive Directors in their governance requires the two institutions to ensure that they continue to be well-placed to attract experienced individuals of high intellectual caliber, with diplomatic skills and a global outlook.

III. Review of Remuneration Developments

9. In reviewing the remuneration of Executive Directors and Alternate Executive Directors, the Committee was mindful of the efforts of many member countries, and of the Bank and Fund, to exercise fiscal discipline. In particular, the Committee noted the challenges that the institutions are facing in ensuring their continued effectiveness and a stable long-term financial footing going forward.

10. Against this background, the JCR examined data on a number of comparator positions, and other relevant data, including the following:
- The JCR noted that the consumer price index for the Washington metropolitan area had risen by 3.2 percent (May 2006 to May 2007). The JCR referred to the analysis in the 2004 review of the impact of exchange rate movements among major currencies and agreed with the conclusion of the 2004, 2005 and 2006 JCRs that it would not be feasible or appropriate to adjust for such movements.
 - The remuneration of the Managing Director of the Fund and the President of the Bank are linked to the May-to-May change in the Washington metropolitan area consumer price index in years between major reviews (normally carried out at the start of an appointment term) and will therefore be increased by 3.2 percent with effect from July 1, 2007.
 - The salary structure for the Fund's professional and managerial staff (Grades A9-B5) has been increased uniformly by 3.3 percent with effect from May 1, 2007. The salaries of the Fund's Deputy Managing Directors, which are indexed on the same basis as the remuneration of the Managing Director, will be increased by 3.2 percent on July 1, 2007.
 - The increase in the salary structure for the World Bank's staff, which will be effective from July 1, 2007, averages 3.5 percent with increases ranging between 2.9 and 4.0 percent at the professional and managerial grades. A review of the parameters of the staff compensation system is ongoing at the Bank.
 - Changes in the salaries of public sector employees in thirteen¹ member countries' showed considerable variation, but, on the whole, confirm the trend, observed in recent years, that public sector salary increases in most countries are modest.

IV. Recommendations with respect to Remuneration

11. The JCR considered the conclusion of the 2004 Committee, which had stressed the importance of gradually repositioning the remuneration of Executive Directors relative to that of the senior management and staff of the two institutions over a period of 7–10 years. The 2004 adjustment accordingly incorporated a small, initial step in

¹Information on civil service and central bank salary increases was obtained from the following countries: Australia, Brazil, Chile, France, Germany, Japan, Korea, Mexico, Morocco, Poland, South Africa, United Kingdom, and United States.

repositioning Executive Directors' remuneration. To correct the past deterioration, the 2004 Committee had suggested that future JCRs take this structural adjustment component carefully into account in making recommendations to the Boards of Governors on the remuneration of Executive Directors. However, neither the 2005 nor the 2006 JCR found it appropriate to take any further step in this direction. Taking a similar view, the 2007 JCR does not recommend any measure in line with the 2004 JCR's recommendation on repositioning. Thus, the issue has not been relevant to the Committees' recommendations for three years. The Committee recommends that, as part of its comprehensive review, the 2008 JCR assesses the relevance of the issue of repositioning in making future recommendations on the remuneration of Executive Directors.

12. The Committee is of the view that salary increases for Executive Directors and Alternate Executive Directors need to take into account ongoing efforts to restrain expenditures in the institutions.
13. **Executive Directors.** The Committee recommends an increase of 3.2 percent in the salary of Executive Directors from \$212,980 to \$219,800 effective on July 1, 2007.² The Committee notes that this increase is in line with the 2006–2007 increase in the Washington consumer price index, and the increase in remuneration of the President of the Bank and the Managing Director of the Fund.
14. **Alternate Executive Directors.** The Committee considered the role and responsibilities of Alternate Executive Directors in the Bank and the Fund. It took note of the progressive increase in the Alternates' remuneration from 85 percent of the total remuneration of Executive Directors in 1997 to 86.5 percent in 2000, based on several JCRs' recognition of Alternate Executive Directors' increased responsibilities. The JCR also acknowledged the 2005 and 2006 Committee's view, consistent with that of the 2004 JCR, that the current ratio continued to be appropriate.
15. Based on these considerations, the Committee recommends an increase of 3.2 percent in the salary of Alternate Executive Directors from \$184,240 to \$190,140, which leaves the ratio of the remuneration of Alternate Executive Directors to that of Executive Directors unchanged.

²*The salaries of both Executive Directors and Alternate Executive Directors currently constitute their total remuneration; beginning in 2000, no separate supplemental allowances have been paid.*

V. Recommendation on Benefits

16. The Resolutions No. 34-7 (Fund) and No. 337 (Bank), which were approved by the respective Boards of Governors in 1979, provide that changes in levels of benefits to reflect actual costs, or other minor modifications to existing benefits that do not change the basic nature of such benefits, may be made available to Executive Directors and Alternates by the respective Executive Boards. Significant changes in existing benefits as well as new benefits are to be considered by the Joint Committee on the Remuneration of Executive Directors and their Alternates and may not be made available to Executive Directors and Alternates until approved by the respective Boards of Governors.
17. The JCR noted that, since the 2006 JCR meeting, some changes have been made to the Staff Retirement Plan (net plan) for Bank staff. These include: for the defined benefit component of the net plan, granting pension eligibility to staff who meet the rule of 60 (age plus years of eligible service) with at least five years of plan service; for the cash balance component, making a larger number of investment options available to staff and allowing more frequent rebalancing; and introducing a voluntary savings component with the purpose to provide net plan participants the option of augmenting their retirement savings by making additional voluntary contributions.
18. The JCR noted that the voluntary savings component had been included in the pension reform which introduced the net plan in March, 1998, but implementation of this component had been deferred. The JCR also noted that the other changes to the plan are of a minor, technical nature. The JCR accordingly considers that these revisions to the Bank's retirement plan constitute minor changes that can be made applicable to Executive Directors without referral to the Board of Governors.
19. The JCR noted that the Fund's Executive Board has approved for Fund Executive Directors the same changes that had been adopted for Fund staff in 2006 with respect to education allowances and travel and eligibility for post-retirement coverage in the Medical Benefits and Group Life Insurance Plans of persons appointed after age 62. These benefit changes were in line with the conclusions and advice of the 2006 JCR. It also noted that, as a minor modification to an existing benefit, the Fund Board had recently approved changing the class of appointment and resettlement travel for Fund

Executive Directors from first to business class and adopted the same one-year time limit for resettlement travel as it applies to staff. The Committee welcomed this action to constrain administrative expenditures in the offices of Executive Directors.

20. The JCR reviewed the Report on Home Leave Provisions for IMF Executive Directors and Alternates, which was prepared at the request of the 2006 JCR by the Fund's Committee on Executive Board Administrative Matters (CAM). The Report contains proposals that would more closely align the provisions on home leave travel for the families of Fund Executive Directors and Alternates with those applicable to Fund staff, namely: (a) a change in the cost standard for home leave travel from business (or at intervals of three years, first class) to full-fare economy class; (b) the replacement of the current home leave allowance with the same home country expense allowance that is provided to staff traveling on the 24-month travel option for staff (currently \$2,000); and (c) payment of both travel and expense allowances as a cash lump-sum—subject to travel certification—to provide more flexibility in arranging travel. (Transitional arrangements are also proposed to facilitate the changes in the policies.)
21. With reference to the provisions of Board of Governors Resolution No. 34-7 on benefit changes, the JCR considers that the home leave arrangements proposed by the Fund CAM, while resulting in some reduction in the overall value of the benefit, would not alter its basic nature. The Committee also considers that the proposed changes would not have a significant impact on relativities with the World Bank, whose travel policies for Executive Directors have differed for many years from those of the Fund. The Committee further understands that these changes may be approved within the provisions on home leave of the current By-Laws of the Fund. On this basis, the JCR considers that the package of changes proposed for Fund Executive Directors and Alternate Executive Directors by the Fund CAM may be approved by the Fund's Executive Board without referral to the Board of Governors. The Committee welcomes the home leave changes proposed by CAM, and invites the Fund Executive Board to move forward with their implementation expeditiously.
22. The JCR also took note of the discussion in the CAM report of two further possible changes that would permit the home leave provisions for Executive Directors to be more fully aligned with those applicable to Fund staff, namely: (a) that Executive Directors and

Alternates themselves be provided a personal home leave entitlement; at present, only qualifying family members are eligible for such travel at Fund expense; and (b) that Executive Directors and Alternates have an initial home leave entitlement within the first two-year period of service; at present, the initial entitlement is earned in the third year of service.

23. The JCR considers that these suggestions involve significant changes whose adoption by the Fund would require an amendment of the Fund By-Laws, which would have to be approved by the Fund Board of Governors. In the absence of a thorough assessment of the implications and cost of the above changes to Executive Directors' home leave, the JCR concludes that the 2008 full-scale review will provide the appropriate context and framework to examine these issues further. Thus, the JCR recommends that the 2008 JCR consider including these issues in its work program so that it can better assess the effects, costs and desirability of any changes, including possible issues of parallelism with the World Bank. In this connection, the JCR notes that the By-Laws of the Bank do not have similar provisions to those in the Fund By-Laws that the suggested changes in the Fund would alter. There are, however, similar provisions incorporated in the *Regulations Relating to Executive Directors and Alternates Adopted Pursuant to Section 13 of the By-Laws of the Bank*. Changes to these Regulations are, according to the Bank's By-Laws, "subject to review by the Board of Governors at their next annual meeting."

VI. Recommendations about the Procedures Followed by JCRs

24. The Committee recommends that the 2008 JCR undertake the next scheduled full-scale review as previously recommended by the 2004 JCR. However, the Committee considers that the present cycle of full-scale and interim reviews, which was introduced in 1998, still needs to be made less elaborate and more cost-effective. The Committee therefore recommends that the 2008 JCR explore further steps to simplify the process and achieve additional cost savings; such steps might include some form of automatic remuneration adjustment mechanism during interim years.
25. In addition, the Committee—like its 2004–2006 predecessors—endorses the importance of addressing benefits issues as they arise, including in interim reviews.

VII. Recommendations Requiring a Vote by the Governors

26. In light of the recommendations on remuneration of Bank and Fund Executive Directors and their Alternates (paragraphs 13 and 15 above), the Committee recommends that the draft resolutions . . .¹ for the Bank and the Fund, be adopted by the respective Boards of Governors of the Bank and the Fund.
27. The Joint Committee directs the Vice President and Corporate Secretary of the Bank and the Secretary of the Fund to transmit this report to the Boards of Governors of the Bank and the Fund, respectively, for a vote without meeting in accordance with Sections 12 and 13(e) of the By-Laws of the Bank and Sections 13 and 14(e) of the By-Laws of the Fund.

(This report was approved and its recommendation was adopted by the Board of Governors on July 28, 2004)

September 27, 2007

Allocation of FY07 Net Income

1. The General Reserve (including cumulative exchange rate translation adjustment) of the IBRD as of June 30, 2007 was \$24,188 million. As of that date, the surplus of the IBRD was \$43 million, and the Special Reserve created under Article IV, Section 6 of the IBRD's Articles of Agreement totaled \$293 million. The IBRD's reported net income for the fiscal year ended June 30, 2007 (FY07) amounted to minus \$140 million. IBRD's Operating Income (referred to as "Net income before Board of Governors-Approved Transfers and net unrealized (losses) gains on non-trading derivatives and borrowings measured at fair value, per FAS 133 as amended" in the FY07 external financial statements) is used as net income for annual net income allocation purposes. For FY07, Operating Income was \$1,659 million.
2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to FY07 net income. The Executive Directors have concluded that the

¹ See page 194.

interests of the IBRD and its members would best be served by the following dispositions of the net income of the IBRD:

- (a) the addition of \$911 million to the General Reserve, plus or minus any rounding amount less than \$1 million;
 - (b) the addition of \$51 million to the pension reserve representing the excess of the SRP and RSBP contribution amounts over the accounting expense;
 - (c) the transfer to the International Development Association, by way of a grant of \$600 million, from FY07 allocable net income, which amount would be usable to provide financing in the form of grants in addition to loans; and
 - (d) the retention as surplus of \$97 million.
3. Accordingly, the Executive Directors recommend that the Board of Governors note with approval the present Report and adopt the draft Resolution. . . .¹

(This report was approved and the Board of Governors adopted its recommendations on October 22, 2007)

¹ See page 195.

REPORT OF THE BOARD OF DIRECTORS OF IFC

November 27, 2006

Membership of the Republic of Montenegro

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, Section 9 of the By-Laws of the International Development Association and Section 17 of the By-Laws of the International Finance Corporation, the applications of the Republic of Montenegro for membership in the Bank, IDA and IFC are hereby submitted to the Boards of Governors.
2. The draft Resolution on membership in the Bank, IDA and IFC conform substantially to the pattern for such Resolutions.
3. Representatives of the Republic of Montenegro have been consulted informally regarding the terms and conditions recommended in the attached draft Resolutions and they have raised no objection thereto.
4. The draft Resolutions. . .¹ are recommended for adoption by the Boards of Governors of the Bank, IDA and IFC, respectively.

(This report was approved and its recommendation was adopted by the Board of Governors on December 29, 2006)

¹ See page 196.

REPORTS OF THE BOARD OF DIRECTORS OF IDA

November 27, 2006

Membership of the Republic of Montenegro

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, Section 9 of the By-Laws of the International Development Association and Section 17 of the By-Laws of the International Finance Corporation, the applications of the Republic of Montenegro for membership in the Bank, IDA and IFC are hereby submitted to the Boards of Governors.
2. The draft Resolution on membership in the Bank, IDA and IFC conform substantially to the pattern for such Resolutions.
3. Representatives of the Republic of Montenegro have been consulted informally regarding the terms and conditions recommended in the attached draft Resolutions and they have raised no objection thereto.
4. The draft Resolutions. . .¹ are recommended for adoption by the Boards of Governors of the Bank, IDA and IFC, respectively.

(This report was approved and its recommendation was adopted by the Board of Governors on December 29, 2006)

¹ See page 200.

June 15, 2007

Membership of the Republic of Estonia

1. In accordance with Section 9 of the By-Laws of the International Development Association, the application of the Republic of Estonia for membership in the Association is hereby submitted to the Board of Governors.
2. The draft Resolution is consistent with membership Resolutions with respect to countries joining IDA as “Part I” members.
3. The Republic of Estonia has indicated that it will make a subscription and contribution to the Association as part of the upcoming Fifteenth Replenishment of the Association. It will also have the option to contribute to the Multilateral Debt Relief Initiative.
4. Representatives of the Republic of Estonia have been consulted informally regarding the terms and conditions recommended in the attached draft Resolution and they have confirmed that these terms and conditions are acceptable.
5. The attached draft Resolution. . .¹ is recommended for adoption by the Board of Governors.

(This report was approved and the Board of Governors adopted its recommendations on July 30, 2007)

¹ See page 202.

REPORT OF THE BOARD OF DIRECTORS OF MIGA

December 8, 2006

Membership of the Republic of Montenegro

1. In accordance with the By-Laws of the Multilateral Investment Guarantee Agency, the application of the Republic of Montenegro for membership in the Agency is hereby submitted to the Council of Governors.
2. Representatives of the Republic of Montenegro have been consulted informally regarding the terms and conditions recommended in the attached draft Resolution and they have raised no objection thereto.
3. Accordingly, the Board of Directors recommends that the Council of Governors adopt the draft Resolution. . . .¹

(This report was approved and the Board of Governors adopted its recommendations on January 12, 2007)

¹ See page 206.

ACCREDITED MEMBERS OF DELEGATIONS AT THE 2007 ANNUAL MEETINGS

Afghanistan

Governor

Anwar ul-Haq Ahady

Alternate Governor

Wahidullah Shahrani

Adviser

Masood Aziz
Abdul Qadeer Fitrat
Said Tayeb Jawad
Shah Mehrabi

Alternate Governor

Maria Ferreira Dos Santos Oliveira

Adviser

Alcino Izata Conceicao
Maria Ricardina Da Cruz
Ana Beatriz G. De Creita Da Costa
Cesar Manuel Joao
Lucombo Joaquim Luveia
Manuel Miguel Mario
Amadeu Leitao Nunes
Antonio Manuel Ramos Da Cruz

Albania

Governor

Ridvan Bode

Alternate Governor

Fatos Ibrahim

Adviser

Elona Krypa

Antigua and Barbuda #

Governor

Whitfield Harris

Alternate Governor

Curtis Silston*

Adviser

Deborah-Mae Lovell

Algeria

Governor

Karim Djoudi

Alternate Governor

Abdelhak Bedjaoui

Adviser

Hadia Amrane
Hadji Babaammi
Sid Ahmed Dib
Amine Kherbi
Soraya Mellali
Amor Nedjai

Argentina

Governor

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Alternate Governor

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Oscar Tangelson*

Adviser

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Felix Alberto Camarasa
Victorio Carpintieri
Sergio Chodos
Jorge Heilpern
Bernardo Lischinsky
Norberto Lopez Isnardi
Hilda Raquel Melgin
Sergio Pardo

Angola

Governor

Carlos Alberto Lopes

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Armenia*Governor*

Vahram Nercissiantz

Alternate Governor

Nerses Yeritsyan

*Adviser*Arman Israelian
George Kocharian
Davit Lokyan
Tatul Margaryan**Australia***Governor*

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Alternate Governor

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*Adviser*Robert Christie
Marcus Edwardes
Jim Hagan
Steven Morling
Kellie Olsen
Christopher Tinning**Austria***Governor*

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Alternate Governor

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Norbert Feldhofer
Harald Friedl
Gerhard Gunz
Nella Hengstler
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Thomas Wieser**Azerbaijan***Alternate Governor*Namig Khalilov*
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Ilgar Mukhtarov
Ulvi Fuad Seyidzade**Bahamas, The #***Governor*

Zhivargo Laing

Alternate Governor

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Mohamed Al-Khalifa
Salman Al Khalifa
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Sergey Stetsura

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Franciscus Godts*

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Erwin De Wandel

Philippe Gerard

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Bisera Turkovic
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Guan Xiuzhen
Xinglan Hu
Yangzi Hu
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Alternate Governor
Said Abdillah

Adviser
Siti Soifiat Alfeine
Ibrahim Houssen Hassan

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Alternate Governor
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Adviser
Dieu Donne Essimbo Numayeme
Manu
Makiadi Ephem Ghonda
Camille Kos'isaka Nkombe
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Augustin Kubilama Meya
Michel Lokola
Joseph Mukania Kabwe

Tambo A. Kabila Mukendi
Kashama Mkoy Mulossa Dede
Nzinga Vincent Ngonga
Matata Ponyo Mapon
Jean Sefu-Idonge
wa Bilenga Tshishimbi
Sele Yalaghuli

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Alternate Governor
Pacifique Issoibeka

Adviser
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Oscar Ngole
Jean Baptiste Ondaye
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Governor
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Alternate Governor
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Cote d'Ivoire

Governor
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Alternate Governor
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Stephane Aka-Anghui
Thomas Atokre
Lamad Abdallah Bakayoko
Yao Claude Beugre
Nestore Bouazo Gbessane
Sarapahi Brika
Komenan Dago
Lancine Diaby
Kanvaly Diomande
Mama Ohoua Simone Djedje

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Ndri Koffi
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Amadou Kone
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Oussou Kouassy
Youssef Soumahoro
Yehouan Anatole Tohougbe
Abou Toure
Kalilou Traore
Ghislaine Vode
Madeleine Yao
Celestin Zike

Croatia

Governor
Ivan Suker

Alternate Governor
Zdravko Maric

Adviser
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Renata Kunkera-Stefanac
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Cyprus

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Miroslav Singer

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Jens Haarlov
Ole Torpegaard Hansen

Djibouti

Governor
Ali Farah Assoweh

Alternate Governor
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Adviser
Almis Mohamed Abdillahi
Mohamed Ahmed Awaleh
Malik Mohamed Garad
Mohamed Kayad Sikieh

Dominica

Governor
Roosevelt Skerrit

Alternate Governor
Rosamund Edwards

Adviser
Rayburn Blackmoore
Judith-Anne Rolle

Dominican Republic

Governor
Juan Temistocles Montas

Alternate Governor
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Governor
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Maher Elsherif
Nabil Fahmy
Amina Mahmoud Hafez Ghanem
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Amr Ramadan
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Governor
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Alternate Governor
Roberto Siman

Adviser
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Manuel Rosales

Equatorial Guinea

Governor
Jose Ela Oyana

Alternate Governor
Estanislao Don Malavo

Adviser
Lucas Abaga Nchama
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Eritrea

Governor
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Efrem Tesfay Biedemarian*

Estonia #

Governor
Ivari Padar

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Renaldo Mandmets

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Kersti Kasak
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Ethiopia

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Francois Marion

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Cyrille Pierre

Jean-Marc Plantade

Julien Rencki

Pierre Vimont

Pierre-Francois Weber

Joseph Zimet

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Alternate Governor

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Adviser

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Herve Barral

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Regis Immongault

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