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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **PAUL H. O'NEILL**,  
Governor of the Fund and the Bank for the **UNITED STATES**,  
at the Joint Annual Discussion

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Chairmen, Governors, Ladies and Gentlemen, Mr. Wolfensohn, Mr. Kohler, as we gather for these meetings we reflect on a year full of challenges and cooperation as we together worked to restore global economic growth after the shock of last September's terrorist attacks, help countries deal with financial crises, find a way to bring more concrete improvements to the lives of those in developing countries, and fight the financing of terrorism.

The international financial institutions are critical to these efforts, and we welcome the role that they play in dealing with some of the most important and formidable tasks facing the world community. The IMF and the World Bank are indeed vital to our cooperative efforts to advance growth and development. At the same time, it is our shared responsibility to continue to look for ways to improve the institutions - to focus their objectives and enhance their effectiveness.

U.S. engagement in the IMF and World Bank is guided by an over-riding belief that our role, and that of the official community as a whole, is to encourage governments to take the right steps themselves that will help them achieve economic success. We simply cannot bring about success from the outside. Instead, we can foster growth and development only by supporting and encouraging sovereign governments that rule justly invest in their people and expand economic freedom. This is the key to unleashing the potential created by the desire and ability of people everywhere to improve their lives.

**Promoting Global Growth**

We all know that the world economy and its people benefit when all countries - especially the major industrialized nations - grow at their full potential. Achieving this depends on the adoption of policies to support strong and durable growth everywhere.

The United States is doing its part. After a shallow downturn, the US economy is recovering. And, over the course of the coming year, I am confident that the United States will resume growing in line with its potential growth rate of about 3 to 3-1/2% of GDP.

Trade liberalization is a key component of the growth agenda, and the United States is committed to making the WTO negotiations under the Doha Development Agenda a success across the range of priorities. In this context, more rapid progress can and should be made in liberalizing financial services. We are pleased with the IMF and World Bank's steps to strengthen their efforts in the financial sector and look forward to their ongoing work to help build stronger financial systems.

## **Preventing and resolving financial crises**

I want to underscore the primacy of a country's own policies in determining its economic destiny. Countries with sound fiscal and monetary policies, good governance, effective investment in human capital, and freedom of economic transactions will inspire confidence, attract resources and build a stable basis for growth and prosperity - and thereby help protect against vulnerability to financial crisis.

Similarly, the official community must focus first and foremost on ways to prevent crises. This is a particular priority for the IMF, which must continue to strengthen its approach to anticipating and averting crises. The IMF must work to detect potential crises early and seek quick action to address sources of vulnerability.

A key to resolving crises is to develop a clear and predictable process for countries that reach a position in which they cannot sustain and service their debt burden. The aim is not to make defaults easier or more likely, but rather to simply make a restructuring more orderly and predictable should it occur. The United States is pleased with the progress made to date - through cooperation between the official and private sectors - toward implementing a market-oriented contractual approach to the sovereign debt restructuring process. We are also committed to continuing to work with the IMF on a statutory approach to restructuring.

A process for resolving debt servicing difficulties will also provide an alternative to large official packages of support. This will enable us to hold firm on the size of packages from the IMF. If there is always the prospect of unlimited official financing to help countries manage their way out of trouble, there is little to motivate policymakers to make the tough choices that are necessary to maintain stability and achieve sustained growth. When a decision is made to provide exceptional levels of IMF financing, this decision must be strongly justified.

## **Achieving results in development**

Economic development is one of the great challenges of our time. Many people have spent lifetimes dedicated to unraveling its mysteries. Certainly there are no easy answers. But we believe that there are a few key ingredients - first and foremost, leaders that are committed to and take ownership of the policies necessary for economic success.

The focus of the international community must be establishing the conditions in which individuals have the tools and opportunity to reach their human potential - and to improve the future for their children and their nations. It is this concrete objective that must be paramount. We must not rest until we achieve real, tangible results for people on the ground.

The United States welcomes the progress made in the last year toward this objective. The agreements in Monterrey and Johannesburg provide an important basis for moving forward together. Moreover, the agreement in the IDA-13 replenishment to deliver a significant portion of resources in the form of grants rather than loans and to give greater emphasis to measuring the outcomes and results of IDA programs represents a significant change in how donor nations will work to help poor countries succeed. This is just the start of what we expect will be a

fundamental shift in focus in the MDBs. The challenge now for the MDBs is to adopt the real changes in operating style needed. We look forward to the World Bank taking a leading role in working with its development partners to establish an accountability structure for standardizing and measuring a set of priority development results. This will require a sustained and prioritized effort so that a results approach is fully integrated into every element of the Bank's work. The goals set out in the Millennium Declaration provide a starting point.

### **Fighting the financing of terrorism**

We in the United States are heartened by the solidarity that has characterized the fight against terrorist financing in the last year. We should all be gratified by the successes achieved thus far, but the battle must continue on all fronts. This means applying technology, intelligence, and regulations to locate and freeze the assets of terrorists, wherever they may be. It means attacking the terrorists' financial infrastructure in order to make the transfer of money across borders more difficult, slower, and more visible and thus more easily intercepted. And it means ensuring that all nations have the technical abilities and systems to disrupt terrorist financing.

None of these efforts can succeed without cooperation from nations around the world. Together, our challenge is to protect the freedom and flexibility of the world financial system, while exposing those seeking to use the system for evil aims. The United States attaches the highest priority to this effort and is working through all multilateral channels and bilaterally with countries throughout the world - working in the realms of law enforcement, information sharing, and to financial regulation and supervision.

We are pleased by the recent steps taken by the IMF and World Bank to work closely with FATF and other organizations to develop a process for comprehensive assessments of anti-money laundering and terrorism financing principles. This undertaking fulfills a critical need to identify gaps in countries' implementation of agreed international principles so that appropriate technical assistance can be marshaled and provided. We commend the institutions on putting in place a pilot program for these assessments and urge quick implementation of this important initiative in cooperation with FATF.