BOARDS OF GOVERNORS ● 2002 ANNUAL MEETINGS ● WASHINGTON, D.C.

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 66

September 29, 2002

Statement by the Hon. **GORDON BROWN**,
Governor of the Fund for the **UNITED KINGDOM**,
at the Joint Annual Discussion

Statement by the Hon. Rt. Hon. Gordon Brown MP,
Chancellor of the Exchequer of the Fund and the Bank for the United Kingdom,
at the Joint Annual Discussion

We meet here in Washington this weekend to discuss the challenges we face in the world economy, where recovery is underway, and to demonstrate our commitment to building the next stage of global prosperity and advancing towards the globalisation we want - social justice on a global scale.

Over the next year our aim in the international financial community must be to make real our commitment to the elimination of poverty, the promotion of development, the achievement of the Millennium Development Goals and the progressive removal of the wide disparities in living standards among countries by embracing what I call a new deal for the global economy ---- a new development compact that will allow all countries to earn a fair share of the benefits of global prosperity by:

- Developing countries systematically tackling corruption and instability, and creating the conditions for private investment; and

- Developed countries opening up their trade and radically improving aid for poverty reduction, including education and health.

And because I believe that in the long run our prosperity is indivisible, and that to be sustained it must be shared, I hope that - even in an insecure world -we can make progress in Washington this weekend towards building a new international financial architecture and meeting the world's agreed Millennium Development Goals - including that, by 2015, we halve global poverty, cut child mortality by two thirds and achieve primary education for all.

And this new deal is more not less necessary, more not less urgent, as we tackle the consequences of a worldwide slowdown, assess the risks and challenges ahead, and deal with the vulnerabilities of a more integrated but more volatile international financial system.

There are four building blocks of this new deal: economic stability, investment, trade and aid.

Economic stability

The first is more urgent than ever: international economic cooperation and a new framework for a more stable global economy based on clear codes and standards, enhanced transparency, and improved crisis prevention and resolution mechanisms.

We must all be vigilant to the risks that we face at this time. And we must all, each continent and the international institutions, face up to our responsibilities in sustaining and strengthening the economic recovery round the world: Europe must make progress on economic reform, Japan take decisive action on financial sector reform, and America show that corporate reform is working.

In the UK we are making our contribution to global economic stability and growth. In these times of Insecurity and risk - with twenty countries accounting for half of world output having been in recession this year and last - we must continue to have the strength to take the tough long-term decisions on the economy. It is because we did not fail for the quick fixes, easy options and irresponsible short-cuts, that with Bank of England independence, tough fiscal rules and rigorous public spending controls, we today have the lowest inflation in Europe, the lowest unemployment in 25 years and the lowest mortgage costs for 40 years.

And from this platform of stability, even at a time of global instability, we have doubled public investment and ensured our public spending plans are fully financed on cautious assumptions.

So to ensure we can continue to deliver stability, growth and strong public services, there will be no relaxation of fiscal discipline, no breach of the fiscal rules, and no return to the old days of reckless borrowing unsupported by fiscal prudence.

Because terrorists intended to bring the world's financial system to a halt, to undermine the very prospect of global prosperity, we must continue to show that we will not succumb or surrender to their threats. The UK remains firmly committed to combating the financing of terrorism and, in concert with our international partners, the multilateral institutions and regional organisations, we have taken a range of measures and have fully implemented key anti-terrorist United Nations Security Resolutions 1373 and 1390.

As a result, the UK has frozen the assets of over 100 organisations and over 200 individuals. We comply with the FATF 8 Special Recommendations on terrorist financing. Domestically we have in place legislation to seize terrorist cash, freeze funds at the start of an investigation, monitor suspicious accounts, and we have enhanced reporting requirements. We also supervise money service businesses to ensure they comply with the money laundering regulations. And we are working closely with European Union partners to identify terrorist organisations and individuals whose accounts should be frozen.

Increasingly, in this age of globalisation, our national goals are shared international goals, our responsibilities are shared responsibilities, and our opportunities are shared opportunities.

I now believe that, just as through central bank independence we set down a new rules based system in the UK with Bank of England independence and a new monetary and fiscal regime, we should, in pursuit of the objectives of stability, development and prosperity, consider also a new rules based system of international economic governance for the community of nations.

A new system founded on:

- Clear procedures - all countries, rich and poor, pursuing agreed codes and rules for fiscal and monetary transparency, and for corporate and social standards; and

- A new openness and transparency - with the IMF as independent from political influence in its surveillance of economies as an independent central bank is in the operation of monetary policy.

The adoption of clear and transparent procedures in economic decisions - for example, presenting a full factual picture of the country's debt position and the health of the financial sectors - and a willingness to be monitored for them, improves stability and provides to markets a flow of specific country-by-country information that engenders greater investor confidence and reduces the problem of contagion. We should all adopt and monitor similar codes and standards for corporate governance including for accounting, working with standard setters to develop stronger regulatory frameworks.

And, leading by example, the UK will participate in the Reports on the Observance of Standards and Codes (ROSC) modules covering accounting and auditing, corporate governance and insolvency and creditor rights. We will then have completed assessments against all codes and standards - the first, I hope, of many countries to achieve this.

And with technical assistance and transitional help for early implementation of codes and standards generally, I hope other countries will become part of a wider move towards greater transparency including the routine publication - by rich and poor countries alike, as well as the IMF - of all surveillance and programme reports, and IMF policy and administrative papers.

But there is a case for going even further. To ensure that the Article IV surveillance process fulfills the key objective of early identification of risks and vulnerabilities, all Article IV reports should include:

- Strengthened debt sustainability analysis;
- Greater focus on the structural sources of instability;
- Early identification of unsustainable macroeconomic policy frameworks;
- An assessment of adherence to codes and standards; and
- Identification of countries which still need to take action to forgive debt under the HIPC initiative,

More fundamentally, there is a strong case for enhancing the IMF's surveillance and monitoring functions so that surveillance is - and is seen to be - independent of decisions about crisis resolution. We must implement further reforms to promote:

- Greater independence - ensuring that the Fund applies objective, rigorous and consistent standards of surveillance to all member countries and that there is a clear separation between surveillance and lending activities; and

- Greater accountability - with the IMFC setting a surveillance remit, IMF management reporting each year on the Fund's performance and an annual assessment of effectiveness of Fund surveillance.

Together this would help to reduce the risk of financial crises internationally and promote a new era of global economic stability.

Where countries do operate transparent and effective systems, fully monitored by the international community, they have the right to expect the support of the international community if hit by financial contagion. The Contingent Credit Line should be seen as an attractive too to help country's prevent crises, and we look forward to the IMF's forthcoming review of the CCL.

We also need to ensure there are effective methods in place for crisis resolution in a way that will ensure the burden of adjustments is not placed on the poorest and most vulnerable. The Fund is working on a stronger framework for crisis resolution to provide members and markets with greater clarity and predictability about the decisions that the Fund will take in a crisis. We urge the Fund to build on this, by:

- Finalising and implementing the new framework to clarify and strengthen the procedures for exceptional access to Fund resources. We cannot send a message that bad decision making by lenders is encouraged by the expectation of an unlimited bail-out by taxpayers, or that bad policies by debtor countries will be condoned by more financial support by the international community;

- Resolving the obstacles that stand in the way of effective debt rescheduling. We need reform of the contractual arrangements for debt and we need to continue work on a new, more comprehensive, legal framework - an international bankruptcy procedure. We welcome the progress made by the IMF on the contractual and statutory approaches. We encourage it to work further with the private sector and sovereign debt issuers on promoting collective action clauses. And we urge the IMF to work up concrete proposals for the Spring Meetings on the implementation of a statutory sovereign debt restructuring mechanism.

- Clarifying Fund policy on standstills and lending into arrears. Under this new framework we can move from letting crises happen and then intervening to a new paradigm: systems that in themselves diminish the likelihood of crises; earlier awareness as difficulties arise; and more measured orderly responses when crisis have to be resolved.

Investment and corporate accountability

However, stability is only the precondition. To ensure growth and development we must also take steps to promote domestic and foreign investment - and find better ways for public and private sectors to work together in raising investment leeks.

Not only is Foreign Direct Investment too low in the poorest and least developed countries - with just three dollars per head going to low income countries compared to eleven hundred dollars per head to higher income countries - but also domestically generated savings and investment are low and often the savings that do exist leave the country in capital flight.

In seeking more favourable business environments in which private sector investment can be more productive, country-owned poverty reduction strategies have correctly focused on creating the right domestic conditions for business investment, including improved infrastructure, sound legal processes that deter corruption and the creation of an educated and healthy workforce. We support the creation of new investment forums - such as those in Ghana and Tanzania - bringing public and private sectors together to examine the current barriers to investment and build a consensus, in the light of regional conditions, on how to secure higher levels of investment.

Most importantly, investment forums are helping to break down the assumption that private sector development should either be led solely by business, or directed by the state - instead recognising that public and private sectors must work together in partnership to secure economic growth and reduce poverty.

Where multinationals are unaccountable across boundaries, businesses and government must also do more to restore the right balance, increase stakeholder awareness and achieve cross border accountability. We urge more companies to follow the principles of good corporate practice laid out in the OECD's guidelines for multinational enterprises. The initiative to increase transparency in extractive industries announced at the recent World Summit for Sustainable Development is an excellent example of how private sector companies can positively contribute to development and poverty reduction.

Trade

Our third building block is widening and deepening trade. Full trade liberalisation globally could lift at least 300 million people out of poverty by 2015. That is why the UK government strongly supports the new trade round launched at Doha where developing countries had a real and effective voice in the negotiations, and we are committed to Doha's core development agenda.

We must ensure that poor countries have access to the medicines they need to tackle the diseases crippling their societies - AIDS, tuberculosis, malaria - and protect public health. Other developed countries should follow the EU's lead by offering duty and quota free access to all products except arms from the 49 least developed countries. And since three quarters of the world's poor live in rural areas, urgent action is needed to reduce agricultural protectionism and open up trade.

Developed country subsidies to agriculture amount to $1 billion dollars every day - greater-than the national income of the whole of Sub-Saharan Africa and seven times the total of overseas aid flows. The UK is working hard to secure substantial reforms in the mid-term review of the CAP now underway and we urge others to join us - all developed countries subsidizing agriculture must show leadership.

But we must not rush developing countries to reduce their tariffs without recognising the effect it could have on both government revenues and in the livelihoods of people working on the land.
We need a sequenced approach, which ensures that appropriate measures are in place to protect vulnerable countries and vulnerable people from an overly rapid transition to a system of liberalized trade. So we support the Fund and Bank commitment to undertake poverty and social impact assessments of trade reforms, and will continue to promote the integration of trade into developing countries' poverty reduction strategies. In addition to enable developing countries to participate fully and effectively in the trading system, by 2004 the UK Government will have

committed £45 million to support trade-related capacity building.

Development compact

Economic stability, investment and trade are all crucially important but there cannot be a solution to the problems that developing countries face without a fourth reform: that in return for developing countries pursuing corruption-free policies for stability and for creating a favourable environment for trade and investment, developed countries should be prepared to increase vitally needed funds to achieve the agreed Millennium Development Goals.
For its part, the UK will increase its aid budget to nearly £4.9 billion by 2005-06 - a 93 per cent real terms increase since 1997. This will take the UK 's ODA/GNI ratio to 0.4 per cent - the highest in twenty years and double the G7 average: continuing evidence of our commitment to the target of 0.7 per cent.

We welcome the commitment by the G7 to contribute their share of an extra $1 billion to finance the shortfall in the HIPC initiative, together with the call for action to tackle the issues of creditor participation and debt sustainability. We stand ready to contribute our full share. We must also do more to support HIPC and other low-income countries who face legal challenges from creditors - both commercial and official -who are unwilling to give debt relief and we look forward to receiving the forthcoming report on this from the Fund and Bank. We propose a trust account, funded by donors, to pay for technical assistance to help any HIPC being sued by a creditor who refuses to deliver relief, including vulture funds.

Where countries have had to contend with external shocks - such as sharp falls in the price of key export commodities - we must form a broad consensus on the need for topping up at completion point to ensure a lasting exit from sustainable debt. And we must develop more realistic and generous rules for its provision - including agreement that the calculation of topping up should exclude voluntary bilateral provision of additional 100 per cent relief.

But debt relief and the aid already pledged will not be enough on their own. The Zedillo report for Financing for Development estimated that if we are to achieve the Millennium Development Goals at least an extra $50 billion of aid will be required every year. As a matter of urgency we must consider the means by which the benefits of the new resources agreed earlier this year can be maximized - both through improved aid effectiveness and by levering in additional funds.

Aid should be harmonised and aligned behind the priorities of country-led poverty reduction strategies, and coordinated with national systems and budget cycles It should also be better targeted and made more effective through untying. But even with more debt relief and improved aid effectiveness the scale of the challenge is such that we need to consider other innovative forms of financing, building on the $12 billion dollars pledged in Monterrey, to reach our $50 billion target.

One option is to pool additional resources in a new international development financing facility that could leverage funds from international capital markets to meet the demand for large-scale assistance now and enable a much earlier achievement of the Millennium Development Goals than might otherwise be possible. This new financing facility would require donor countries to make a clear commitment to substantial additional resources over the long term.

The extent to which such a financing facility might leverage funds from international capital markets would depend on a wide range of factors, but reasonable assumptions suggest that such a fund might clear its debts in around 30 years A broad package of measures that generated additional flows of $15 billion a year could be leveraged in the capital markets to provide an additional $50 billion each year until 2015 - enough to meet the Millennium Development Goals.

Whatever means of raising the additional funding we pursue, one thing is crucial': developing countries themselves must show genuine commitment to education, health and poverty reduction - demonstrating that the resources they receive through aid and debt relief are properly and effectively used. The progress African governments are making through the New Partnership for African Development (NEPAD) has been a major step forward, with commitments to making progress on political and economic governance, economic management, human development, and peace and security.

Anti-corruption strategies and international standards in public financial management and accountability are crucial. All countries should meet high standards in public financial management and accountability. And in the context of the HIPC tracking exercise, all HIPC countries should agree ambitious timetables to do so within their poverty reduction strategies. As a first step, I propose that all HIPC countries currently receiving debt relief should achieve a core number of international benchmarks in budgeting, auditing and reporting within three years. And the international financial institutions have an important role to play in providing governments with much more simplified and coordinated support to help them meet these international benchmarks.

More generally, the IMF and World Bank must also do more to ensure a more open policy dialogue in their support to poverty reduction strategies in low income countries, including explicit discussion, in Fund programmes, of alternative policy choices and trade-offs, supported by poverty and social impact analyses to ensure policies deliver real benefits for the poorest.

Conclusion

The challenges of globalisation are immense, but before us there is an unprecedented possibility of progress. Our vision of the way forward is that, in an increasingly interdependent world, all can benefit if each meets agreed obligations for change. We should not retreat from globalisation. Instead, we must work together - across the world -to advance social justice on a global scale.