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Statement by the Hon. **JOHN MANLEY**,
Governor of the Bank and the Fund for **CANADA**,
at the Joint Annual Discussion

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I would like to begin by thanking our hosts, the United Arab Emirates for providing the venue for the first Bank/Fund meetings in the Middle East. Our meeting in Dubai comes at a particularly critical time for the region, where many states have taken important steps towards greater democratization and reform and where recent events in Iraq provide us with both opportunities and serious challenges. More broadly, the global economic outlook is clearly more favourable than it was six months ago. There are signs of stronger growth in many countries, but major risks remain and continued vigilance is needed to sustain more robust growth over the coming year. A sustained period of more rapid economic growth in the developing world is required for further progress toward poverty reduction in low-income countries.

Canadian Economic Prospects

Canada's economy grew strongly through the early part of this year. The negative impacts of a recent series of shocks are expected to be short-lived and Canada's strong fundamentals and a strengthening U.S. recovery are expected to support growth in the second half of 2003. Both the IMF and OECD forecast Canada to perform near the top of the G-7 in growth in 2003 and 2004.

Risks to the Global Outlook

Global economic prospects look brighter than in the spring, with signs of stronger growth in the U.S. and Japan, and some improvement in consumer indicators in select European countries. Nevertheless, there are areas of the world where the outlook is still lacklustre. Growth in much of Europe continues to languish and has been uneven in some of the key emerging market countries.

Major risks to the outlook remain and a major challenge is to make the structural changes necessary to underpin solid medium term growth. Fiscal policy needs to be put on a sustainable medium-term track, especially in industrial countries with ageing populations, but also in emerging market economies, which remain vulnerable to shifts in financial market sentiment. Financial systems have to be strengthened, particularly in emerging market economies playing an increasingly important role in international financial markets. However, industrial countries also have regulatory gaps and vulnerabilities that need to be addressed. And external payment imbalances pose a risk of exchange rate instability and increased trade tensions. These imbalances have to be addressed, cooperatively and constructively, with effective structural reforms, sound monetary and fiscal policies that are aimed to promote sustained growth, open trading regimes and flexible exchange rate adjustment.

Enhancing Crisis Prevention and Resolution

The Fund's surveillance role is critical in identifying emerging problems and policy imbalances before they become crises. Although the Fund has made progress in making surveillance more effective, including through strengthened debt sustainability assessments, more candor is still needed in the Fund's assessments of country situations.

The Fund's more holistic approach to surveillance is encouraging—it is putting an increased emphasis on sound institutions and the rule of law, and more closely examining political economy issues and ownership of programs. The Fund could do even more to help build ownership by publishing more of its documents, facilitating a meaningful dialogue with interested parties and leading to better policy design and enhanced public support for reforms. Program ownership could be further strengthened if Fund documents included scenarios that clearly spell out the costs of policy inaction, assuring publics that often difficult reforms are indeed necessary, and have significant medium-term benefits.

Good progress has also been made in improving the crisis resolution framework over recent years, including setting out the criteria and procedures for exceptional access lending and the widespread adoption of collective action clauses in international sovereign bond contracts. Work is underway to develop a code of conduct to guide debtor-creditor relations. But the framework should be regarded as a work in progress, with more work still to be done on issues related to debt restructurings, such as inter-creditor equity and aggregation issues.

Achieving the Millennium Development Goals

Low-income countries face significant challenges to put themselves on a more sustainable growth path and reduce poverty. Last year at Monterrey a strong consensus emerged between developing and developed countries on an approach to achieving the Millennium Development Goals. We all recognized that for developing countries, there is no substitute for sound economic and social policies. Moreover, there is consensus that a strong commitment to good governance, including strong anti-corruption measures, the protection of human rights and respect for the rule of law are key elements of good policy frameworks. In Canada, CIDA increasingly is underlining the importance of good governance and the ability to use aid effectively in channelling incremental resources to poor countries.

Poverty Reduction Strategy Papers (PRSPs) are assuming ever greater importance in guiding national development strategies and in providing frameworks for development cooperation.

The Monterrey Consensus, however, also includes commitments from developed countries in areas such as increased ODA, debt relief and more effective development

assistance. In this respect, donors have committed to increase aid volumes by US\$16 billion annually by 2006. But developed countries could improve aid effectiveness by

aligning their development assistance with national priorities and by improving the coordination and harmonization of their development activities with developing country partners and with each other.

A long-term goal is to help low income countries grow more quickly and reduce poverty to the point where they are relying predominantly on private sources of financing. The Fund can help facilitate this objective through more intensified support in its traditional areas of macroeconomic competence, but there is also scope for the Fund to work more in conjunction with other development partners in areas such as institution building and in encouraging greater developing country ownership of programs.

Voice and Participation

It has long been recognized that country ownership contributes to the success of development programs. Similarly, more effective developing country voice and participation in the Bank and Fund policy deliberations is critical to ensuring that programmes take into account individual country circumstances and are realistic and sustainable. There is now a strong consensus among Bank and Fund members that further capacity building measures are needed to enhance developing and transition country voice within the two institutions.

Steps have been taken to bolster both human and physical resources in developing country Executive Directors' offices, but there are a number of deficiencies which still need to be addressed. A recent proposal to establish a program to second mid-level African officials to the World Bank is worth closer study. Such a program, which in our view should be extended to developing country candidates beyond Africa, would provide strong benefits to sponsoring governments and the World Bank alike. Consideration might also be given at the Bank to enhancing the recruitment of young professionals candidates from the developing world. To improve the dialogue between Bank staff and country authorities, the Bank could institute further decentralization of its country bureaus to the regions.

Trade

For many developing countries trade is more important than development cooperation funding in generating the resources necessary to achieve the Millennium Development Goals. An equitable, open and rules-based international trading system would enable developing countries to tackle the root causes of poverty. Based on the Doha Declaration and the work that was achieved at Cancun, trade negotiations need to continue to ensure that developing countries are better integrated into the global trading system. We share the view that this can best be achieved by making real progress on reform of agricultural trade.

We all need to demonstrate a more constructive approach to the trade agenda. While furthering progress in agriculture and improving market access for goods and services, we need to work harder to reach agreement on a range of provisions that ensure that trade reform benefits the poor in developing countries. We also need to bolster our collective effort to provide effective and targeted technical assistance for building trade capacity in developing countries.

Both the Bank and Fund will continue to have an important role to play in providing policy advice and in building this trading capacity. Moreover, trade issues need to be given greater prominence in Bank and Fund support-programs in poorer developing countries.

Looking Forward

Looking ahead, Canada's growth prospects are encouraging. The prospects for the global economy are much brighter than in the spring, although major risks remain. A key challenge is to ensure solid medium-term growth. The international financial institutions are well positioned to support stable growth and help low-income countries achieve reductions in poverty. However, successful trade reform would help developing countries better integrate into the global economy and improve prospects for poverty reduction.