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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

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

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Introduction

We meet here in Dubai at a time when there are clear signs that economic activity is strengthening in some major economies and more broadly indicators point to the prospect of a steady and strengthening recovery going forward.

When we met last April, it was a time of particular political and economic uncertainty and tension. Since then, the major uncertainties have clearly lessened. Nevertheless risks remain - in industrial, emerging market and developing countries - and it is important that policymakers stand ready to take the necessary policy actions. This underscores the importance of continued international cooperation and multilateral progress.

While prospects have improved in some major economies, all countries have an interest in seeing more balanced growth going forward. So we must address the lack of sustainable, robust productivity growth in *every* continent of the developed world. Structural reform is vital in this respect. And we must secure a speedy resumption of the Doha Round.

Economic stability

For rich and poor countries alike, stability is the precondition for global prosperity and growth, and all major countries – Japan, America and Europe – will be asked this weekend what contribution their continent can make, not just to restore growth now, but to create the conditions for sustained long-term prosperity.

With proactive monetary and fiscal policies, growth in some major economies is now strengthening. The UK is on track for stronger growth with low inflation.

But because we must sustain growth, it is important that we focus also on structural reform. The G7 have agreed an Agenda for Growth, and it is now vital that we implement reforms to overcome the barriers to higher productivity, employment and growth.

In the United States, actions to strengthen corporate governance and demonstrate that fiscal policy is sustainable over the medium term are important. Japan must step up its financial sector reform.

And, accompanied by stability oriented fiscal and monetary policy, Europe must push ahead with the necessary structural reforms that have held back the continent for too long. European ministers should together embrace flexibility for labour markets, liberalization in capital and product markets, and tax competition in place of tax harmonization -- in truth, a new growth agenda for Europe. Most of all we should recognize that it is only by encouraging enterprise -- and rewarding it properly -- that we will create the growth, productivity and employment we need. This enterprise agenda will be at the heart of driving forward Britain's reforms in our pre-budget report.

So Europe must embrace labour-market flexibility combined with policies that equip people with the skills they need for work. Europe must embrace liberalization in product and capital markets. The opening up of electricity utilities, telecommunications and financial services markets must proceed with speed. And building on U.S. experience, we must do more, including through tax incentives, to promote a venture-capital industry.

In the UK we are determined to play our part, both in maintaining the conditions for stability and growth and through structural reforms. In 1997, our commitment to put stability first led us to adopt a new fiscal and monetary regime, based on clear policy rules, well-established procedures, and an openness and transparency not seen in the past. This new framework makes us better placed than before to cope with the economic cycle, giving us low inflation, low interest rates and low unemployment. And it is this commitment to long-term stability, growth and employment that is the foundation of our decisions today.

In addition, in the Budget in April 2003, I announced further steps to drive forward productivity growth across the UK, including: a package of reforms to support new and growth businesses; further steps to support a modern and competitive tax system; reviews of innovation policy in the UK and the interaction between businesses and UK universities; and additional measures to improve skills. Our pre-Budget report will announce major detailed reforms on the labour market and on work incentives.

With financial market conditions looking more favourable, now is the time also to focus on structural reform and improved debt management in emerging markets.

More broadly, it is important that we use this period to identify problems early, address vulnerabilities, and provide candid advice on policy reforms going forward. Effective international surveillance and multilateral cooperation are essential tools for achieving this, strengthening crisis prevention, and so promoting stability and sustainable global growth.

This meeting in Dubai offers a window of opportunity. It is essential that we address the long term challenges facing the international financial community.

- promoting the conditions for stability and growth, and strengthening the mechanisms for crisis prevention and crisis resolution;

- calling for urgent resumption of the trade talks as soon as possible to secure concrete progress with multilateral trade liberalisation and deliver on the commitments made at Doha;

- creating the right domestic conditions for investment and stability;

- confronting the global war against poverty and addressing the urgent challenge of achieving the Millennium Development Goals, including the need to double aid through the International Finance Facility.

Crisis prevention and resolution

I believe that, just as we set down a new rules-based system in the UK, for a new monetary and fiscal regime, we should, in pursuit of the objectives of stability, development and prosperity, establish a new rules based system of governance for the international financial community.

This new system should be founded on clear procedures, with all countries, rich and poor, pursuing agreed codes and standards for monetary and fiscal transparency, and for corporate governance. That is why we have put in place the system of internationally agreed codes and standards. Almost half of the Fund membership has now completed a ROSC and over 70 percent of those have been published. We strongly welcome this. But we must continue to do more to enable all countries to participate, providing the necessary technical assistance. On transparency, we strongly support the steps agreed by the Board to enhance further the publication of Article IV reports and programme documents.

Effective and persuasive surveillance is essential for all member countries. We welcome the Fund's considerable progress on reforms to strengthen surveillance. Yet significant challenges remain, and we will need to monitor carefully their implementation and impact.

More broadly, I believe there is a strong case for further institutional reforms to ensure that the IMF is as credible and independent from political influence in its surveillance of economies as an independent central bank is in the operation of monetary policy. We must implement reforms to ensure:

- greater independence – ensuring that the Fund applies objective, rigorous and consistent standards of surveillance to all member countries; and that surveillance is, and is seen to be, independent of decisions about programme lending and the use of IMF resources;

- greater accountability – with the IMFC or the Board having a formal responsibility to set an annual surveillance remit, with the IMF management and staff reporting back each year on their performance and effectiveness against the remit.

It is important to ensure that surveillance impacts effectively on decisions made by programme and non-programme countries alike. In this respect, we continue to believe in the importance of the objectives underlying the Contingent Credit Line – to provide incentives for countries to put in place strong policies and to support those members with strong policy frameworks from the impact of external shocks. It is important to find an effective way to achieve these objectives in the context of the Fund's review of the CCL.

On crisis resolution, we very much welcome the widespread introduction of Collective Action Clauses, and encourage their further use. We support the ongoing work by issuing countries and their creditors towards developing a code of good conduct. We encourage the Fund to continue to strengthen its analysis of debt sustainability and balance sheet vulnerabilities. And we welcome the ongoing work by the IMF on issues relating to debt restructuring raised during the work on the Sovereign Debt Restructuring Mechanism, including aggregation and inter creditor equity.

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 and orderly responses when crises have to be resolved.

Trade

The international community must make urgent progress on trade and development. We must reaffirm this weekend our full political commitment to a multilateral approach to trade liberalisation, and to making substantial and concrete progress. A speedy resumption of the Doha Round is vital for global growth and our development objectives. It should focus on the core issues of importance to developing countries for open and fair markets, especially in agriculture.

This will be critical for demonstrating the international community's continued commitment to multilateral co-operation, supporting higher growth and financial stability, and enabling developing countries to participate on fair terms in the world economy and make progress towards the Millennium Development Goals.

There is clear evidence supporting the link between developing countries' own trade policies and their economic growth. In the last forty years those developing countries that have managed to be more open and trade more in the world economy have seen faster growth rates than those that remained closed. But any liberalisation has to be appropriately sequenced and integrated into countries' poverty reduction strategies. We welcome the IMF's initiative to provide assistance to countries to help them address the transitional impact of trade reforms.

And, as developing countries have continued to argue so strongly, an agreement on agriculture is central to any progress on trade. Three quarters of the world's poor live in rural areas and an end to agriculture protectionism in the developed world could be worth as much as $100 billion a year to developing countries. And if we were to halve protectionism more widely in agriculture and in industrial goods and services we would increase the world's yearly income by nearly $400 billion dollars: a boost to growth of 1.4 per cent. Developing countries would gain the most in terms of GDP growth - an estimated $150 billion a year - but all countries and regions stand to benefit.

Creating the conditions for productive investment

To ensure growth and development we must take steps to promote domestic and foreign investment – and find better ways for public and private sectors to work together in raising the level and quality of investment.

Because investment will flow to those countries that are the most stable, and ever more rapidly away from those that where the environment for business is volatile and uncertain, there is an even greater premium than before on governments running a successful monetary and fiscal regime to achieve high and stable levels of growth and employment over the long term. This is true for all countries, industrialised and developing. In seeking more favourable environments in which private sector investment can be more productive in developing countries, country-owned poverty reduction strategies have correctly focussed on creating the right domestic conditions for investment, including good governance and sound legal processes that deter corruption; improved infrastructure; and an educated and healthy workforce. We support the creation of investment forums bringing public and private sectors together to examine the barriers to investment and how to secure higher levels. Most importantly, investment forums are helping to break down the assumption that private sector development should 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 poverty reduction.

Achieving the Millennium Development Goals

Stability, trade and investment are all vital but there cannot be a solution to the problems that developing countries face without a fourth reform: a substantial transfer of additional resources from the richest to the poorest countries, in the form of investment for development, that builds new capacity to compete and addresses the long term causes of poverty.

In 2000 for the first time the world community signed up to the historic shared task of meeting the Millennium Development Goals by 2015 – including to eradicate extreme poverty, achieve universal primary education and radically reduce child poverty.

Then at Monterrey in 2002 the international community agreed a new compact for development that, in return for developing countries pursuing corruption free policies for stability and growth and creating favourable environments for trade and investment; developed countries should be prepared to increase vitally needed funds to achieve the Millennium Development Goals. And the additional $16 billion dollars a year of extra funding agreed represented the first increase in official development assistance for twenty years. For its part, the UK will increase its aid budget to nearly £4.9 billion by 2006 – a near doubling in real terms.

Our aid is increasingly provided in support of poverty reduction strategies, which are leading to improvements in the policies of developing countries and in the focus of donor support. We welcome the Fund’s ongoing efforts to align the PRGF behind the PRSP and in support of the MDGs, early work on a long-term role for the Fund in low-income countries, and we look forward to their continuing work on ensuring that there is adequate financing for PRGF arrangements.

At the same time we must also do more to make better use of existing resources, including the European Union aid budget. Reordering priorities, untying aid and pooling funds internationally could all release additional funds for the poorest countries.

We must work to achieve the rapid and full implementation of the HIPC Initiative to provide a robust exit from unsustainable debt. Of the 38 countries which stand to benefit from HIPC debt relief, there are now 27 – 23 from Africa and 4 from Latin America – which already benefit from debt relief which will rise to over $70 billion in total. For these 27 countries the UK is providing 100 percent bilateral debt relief, and this offer is open to all HIPC countries as they become eligible for relief under the Enhanced HIPC initiative. And now we must move into the next stage – a plan for post conflict and conflict countries so that the full $100 billion committed in Cologne in 1999 can be written off.

We urge the IMF and the World Bank to continue to intensify their efforts to secure full participation of all creditors in the initiative, and to reaffirm the objective of ensuring debt sustainability for countries reaching completion point. We must also work together to review the methodology for calculating the amount of "topping up" debt relief available – which could provide an additional $1 billion of extra debt relief, with pledges to the HIPC Trust Fund to meet the extra costs of AFDB and other non World Bank multilaterals. For our part the UK pledges to contribute our share of these costs.

But debt relief and the aid already pledged will not be enough on their own if we are to meet the Millennium Development Goals.

In particular urgent action is needed on health and education. Every year more than 10 million children die of preventable diseases – 30,000 a day, and more than 500,000 women die in pregnancy and childbirth. The tragedy of HIV/AIDS, is not only a human one, its impact on social and economic development in sub-Saharan Africa in particular is already reversing progress that has been made in the past. So, in Dubai we must follow up the recent agreement on access to life saving medicines, with the proper financing of health care delivery systems. The UK is committed to predictable, multi-year funding for the Global Fund to fight AIDS, Tuberculosis and Malaria.

And we know that education for all is central in order to promote a virtuous circle of debt reduction, poverty alleviation and economic development. The UK Government is committed to making the World Bank Fast Track Initiative work. But an estimated $10 billion more each year is needed if we are to reach our goal of primary education for all. And health, including the battle against HIV/AIDS requires at least $15 billion extra and probably $30 billion.

We welcome the recent Bank paper on Supporting Sound Policies with Adequate and Appropriate Financing. The Bank estimates that a near doubling of the additional commitments made at Monterrey could be used immediately, and effectively to make progress on the MDGs, some $30 billion annually. But they have also made clear that even this is an under-estimate of the resources required, with substantially more likely to be needed in the short-medium term, with a current estimate of at least $50 billion annually.

Our vision is clear. No country genuinely committed to economic development, poverty reduction and to the genuine good governance standards should be denied the chance to make progress because of lack of investment. The scale of resources required to meet this challenge cannot be met by either poor countries or by traditional aid. We need new means to deliver higher levels of support to finance health, but also education and anti poverty programmes.

Hence, the proposal for an International Finance Facility. On the basis of long-term, binding donor commitments from the richest countries, some of which have already been made, the Facility would leverage in additional money from the international capital markets to raise the amount of development aid for the years to 2015 from $50 billion a year to $100 billion per year.

The Facility would provide a temporary framework seeking to raise additional funds for development in the years leading up to 2015. In providing an immediate, critical mass of predictable, untied and effective aid, predominantly in grant form, the Facility would allow the poorest countries to invest in their priorities, and would provide the catalyst for growth-driving private investment. Further, this virtuous circle of investment for future success, as opposed to compensation for past failures, is fundamental to delivering sustainable debt relief; and to enable developing countries to build the economic capacity necessary to benefit from the trade reform critical to future world economic development and stability.

Just as the richest countries must fulfil their moral and political responsibility, developing countries must demonstrate a commitment to poverty reduction strategies, addressing political and economic stability and creating an enabling environment for human, physical and social investment. Anti-corruption and pro-stability policies must go hand in hand with country-owned poverty reduction strategies.

Building on the valuable discussions we have had so far in the international community, we call on the IMF and the World Bank to carry out further work on the case for more aid, aid effectiveness and absorption issues, as well as on the details of the Facility. It is also important to widen and deepen our discussions, and we will want to consult closely with developing and emerging market countries over the coming months. The IMFC should return to this issue in the light of this further work.

Conclusion

So here in Dubai, we call for the whole international community to confront the global war against poverty. This is a window of opportunity when the richest countries must redeem their promises to the poorest countries and work together to build a virtuous circle of debt relief, poverty reduction, trade and economic development.