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Statement by Hon. **ANGELA HAUK-WILLIS**,
Governor of the Bank for **NEW ZEALAND**,
at the Joint Annual Discussion

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Introduction

Fellow Governors and delegates, I am delighted to attend the 2005 Annual Meetings and I look forward to what promise to be valuable and productive discussions.

Firstly I would like to extend my sympathies on behalf of all New Zealanders towards those affected by the devastation inflicted on the United States by Hurricane Katrina. The offers of help from around the world, including from New Zealand, demonstrate how instant global communications have brought the international community together. It means we are all aware and affected by suffering in other countries.

This is a very important year for development issues. Later this year our Trade Ministers will meet in Hong Kong to develop a framework for the Doha Development Round that could have enormous positive benefits for global welfare. Last week most of the world's leaders gathered in New York for the 2005 World Summit, the largest such gathering of world leaders in history.

As we mark five years since the United Nations Millennium Declaration, recent reports have warned that countries will fall short of the Millennium Development Goals, on current trends. Two fifths of the world's population still lives on less than US\$2 a day; 100 million children of primary school age are still out of school, the majority of them girls; and in some regions infant mortality rates and nutrition levels have worsened since 1990.

Africa is the region in danger of missing the goals by the widest margin and it is appropriate that the Development Committee this year should focus on an "Africa Action Plan". The World Bank and other partners should not lose sight of the needs of fragile states in all regions, including the Pacific where many small remote economies are also off track for meeting the MDGs.

There have been real improvements in human development since 1990: life expectancy in developing countries has increased by 2 years; there are 3 million fewer child deaths annually and 30 million fewer children out of school. Impressive growth rates in some countries including China and India mean that more than 130 million people have escaped extreme poverty since 1990. Both developing and developed countries have made great strides in implementing the Monterrey consensus through improvements in governance and increases in development financing. The progress we have made so far demonstrates that with a renewed global effort, we can achieve the MDGs by the 2015 deadline.

Aid and Debt Relief

The recent announcements by the G8 to double aid to Africa and cancel the debts of Heavily Indebted Poor Countries (HIPC)s will deliver significant extra resources to help achieve the MDGs.

New Zealand, for its part, is committed to working with development partners - particularly in our Asia Pacific region - to achieve the MDGs. In this year's Budget the Government announced a substantial increase in ODA volume, including a 23% increase this year. This is the largest annual increase in New Zealand's ODA ever made.

New Zealand is also supportive of the G8 debt relief proposal and we are prepared to commit resources to funding this important initiative. The proposal is particularly well designed to deliver benefits to all IDA only countries through the allocation of additional funding using the IDA performance based allocation system. Despite this, there are some inequities involved in providing assistance to HIPC countries that will leave them with less debt than equally poor – indeed sometimes even poorer – low income countries. We believe this excellent initiative should be endorsed at this meeting and that further consideration then be given to addressing the unsustainable debt burdens of other low income countries.

Governance, Aid Effectiveness and Trade

Increased levels of finance alone will not be sufficient to achieve the MDGs. Improvements in governance, trade policies and aid effectiveness are all essential for reducing poverty.

As the United Nations Development Programme noted recently, no amount of international cooperation can compensate for the actions of governments that fail to prioritise human development, fail to respect human rights, fail to tackle inequality or fail to root out corruption. The need for country ownership and commitment to reform has been recognized in the World Bank review of conditionality. We recognize that conditionality has its place and welcome the trends highlighted in the review of declining use and complexity around conditionality. However, we are concerned that the decline in conditions has been offset by increasing use of benchmarks and triggers that are also perceived as binding conditions by recipient countries. A careful balance is required. Most importantly, whichever conditions are finally agreed must have a high level of country ownership and commitment.

Under the right conditions, trade can be a powerful catalyst for human development. We support fundamental reform of the world trading system, particularly through enhanced market access, as this will provide the major benefit to developing countries, especially in agriculture. To quote the Bank, "A round that does not begin to tear down the barriers in agriculture will not be a development round." Achieving an ambitious outcome from the Doha Round requires a renewed commitment and sense of urgency from all WTO members. We also acknowledge that aid for trade is required to help developing countries take advantage of the opportunities provided by reducing trade barriers.

Alongside increases in aid volumes, New Zealand would like to see further work on aid effectiveness, to increase the value of each aid dollar while delivering more control to developing countries over their own development path. New Zealand expects that the Bank and the Fund will implement fully the Paris Declaration on Aid Effectiveness and ensure that they work in closer partnership with donors, based on country-driven priorities and plans.

As our recent OECD peer review noted, the creation of a new agency - NZAID - with a dedicated focus on poverty reduction has been an impressive success. NZAID is

playing a key role in promoting the harmonisation agenda in the Pacific. This has been through a range of initiatives ranging from awareness raising to piloting sector-wide approaches in the education and health sectors. At the partner country level, discussions increasingly take place between NZAID, AusAID and partner governments on how we can all work together more effectively to enable better co-ordination and to lessen the transaction costs of aid management.

Small Pacific States

There are many challenges facing small Pacific island states - some of these are serious and immediate. The role of the World Bank and IMF in helping the Pacific nations face these challenges and tap into the dynamism of the wider region is very important. Both organisations play an important role in the region as valuable sources of expert knowledge and technical assistance which help build capabilities.

I would like to highlight a few positive developments in the Pacific region since our last annual meeting:

- ***World Bank Board agreement to a new Pacific strategy that will guide operations in the region for the next five years.*** We urge the Bank to remain vigilant to ensure its engagements with small state partners in the Pacific are appropriately tailored to their unique needs and acute capacity constraints.
- ***New Zealand working in partnership with the Government of Tonga and the World Bank on a NZ\$14 million project to improve the quality and accessibility of education in Tonga*** New Zealand's grant commitment has meant the Tongan Government does not need to take out a large loan to support the project. This joint approach is an innovative model which could be useful in other Pacific Island countries and sectors.
- ***A positive review by the IMF of its Pacific Financial Technical Assistance Centre (PFTAC).*** New Zealand is pleased to be able to work with the IMF to support the work of this centre and our recent increase in funding is a reflection of our confidence in the value that they are adding to the region.
- ***Forum Economic Ministers who met in June this year in Tuvalu, one of the smallest independent countries in the world, agreed to improve the business environment in the countries of the Pacific.*** Using the World Bank analysis conducted as part of the Cost of Doing Business survey, Ministers from 14 countries agreed to halve the regional average cost of doing business against a range of indicators including the time and cost of starting a business, the cost of enforcing a contract and time taken to resolve bankruptcies.
- ***New Zealand, along with Australia and other members of the Pacific Islands Forum, involvement in the Regional Assistance Mission to the Solomon Islands (RAMSI).*** RAMSI is a comprehensive approach to security, economic reform and delivery of services through a whole-of-government approach. A recent IMF report has highlighted the serious challenges facing the Solomon Islands in order to rebuild the economy but the first steps have been taken through the establishment of law and order and some important initial steps in the economic reform programme.

IMF Strategic Review

New Zealand welcomes the work initiated by the IMF on its focus and direction. We welcome the moves by the Fund to focus its activities on issues of core importance; improve the level of cooperation with the World Bank to avoid duplication of effort; and streamline the effectiveness of country surveillance by focusing more on country needs rather than a standardised 'tick-box' approach.

The core mandate of the Fund continues to be based on international monetary co-operation, global prosperity and financial stability, and temporary balance of payment support. The focus should continue to be on providing confidential policy advice on macroeconomic policy frameworks and associated exchange rate and financial sector regimes.

The strategic review has made progress in some areas particularly clarifying the Fund's role in low income countries. The introduction of a non-lending IMF programme and the idea of a new subsidized shocks lending window are positive developments. We look forward to further work on specifying the division of labour between the World Bank and the IMF in low income countries. We welcome the recent steps towards improved collaboration.

Some key issues still remain to be addressed over the next twelve months. The costs and trade-offs associated with the new initiatives contained in the medium term strategy will need to be considered in discussions in the context of the medium-term budget next year. Long term issues regarding financing the Fund in a future where there may be fewer balance of payments crises, will be an important part of completing the Strategic Review and the thinking about medium term budgetary issues.

The thirteenth review of quota coming up next year is a key opportunity to address some of the imbalances in representation at the IMF (and subsequently the World Bank). Failure to reach agreement could have serious consequences for the legitimacy of the Fund and the commitment of some members particularly in Asia.

Options for Internal Reform of the World Bank

Over recent years the World Bank has taken on a plethora of new roles without testing whether it should continue with the old ones. The expansion of roles has been matched by a recent history of excessive and rising costs. We would like to see a strategic review exercise similar to the IMF process conducted at the World Bank to renew the mandate for the scope of activities and general direction of the Bank.

New Zealand and other members of our constituency have advocated improvements in the Bank's internal processes and structures. We have been pleased to see some progress, for example, in the adoption of multi-year budgeting. Despite some recent progress, there are still serious organizational weaknesses including unclear roles, responsibilities and accountabilities, poor incentives on individual staff members and inadequate indicators of Bank performance and feedback to decision-making.

Conclusion

New Zealand values highly its partnership and engagement with the IFIs. New Zealand just recently became the 171st country to sign the MIGA Convention, formally joining us further into the World Bank Group. We look forward to continuing to work together with

other members to achieve our shared goals of reducing global poverty and promoting economic development.

I wish to take this opportunity to extend my public thanks to John Austin, New Zealand's recent Executive Director of the World Bank for his tireless efforts on behalf of New Zealand and the rest of our constituency and the energy he has brought to his role on the World Bank Board. We look forward to working with our new Korean Executive Director, Dr Joong-Kyung Choi.

Lastly I would like to welcome new World Bank President Paul Wolfowitz to his first Annual Meeting and wish him all the best for the challenges that lie ahead.