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

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Sixty years ago, Finance Ministers assembled in Bretton Woods and created the World Bank and the International Monetary Fund (IMF), endowing them with the noble mandate of raising economic growth and of increasing economic and financial stability, thereby reducing poverty. These remain relevant and worthy goals.

While many have witnessed unprecedented growth and prosperity over the last six decades, hundreds of millions remain marginalized. The Bretton Woods Institutions are needed now more than ever to support international efforts to promote peace and prosperity for all citizens of the world.

The global recovery has advanced in most regions and the prospects for strong growth are good in the short run. Nevertheless, there are vulnerabilities that need to be addressed to help ensure that global recovery can be sustained.

Canadian Economic Prospects

The Canadian economy has performed well, notwithstanding several unforeseen shocks in 2003. Healthy business and consumer confidence, solid job gains, strong fiscal fundamentals, and low inflation should continue to support robust Canadian growth for the remainder of this year and 2005. Private sector forecasters expect growth of 3.0 per cent in 2004 and a pick-up to 3.4 per cent in 2005.

IMF Surveillance and Crisis Prevention

Sound economic policies and macroeconomic stability are essential prerequisites for sustainable growth and poverty reduction. Financial crises exact significant economic and social costs, especially on the poor. One of the Fund's primary goals is to reduce the frequency and severity of international financial crises. Surveillance is one of the most important instruments in the IMF's crisis prevention toolkit. The Fund has made considerable progress in strengthening its surveillance operations, especially by promoting enhanced transparency in member countries and improving its analytical tools for the early identification of a country's vulnerability to crisis.

The surveillance function needs to continue to evolve in light of changes in the world economy. In the spring, the International Monetary and Financial Committee (IMFC) called for further efforts to enhance the focus, quality, persuasiveness, impact, and overall effectiveness of surveillance. The Fund's recent biennial review of the implementation of surveillance efforts focused on how to make surveillance more effective across the whole membership. We endorse the key conclusions of the review: a sharper focus on the Fund's core areas of expertise, clearer and more candid treatment of exchange rate issues, enhanced financial sector coverage, and better regional assessments. As well, in our view, debt sustainability assessments would be enhanced if they were conducted independently of regular country work. Finally, the new exceptional access framework should be strictly adhered to going forward, to help shape the expectations of members and markets alike, provide a benchmark for decisions regarding program design and access, safeguard the IMF's resources, and ensure uniform treatment of members.

Need for a Stronger Focus on the Millennium Development Goals

We are at a critical juncture. Given the long lead times between program and project approvals and their impact on reducing poverty, we need to increase our efforts now in order to ensure that we meet the Millennium Development Goals (MDGs) by 2015. Making headway in reducing poverty in Sub-Saharan Africa remains our greatest challenge. If we fail Africa, we fail the Millennium Challenge. Real increases in Official Development Assistance are essential for achieving development and progress towards the Millennium Development Goals in least developed countries in general, and Sub-Saharan African countries in particular. We must also ensure that resources are targeted wisely to achieve maximum results. We are fully convinced that a major effort is needed now and both developing and developed country partners must strengthen their collaborative efforts to fulfill the commitments we made in Monterrey.

Financing Development

Mobilizing sufficient resources to support development programs remains a pressing challenge, but one worth tackling head-on as the more than one billion people living on less than one dollar a day depend on our collective efforts. Canada has delivered on its Monterrey commitment, increasing international assistance by 8 per cent per year. We are fully committed to working towards the timely conclusion of the fourteenth replenishment of the International Development Association and African Development Fund X replenishment exercises.

Strong Foundations for Growth and Private Sector Development

Growth will depend on deepening of sound economic policies, improved governance and a more open global trading environment. We welcome the adoption of the Doha Round negotiating framework in July 2004. Although many difficult issues remain, this development gives hope for renewed momentum in meeting the Doha development agenda with its promise of raising millions out of poverty. The IMF and World Bank must continue their efforts to support this process through advocacy, analytical work, local capacity building programs, and assistance to countries in their transition process. We encourage the World Bank and IMF to continue their support to low-income countries in mainstreaming trade-related issues through the Poverty Reduction Strategy Paper (PRSP) process and in their operations.

Equally important, the UN Commission on the Private Sector and Development has stressed that "poverty alleviation requires a strong private sector. It is the source of growth, jobs and opportunities for the poor." Clearly, private investment (both foreign and domestic) will only be attracted in sufficient volumes and produce results if there is an enabling environment, where the conditions in which businesses operate are transparent and predictable and where there is appropriate governance, sound macroeconomic policies, fair competition, good physical and social infrastructure, smart regulations and the rule of law. In this regard, we welcome the progress that many member countries have already made, often with the assistance of the World Bank Group, in strengthening business environments as well as in addressing investment climate issues and infrastructure bottlenecks.

We need to build on recent successes to promote more business-conducive policies and to provide access to affordable infrastructure services. One message came through strongly and clearly during my recent trip to Africa: improving infrastructure, especially in the transport and energy sectors, is key to promoting private sector development and poverty reduction. Africans across the political and business spectrum all underscored the vital importance of reducing the cost of doing business. The Bank and IMF are definitely well-positioned to offer the kind of support African countries need to improve access to affordable infrastructures and therefore provide an enabling environment for economic growth.

Critical Attention to Debt Sustainability

As we invest more heavily in development, we must not repeat past mistakes. The Heavily Indebted Poor Countries (HIPC) Debt Initiative has taught us an invaluable lesson on the financial and social costs of debt overhang.

Twenty-seven countries are already benefiting from relief under the HIPC Initiative and are having their overall debt stock reduced by two-thirds. Their debt service as a percentage of exports has also been substantially reduced to an average of 10 percent.

The HIPC Initiative remains a valuable instrument to give other heavily indebted poor countries a fresh start, namely by freeing up fiscal space for productive investments. Eleven countries, most affected by conflict, have yet to be considered for HIPC assistance. We therefore support the proposed extension of the sunset clause, which will give them until 2006 to initiate the process.

The key to poverty reduction is broad-based and pro-poor growth. For most HIPC countries, deeper reforms are necessary to promote long-term growth. Over the short and medium term, while reforms will require funding, this may come in the form of loans that will add to the financial burden of the poorest countries. Development finance must be provided strategically and responsibly, either on highly concessional terms or on a grant basis, in order to protect the gains of the HIPC Initiative and to minimize the risk of debt distress. We recognize the progress made in fine-tuning the framework for debt sustainability analyses. Having the results of these analyses inform the lending decisions of the IDA and the Poverty Reduction and Growth Facility as well as those of other development partners is vital to ensure that unsustainable borrowing is avoided. We urge World Bank and IMF Executive Directors to fully consider the merits of the proposed debt sustainability analysis (DSA) operational framework and to refine it as appropriate with a view to having it guide lending decisions going forward.

The Role of the IMF in Low-Income Countries

Besides a strengthened focus on country ownership and the joint Bank/Fund work on debt sustainability, the IMF's approach to low-income countries in other areas must also change. Most users of Poverty Reduction and Growth Facility (PRGF) resources no longer have a balance of payments need. It is time to reconsider the nature of the relationship between poor countries and the IMF, including, in particular, the relationship between IMF concessional assistance and the surveillance process. Simply put, the Fund and low-income countries alike need mechanisms other than lending to support strong surveillance relationships, and to help signal donors.

This is why, prior to the spring meetings in Washington, Canada advocated the creation of a country-led intensified surveillance mechanism. Unlike a formal IMF program, there would be no Fund financing or IMF developed conditionality attached. Instead, the country would present a medium-term economic and fiscal plan developed with the benefit of advice from the Fund staff, but clearly "country-owned" with widespread internal support among key groups in society. The Fund would be asked to provide more frequent monitoring than typical surveillance, and the Board would consider staff assessments of the extent to which the country is achieving its own economic and financial goals.

Since the spring, this proposal has made progress. Jamaica, a pioneer in developing the new approach, is now embarked on an intensified surveillance relationship. Several other countries have indicated their interest in this instrument. Moving forward, we should aim to support countries requesting intensified surveillance, to ensure that the surveillance resulting from this intensified relationship is of the highest possible quality, and to build capacity in countries to define and implement their own programs.

Looking Forward

Little more than a decade remains until 2015. Scrutiny of our actions and policies will only increase as we come closer to the deadline for meeting the MDGs. It is encouraging that we know that, on a global scale, we will likely meet the goal of halving global poverty. However, the challenges of meeting this target at the country level, especially for most African countries, are daunting. In this global effort against poverty and despair, all development partners have critical roles to play. The Bretton Woods Institutions are needed now more than ever and they, more than ever, need to heed the voices of their smaller shareholders. Developing and developed countries, the public and private sectors, democratic institutions, and civil society must all work closely together and improve the focus of our efforts to guarantee a better future for the world's poorest.