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Statement by the Hon. **MICHAEL CULLEN**,
Governor of the Fund for **NEW ZEALAND**,
at the Joint Annual Discussion

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Introduction

Fellow Governors and delegates, I am delighted to participate once again in this meeting.

This year holds special significance as the 60th anniversary since the formation of the Bretton Woods Institutions. The two sister institutions have played an influential and leading role in economic and development issues over the past 60 years. While neither institution is quite in the form envisaged by Keynes or White in 1944, the outcomes achieved support the need for the formation of both institutions:

- greater stability to economic growth and cycles;
- stronger fiscal policies;
- greater surveillance of financial and monetary systems;
- widely observed standards and codes; and
- greater transparency.

Development Effectiveness and Harmonisation

This is a time of great challenge for the international community. A major UN review will take place next year of progress against the Millennium Development Goals (MDGs). We are lagging behind and we must turn this situation around. We need to look closely at development financing and effectiveness issues. The Bretton Woods Institutions, and the World Bank, in particular, have vital roles to play.

New Zealand strongly supports the international efforts to turn development assistance towards a focus on results. The Bank has made good progress on this front. New Zealand endorses the Bank's Results Management agenda, including its work on statistical capacity building. It is important to follow through on the outcomes of the Marrakesh conference on Managing for Development Results. This work is critical to improving the effectiveness of development outcomes. When Official Development Assistance (ODA) resources are scarce, and numerous contending priorities exist, the multilateral system must play its part to demonstrate impact and results.

I have been interested in the discussions on the need to improve linkages between the United Nations and the Bretton Woods Institutions. The United Nations and Bretton Woods Institutions have differing mandates, funding bases and representation, but there are overlapping responsibilities and both are striving to deliver more effective and

sustainable development outcomes, and do so more efficiently. Better coordination and harmonization between the two sets of institutions, and other donors, would improve the effectiveness of their operations and, importantly, reduce the transaction costs for developing countries. Much more needs to be done, particularly at the country level. Fundamentally, we need international actors assisting developing countries by harmonizing their support around country owned priorities and plans. The world is too small, and developing countries face enough pressure on their administrations already, to have unhelpful competition, duplication and overlap of external assistance.

New Zealand is responsive to the need to provide more stable and predictable aid flows. Through our aid programme we are moving towards multi-year commitments with our development partners which will enable them to plan and budget over a longer time frame. We are also looking to improve the effectiveness of the assistance provided to support poverty reducing expenditure in core partners through greater use of sector wide approaches, in coordination with other donors, and budget support. This has been most apparent in the Pacific, where New Zealand has worked closely with Australia and other regional donors in Pacific partner countries.

Pacific

Governors, I look forward to reading the review by the Bank's Operations and Evaluation Department of its engagement in the Pacific over the past 10 years. I am concerned that the review of the Pacific has reached some disappointing conclusions about the Bank's performance in the region. I strongly encourage the Bank to act on the findings of the review and ensure that the conclusions are taken fully into account in the development of a strategy for future engagement in the Pacific. I also encourage the Bank to consult widely on its strategy with stakeholders in the Pacific. The need for a coherent Bank strategy that takes full account of the efforts of other players is as great as ever. The Bank and Fund have valuable expertise to offer their partners in the Pacific, and it is important that they remain engaged in an effective and appropriate manner. The best way forward is learning from the past and building an effective programme for the future.

Last year New Zealand's Prime Minister chaired the Pacific Island Forum. In a recent strategic review by the Forum, members adopted a "Pacific Vision" and identified four priority topics for the forum to address: economic growth, sustainable development, good governance and regional security.

The review identified these issues as ones leading to:

- enhanced regional cooperation;
- greater sharing of resources; and
- new thinking about the relationships between sovereign states.

Following the review, Forum leaders have taken a number of decisions that are likely to have far-reaching implications for the Forum, including how it interacts with the rest of the world.

Leaders have approved the development of a Pacific Plan for intensified regional cooperation. It will be a basis for stronger and deeper links between the sovereign countries in the Pacific region. The Pacific Plan will also affect the way that international agencies interact with the Forum region in the future. The development of the plan would benefit from input and assistance from the Fund and the Bank. I encourage both the Bank and the Fund to be actively involved when views and opinions are being sought on the Pacific Plan, and to actively seek out opportunities to strengthen its engagement with the Pacific Island Forum. We have, for the first time in decades, a chance to unite behind one vision, one regional response. Let us not see the opportunity foregone.

Debt Sustainability

New Zealand is concerned about the high debt levels in a large number of developing countries. New Zealand has supported the Heavily Indebted Poor Countries Initiative and the efforts to reduce debt levels to sustainable levels. New Zealand commends the Bank and Fund for their recent work on a debt sustainability framework. New Zealand is supportive of this work and would like to see a consistent approach applied to future lending by the Bank, Fund and other multilateral institutions.

High debt servicing costs are an impediment to growth. Strong institutions and policies, and accountability arrangements are necessary pre-conditions for growth. The resources that the Bank and Fund provide for technical assistance and capacity building are very important so that the underlying causes behind the debt distress and poor performance are addressed.

New Zealand supports a comprehensive and balanced approach to development, including effective ODA contributions and trade liberalization to open markets for poor countries. Looking ahead, New Zealand continues to consider concessionary financing to be a valuable source of development financing. We are pleased to be participating in the International Development Agency (IDA 14) negotiations, and look forward to their successful conclusion in the next few months.

WTO: Doha Development Agenda

The agreement to the framework package on 31 July of this year was an important and historic milestone for the World Trade Organisation (WTO). The agreement brings many benefits to the nations involved and also brings credibility to the multilateral trading system and the WTO. I am pleased with the agreement and see it as an important step for the Doha Round and for the WTO in general.

Agriculture remains at the heart of the Doha negotiations, offering the greatest potential for gains to developing countries. While many details are still to be negotiated, many of the difficult political decisions have been taken, ensuring technical work can continue.

The outcomes in other areas such as non-agricultural market access, services, Singapore issues, trade facilitation and other development issues are encouraging. We recognise that there are reservations, particularly from developing countries, to further liberalisation but hopefully the positive outcomes on agriculture will encourage developing countries to engage effectively on these other issues.

We encourage both the Bank and Fund to be active participants in the process. Areas such as trade facilitation and providing financial support for improvements in ports, customs, and other trade-related infrastructure, are areas where the Bank and Fund could be involved.

Into the future, New Zealand remains committed to a multilateral trading system and the pursuit of further liberalisation. There is still much work to be done including improving access to markets and improved trade rules that can benefit everyone. It is important to remember that a comprehensive package in the future could stimulate worldwide increases in income and lift millions out of poverty. The stakes are very high and we hope the momentum from this historic agreement will continue.

Internal Reform

New Zealand is an advocate of the internal reforms to improve the transparency, effectiveness and efficiency of the Bank and the Fund. We would like to voice our support for the Bank and Fund's work in relation to internal governance and external transparency. We would like to see more work on budget reforms to encourage more explicit linkages between resource allocation and outcomes.

One area of reform from within the Bank that has resonated well with New Zealand is the replacement of Adjustment Lending with Development Policy Lending. We support this change as the new policy acknowledges that each country has its own set of unique circumstances and that governments must take ownership of reforms to develop a program that meets their countries' needs. Hopefully the new policy will lead to broader participation in government policy making and a greater understanding of the social and environmental impact.

It is unfortunate that the handling of remuneration issues by both institutions in this anniversary year has been untidy and has highlighted the governance problems that still need to be addressed. The handling of the issue has given no credit to either institution and has shown that sibling rivalry between the two sisters has not been constructive, and that more professional and transparent remuneration and promotion systems need to be put in place.

Concluding Comment

Finally, allow me to close by restating that the Fund's and Bank's contribution to the Pacific region is important. We look forward to increasing dialogue with the Bank and our development partners on the issues facing small states in the Pacific in the coming year.