AUSTRALIA

AND THE

INTERNATIONAL FINANCIAL INSTITUTIONS

2006-07

Annual Report to the Parliament

Under the *International Monetary Agreements Act 1947* and the *International Bank for Reconstruction and Development (General Capital Increase) Act 1989*

The Hon Wayne Swan MP, Treasurer

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Australia and the International Financial Institutions 2006-07

Section 10 of the *International Monetary Agreements Act 1947* provides that the Treasurer shall prepare and cause to be laid before each House of the Parliament, as soon as practicable after the end of each financial year, a report on the operations of the Act and of the operations, insofar as they relate to Australia, of the Articles of Agreement of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) during that financial year.

Section 7 of the *International Bank for Reconstruction and Development (General Capital Increase) Act 1989* provides that the Treasurer shall prepare and cause to be laid before each House of the Parliament, as soon as practicable after the end of each financial year, a report on the operations of the Act during that financial year.

This report aims to meet the requirements of both Acts for the financial year 2006-07. In addition this report covers Australia's interactions with the Asian Development Bank (ADB) for the financial year 2006-07.

The IMF, the World Bank Group (comprising the IBRD, the International Development Association, the Multilateral Investment Guarantee Agency, the International Finance Corporation, and the International Centre for Settlement of Investment Disputes) and the ADB publish annual reports that provide comprehensive reviews of the operations of these institutions. The IMF also makes information available on its website <www.imf.org>, the World Bank at <www.worldbank.org> and the ADB at <www.adb.org>.

I commend this report to the Parliament.

WAYNE SWAN
Treasurer

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Acronyms and abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
ADF IX	Eighth replenishment of the Asian Development Fund
AusAID	Australian Agency for International Development
Austrade	Australian Trade Commission
DC	Development Committee
DMC	Developing Member Country
FTP	Financial Transaction Plan
G-20	Group of 20
GCI	General Capital Increase
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Government Organisation
OCR	Ordinary Capital Resources
OED	Operations Evaluation Department
PNG	Papua New Guinea
PRGF	Poverty Reduction and Growth Facility
RBA	Reserve Bank of Australia
SDR	Special Drawing Right

Preface

Introduction and guide to the report

This report compiles information on Australia's dealings with the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB) into one joint report.[1] Prior to 2002-03, separate reports were compiled for Australia's dealings with each of these multilateral institutions.

The report is in four sections:

Section 1 reviews key policy developments at the three international financial institutions (IFIs) during 2006-07, highlighting Australia's involvement in policy discussions and IFI policy formulation and outcomes.

Section 2 reports Australia's relations with the IMF as required under the *International Monetary Agreements Act 1947*. Part 1 of this section covers Australia's representation at the IMF, its June 2007 Article IV consultation and participation in IMF Institute courses, meetings and visits. Australia's financial transactions with the Fund, involving both special drawing rights (the IMF's nominated currency) and Australian dollars, are covered in Part 2 of this section.

Section 3 looks at Australia's interactions with the World Bank as required under the *International Monetary Agreements Act 1947* and the *International Bank for Reconstruction and Development (General Capital Increase) Act 1989*. Part 1 of this section reports on the activities of the World Bank and examines World Bank programs and policy performance, financial capacity, its administrative budget and human resources. Part 2 of section 3 provides details on Australia's shareholdings and contributions, Australian co-financing, and Australian representation at the Bank.

Section 4 presents Australia's interactions with the ADB. Part 1 looks at the activities of the ADB and evaluates ADB operations, management and financial policies. Part 2 reports on Australia's representation at the ADB, its contributions, shareholdings, and involvement in co-financing. Whilst section 4 is not required by legislation, this information is presented in the interests of transparent reporting of Australia's involvement in key international financial institutions.

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1 Australia is a member of each of the IMF, World Bank, ADB and the European Bank for Reconstruction and Development (EBRD). Information on each institution is provided in the Treasury annual report and is also available from the institutions themselves. Given Australia's small shareholding in the EBRD, and the EBRD's specific mandate, no additional reporting on its operations is contained in this report.

Other sources of information

Treasury releases information on its activities through many publications, press releases, speeches and reports, including the annual report. Copies of Treasury publications are available on line at <www.treasury.gov.au>. The IFIs also make a wide range of information available on their websites: <www.imf.org>; <www.worldbank.org>; and <www.adb.org>.

Editor's note

Section 4 is based on the Asian Development Bank's 2006 Annual Report. Due to the fact that the ADB reports on a calendar year basis, the information contained in this section reports on the ADB's operations in the 2006 calendar year.

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Section 1: Key developments

During 2006-07, significant progress was made on strategic reforms at the International Monetary Fund (IMF). A key outcome was agreement at the Annual Meetings in September 2006 on an initial instalment of quota and voice reform, in which Australia played a significant role as 2006 Chair of the Group of Twenty (G-20) advanced and emerging market economies. Australia has continued to press, both within the IMF and through the G-20, for IMF policy and governance reform aimed at ensuring the Fund's ongoing legitimacy and relevance.

In 2006-07, the IMF continued to implement its Medium-Term Strategy which included proposals to strengthen its effectiveness in surveillance. In June 2007, it released a new Decision on Surveillance, bringing together key elements of surveillance best practice and clarifying the roles and obligations of the Fund and its members.

Based on an expert group report received in early 2007, the IMF began consideration of a new income model for the Fund, recognising that the current reliance on income from lending is not sustainable.

Also in early 2007, the IMF and World Bank received a report on means of improving collaboration between the two organisations. The report was prepared by an external review committee which included Treasury Executive Director and former IMF Executive Director for Australia, Mr Mike Callaghan. The Fund and Bank subsequently developed a joint management action plan based on the committee's recommendations.

In June 2007, Mr Robert Zoellick became the eleventh President of the World Bank Group. Over the past fiscal year, the World Bank's increased focus on development in fragile and conflict-affected states was translated into a clear strategy for rapid response and long-term engagement. The Bank also extended efforts to improve development effectiveness through simplifying and streamlining its products for middle-income countries. In 2006-07, negotiations began for the 15th replenishment of the International Development Association, the concessional lending arm of the World Bank. There was broad support from donors to significantly increase the size of this replenishment.

During December 2006, the Asian Development Bank (ADB) conducted a Midterm Review of the eighth replenishment of the Asian Development Fund (ADF IX 2005-2008) in Frankfurt, Germany. The ADB also commenced a review of its Long-Term Strategic Framework (LTSF), to provide an agenda for the ADB's poverty reduction and growth-financing activities to the year 2020. The report of an Eminent Persons Group on this issue was released in May 2007. During 2006-07, the ADB also publicly released its approach for engaging with weakly performing countries in the Asia-Pacific region, based on the ADB's performance-based allocation system.

Further details on these and other key developments are provided below.

International Monetary Fund (IMF)

The IMF's Medium-Term Strategy was released by the Managing Director in September 2005.[2] In April 2006, a follow-up paper outlined specific proposals encompassing quota and voice reform, new directions in surveillance, the Fund's role in emerging markets, and more effective engagement in low-income countries. The IMF has also released the report of the Committee to Study Sustainable Long-term Financing of the IMF. Further information on each of these elements is provided below.

Quota and voice reform

Australia has been a long-standing advocate of IMF quota and voice reform to address the under-representation of certain fast-growing nations — particularly in Asia — in IMF decision making. Australia's key objective has been to enhance the legitimacy and effectiveness of the IMF, including in its key role in crisis prevention and resolution, by ensuring that voting shares better reflect members' relative weight in the global economy.

In September 2006, the IMF Board of Governors adopted a resolution on quota and voice reform aimed at enhancing the Fund's legitimacy and effectiveness.[3] The G-20, under Australia's chairmanship, played a key role in this outcome.[4] The resolution approved an ad hoc quota increase for the four most clearly under-represented countries: China, Korea, Mexico and Turkey.

The Governors' resolution also outlined a second stage of reform for agreement by Governors no later than the 2008 IMF/World Bank Annual Meetings.[5] In 2007 work focused on negotiating the detail of this second stage, including:

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2 See <http://www.imf.org/external/np/omd/2005/eng/091505.pdf>.

3 A copy of the resolution is available on the IMF website at: <http://www.imf.org/external/np/pp/eng/2006/091406q.pdf>.

4 The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important advanced and developing economies to discuss key issues in the global economy. Reform of the Bretton Woods institutions (the IMF and World Bank) has been an ongoing theme of the G-20's work. The G-20 seeks to add value to the consideration of these issues, recognising that decisions on them are a matter for the governing bodies of the IMF and World Bank. The members of the G-20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States of America. The European Union is also a member. The IMF and World Bank participate in G-20 meetings on an *ex officio* basis.

5 The 2008 Annual Meetings are scheduled for October 2008. The International Monetary and Financial Committee has since called for agreement on all elements of the second stage of reform by the 2008 Spring Meetings (April 2008).

- constructing a new quota formula which provides a simpler and more transparent means of capturing IMF members' relative positions in the world economy;
- providing a further series of quota increases for a wider group of under-represented members based on the new formula; and
- increasing the voice of low-income countries through an increase in basic votes[6] and an increase in staffing resources available to the two African chairs in the Fund.

In 2007, South Africa succeeded Australia as Chair of the G-20. Australia continued to contribute to the package of reforms agreed by IMF Governors through its role in 2007 on the G-20 management Troika (comprising South Africa, Australia and Brazil), as well as within the IMF Executive Board and in discussions with IMF staff.

IMF income

Since its establishment, the IMF has relied on the income derived from its lending activities to finance administrative expenses. In an economic environment characterised by efficient and deep international capital markets, total IMF lending has declined and income generated has become insufficient to finance expenses.

To place its finances on a sustainable footing, the Fund is considering a new income model drawing on the recommendations of the Committee to Study Sustainable Long-term Financing of the IMF which was established by the IMF Managing Director in May 2006 and provided its final report in January 2007.[7] As a complementary measure, the Fund will also conduct a full-scale review of its expenditure.

Australia has recognised that placing the Fund's finances on a sustainable footing is a critical component of the Medium-Term Strategy and has therefore supported the implementation of a new IMF income model and the review of expenditure.

Surveillance

Surveillance is the most prominent channel through which the Fund achieves its overarching mandate of ensuring and promoting global economic and financial stability. Surveillance involves the oversight of key global economic developments and forthright and persuasive policy advice aimed at addressing emerging economic and financial imbalances.

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6 Each IMF member currently has 250 basic votes allocated to it regardless of its quota. Basic votes give effect to the principle of equality of states as compared with voting power derived from quotas reflecting economic and financial factors.

7 A copy of the Committee's report is available on the IMF website at: <http://www.imf.org/external/np/oth/2007/013107.pdf>.

To better align the IMF's activities with the changing realities of the global economy, the Medium-Term Strategy introduced a comprehensive surveillance reform agenda. During 2006-07, the most significant reform implemented by the IMF Executive Board was the adoption of the 2007 Decision on Bilateral Surveillance over Members' Exchange Rate Policies, which replaced the 1977 Decision.[8]

The 2007 Decision defines the scope and focus of bilateral surveillance, and clarifies the obligations of Fund members under Article IV of the IMF Articles of Agreement. It affirmed that the Fund's bilateral surveillance focus should be on assessing whether countries' economic policies are consistent with external stability, and provided clearer guidance on what is and is not acceptable to the international community in terms of how countries run their exchange rate policies.[9]

In addition to the 2007 Decision, the Fund made progress in integrating financial sector and capital market analysis into bilateral surveillance. In particular, Article IV consultations now provide a deeper analysis of financial sector issues, and more focus is placed on assessing the impact of the financial sector on economic growth and the real economy more broadly.

Moreover, the Executive Board agreed in principle to introduce, in late 2008, a 'remit' for surveillance in the form of a 'Statement of Surveillance Priorities and Responsibilities'. It also approved the implementation of the key recommendations made by the IMF Independent Evaluation Office in its comprehensive evaluation of the Fund's Exchange Rate Policy Advice.[10]

Finally, in April 2007, the Fund concluded its first round of multilateral consultations, a new tool of multilateral surveillance designed to foster debate and policy actions on issues of systemic or regional importance. The first consultation focused on promoting the orderly unwinding of global current account imbalances while maintaining solid global economic growth. It involved China, the euro area, Japan, Saudi Arabia and the United States and resulted in the adoption of a set of complementary macroeconomic policy plans which, if implemented, would be expected to reduce global imbalances.[11] The outcome of the year-long consultation was presented to the International Monetary and Financial Committee during the Spring Meetings in April 2007.

Australia has continued to support and contribute to the Fund's surveillance reform agenda.

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8 Further information on the 2007 Decision is available on the IMF website at: <http://www.imf.org/external/np/pp/2007/eng/062107.htm>.

9 The 2007 Decision introduced the concept of external stability which is defined as the situation when a nation's balance of payments position does not, and is not likely to, give rise to disruptive adjustments in exchange rates.

10 A copy of the IEO's report is available on the IEO website at: <http://www.ieo-imf.org/eval/complete/eval_05172007.html>.

11 An overview of the policy plans is available on the IMF website at: <http://www.imf.org/external/np/exr/ib/2007/041807.htm>.

IMF role in emerging market economies

In the Medium-Term Strategy, the Managing Director proposed further work be undertaken on the design of a possible new high access liquidity instrument to assist countries' crisis prevention efforts. Work on such an instrument continued within the Fund throughout the year, starting with an Executive Board seminar conducted in August 2006, with a follow-up Board discussion in February 2007. Among the design issues considered were the positive and negative signals that could be given to the market when a country signs up to, exits, or activates a large precautionary credit line. Also considered were the need to provide certainty to potential borrowers and safeguard the financial resources of the Fund. Australia has supported further work on a new liquidity instrument.

IMF role in low-income countries

Australia has argued that the IMF has an important contribution to make to development in low-income countries, but that this should be consistent with the IMF's mandate and expertise. The Fund's role should thus be to provide macroeconomic policy analysis and advice, technical assistance, and financial support.

In the Medium-Term Strategy, the IMF identified a need to enhance the effectiveness of its engagement with low-income countries by clarifying its role and drawing together the various strands of its work in these countries. The focus is on strengthening the macroeconomic framework of low-income countries and ensuring debt sustainability, particularly in countries that have recently benefited from debt relief.

Australia has supported the inclusion in Fund supported programs of a framework to assist low-income countries to adopt medium-term debt management strategies and to avoid accumulating excessive debt. Australia has also considered it important that the IMF collaborate effectively with other institutions, including the World Bank, and bilateral donors to assist low-income countries to work towards meeting the Millennium Development Goals.

In recent years, the IMF has established the Exogenous Shocks Facility (ESF) and the Policy Support Instrument (PSI) to provide financial and technical support for low-income countries if required. Australia agreed in 2005 that its contribution to the IMF's Poverty Reduction and Growth Facility ($30 million over 12 years) would be available for the ESF. Australia has continued to support the PSI, which helps low-income countries that do not want — or need — Fund financial assistance, to design effective economic programs endorsed by the Fund.

External Review Committee on Bank-Fund Collaboration

The External Review Committee on Bank-Fund Collaboration was established in March 2006 by the heads of the IMF and the World Bank to examine and report on the delineation of responsibility between the Fund and the Bank and how their collaboration could be made more effective.

Mr Mike Callaghan, then Executive Director, Revenue Group at the Treasury — and a former Australian Executive Director at the IMF — was a member of the Committee.[12]

The Committee was asked to examine: whether the current allocations of primary responsibility provide a clear enough foundation for Fund-Bank collaboration; whether the established areas of responsibility are consistent with Fund and Bank mandates; and how the current division of labour is being implemented and how it might be modified.

The Committee submitted its report in February 2007. In September 2007, a Joint Management Action Plan, responding to Malan Committee recommendations that fall within management responsibilities, was developed by the IMF and World Bank managements and subsequently endorsed by their Executive Boards. The agreed actions are designed to improve coordination on country issues, enhance communications between the staff of the two institutions working on common thematic issues, and improve incentives and central supports for collaboration on policies, reviews and other institutional issues. The report and Action Plan are available on the Fund and Bank websites.

Implementation of the Multilateral Debt Relief Initiative

In 2006, the Multilateral Debt Relief Initiative (MDRI) was implemented by the IMF, the World Bank's International Development Association (IDA), and the African Development Bank's development fund. Eligible countries received a 100 per cent reduction of their debt to the IMF (on 6 January 2006), to IDA (on 1 July 2006) and to the African Development Bank (September 2006).

At the end of 2006-07, 22 countries had benefited from debt cancellation under the MDRI. There are another 19 countries that are taking steps to complete the Heavily Indebted Poor Countries (HIPC) Initiative, a debt relief initiative in place since 1996. When these countries have completed the HIPC Initiative, they will automatically be eligible for 100 per cent debt cancellation under the MDRI.[13]

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12 Other Committee members were: the Chairman, Mr Pedro Malan (Chairman of Unibanco and a former Finance Minister of Brazil); Mr Caio Koch-Weser (Vice-Chairman of Deutsche Bank); Mr William McDonough (Vice Chairman of Merrill Lynch); Dr Sri Mulyani Indrawati (Indonesia's Finance Minister); and Dr Ngozi Okonjo-Iweala (former Foreign and Finance Minister of Nigeria).

13 Countries that have reached 'completion point' under the HIPC Initiative are eligible for MDRI debt relief. Completion point is the final stage of the HIPC Initiative and, amongst other things, requires countries to have implemented key policy reforms, maintained macroeconomic stability and begun implementing a comprehensive poverty reduction strategy.

Implementation of the MDRI requires donors to increase contributions to IDA in order to fund the write-off of debts owed by HIPCs to these organisations. Australia has strongly supported the implementation of the MDRI. On 12 September 2006, the then Treasurer, the Hon Peter Costello MP, announced that Australia had made an upfront payment of A$136.2 million to IDA to pay for Australia's share of the first ten years of the Initiative.

Australia's contribution to the MDRI is in addition to the A$112 million it has already committed to the World Bank and the IMF for debt relief provided under the HIPC Initiative and 100 per cent bilateral debt forgiveness for countries that qualify for HIPC Initiative debt relief.

World Bank

Selection of a new World Bank Group President

On 25 June 2007, World Bank Executive Directors unanimously selected Mr Robert Zoellick as the eleventh President of the Bank for a five year term. In coming to their decision, Executive Directors considered that Mr Zoellick would bring strong leadership and managerial qualities to the Bank Presidency, as well as a proven track record in international affairs and the drive required to enhance the credibility and effectiveness of the Bank.

In May 2007, the then Treasurer, the Hon Peter Costello MP, issued a press release welcoming the announcement that Mr Zoellick would be the US nominee for the position of President, stating that he 'is an excellent candidate for the World Bank Presidency and will be supported by Australia'. The then Treasurer noted, however, that following the completion of those processes, it was Australia's view that the World Bank should examine the selection process for the position of President in line with the objectives advanced by the G-20 of openness, transparency and merit-based selection without restriction by nationality.

Fragile states

Over the past decade the World Bank has increased its focus on supporting development in fragile and conflict-affected states. In March 2007, the Bank released the report *Strengthening the World Bank's Rapid Response and Long-term Engagement in Fragile States*. The report provides an update on the Bank's action plan to improve its organisational response in fragile states. In January 2007, the Bank also released a new policy framework for responding to crises and emergencies *Toward a New Framework for Rapid Bank Response to Crises and Emergencies*. The new policy is designed to improve the flexibility, speed, and effectiveness of the Bank's emergency response and adopt a strategic approach to disaster risk reduction and crisis prevention in high risk countries.

Fragile states was selected as a topic in the 2007 World Bank *Global Monitoring Report* and has been chosen as a special theme for the 15th replenishment of the International Development Association.

Replenishment of the International Development Association (IDA)

During 2007, donors have been negotiating the 15th replenishment of the IDA (IDA 15). Donor contributions, combined with internal resources from the World Bank Group, will fund IDA's provision of grants and highly concessional loans to low-income countries over FY09-11.

The replenishment meetings draw donors together to discuss key priority areas that IDA should focus on over the three-year IDA 15 period. These areas include: IDA's role in the global aid architecture; IDA's aid effectiveness; IDA's support for fragile states; and long-term debt sustainability.

There has also been broad support from donors for IDA management's request to significantly increase the total size of the IDA 15 replenishment over the IDA 14 replenishment. As part of this increase, the World Bank Group agreed that the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) will each transfer US$1.75 billion from their net income to the IDA.

Asian Development Bank

Asian Development Fund (ADF)

The ADB conducted the Midterm Review of the eighth replenishment of the Asian Development Fund (ADF IX), in Frankfurt, Germany during December 2006. As the ADB's concessional lending arm, the ADF provides grants and concessionary loans to the region's poorest countries. Donors and the ADB have recognised that the emphasis in the global development community has shifted from monitoring the amount and distribution of international assistance to demonstrating genuine development impacts. Accordingly, ADF donors and the ADB agreed on a number of reform measures to be undertaken during ADF IX. These reform measures include initiatives such as adopting a results-based management approach — known as *Managing for Development Results (MfDR)*, and improving both human resource management and staff incentives. During the mid-term review participants noted that significant progress had been achieved in some aspects of the reform agenda, but pointed out that progress on some matters, such as the implementation of results-based management, had been too slow.

Long-Term Strategic Framework (LTSF) review

In June 2006, the ADB announced that it would undertake a review of its *Long-Term Strategic Framework* (LTSF 2001-2015). Australia viewed this strategic work as essential to ensuring the ADB's continued effectiveness as a development institution in the rapidly evolving Asia-Pacific region. The LTSF review process commenced with an Eminent Persons Group (EPG), convened by ADB President Mr Haruhiko Kuroda, presenting a report to the ADB Governors at the 2007 Annual Meeting in Kyoto. Some Governors expressed concern that the EPG report was advocating a shift away from the Bank's core mandate of poverty reduction. Australia's Head of Delegation at the meeting, the Hon Chris Pearce MP, emphasised that the Bank's long-term strategy should ensure that the ADB focuses its activities on measures to assist the poorest and most disadvantaged in the region, including those who are most in need of external support. The LTSF is expected to be finalised in March 2008 after further consultation with members and the Board.

Weakly Performing Countries

In May 2007, the ADB released the strategy *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. The ADB's approach is grounded in its performance-based allocation system, an incentive mechanism for allocating scarce concessional lending resources to eligible ADF countries based on criteria including policy and governance indicators. The ADB will apply the approach depending on country-specific circumstances and will be informed by the decisions of the relevant ADB staff and partners working in weakly performing countries. Australia has continued to advocate for improved Multilateral Development Bank (MDB) engagement in small and fragile states, including those in the Asia-Pacific region.

Responding to client's needs

The ADB has continued efforts to be responsive to the evolving needs of its developing member country clients, through assistance targeting new markets and the development of innovative modes of assistance. The ADB continues to finance projects eligible for tradable emission-reducing credits under the Clean Development Mechanism. Under its Innovation and Efficiency Initiative (IEI), the ADB is also piloting new financial products such as local currency and sub-sovereign lending, greater use of guarantees and syndications and a Multi-tranche Financing Facility (MFF) to support medium to longer-term investment programs efficiently. Australia has seen the MFF as a positive innovation for the ADB in responding to the needs of its developing member country clients and has supported the ADB in mainstreaming the use of the MFF in 2008.

Section 2: Annual Report of Australia's interactions with the International Monetary Fund

(as required under the *International Monetary Agreements Act 1947*)

Part 1: Australia's relations with the International Monetary Fund

Australia's representation

Board of Governors

The Board of Governors is the highest authority within the International Monetary Fund (IMF) and consists of one Governor and one Alternate Governor for each member country. During 2006-07, the Governor of the IMF for Australia was the then Treasurer, the Hon Peter Costello MP, and the Alternate Governor was the Secretary to the Treasury, Dr Ken Henry AC.

Member countries cast votes as required throughout the year. The Australian Governor's votes on IMF resolutions during 2006-07 are noted in Table 2.1.

Table 2.1: Australian Governor's votes on IMF resolutions 2006-07

Resolution Title	Adoption Date	Australian Governor's Vote
Timing and venue of 2009 Annual Meetings	14 July 2006	Supported
Dates of 2007 and 2008 Annual Meetings	17 July 2006	Supported
Direct Remuneration of Executive Directors and their Alternates	24 August 2006	Supported
2006 Regular Election of Executive Directors	24 August 2006	Supported
Reform of Quota and Voice	19 September 2006	Supported
Financial Statements, Report on Audit and Administrative and Capital Budgets	24 September 2006	Adopted by consensus
Montenegro to Join IMF	18 January 2007	Supported

International Monetary and Financial Committee

The International Monetary and Financial Committee (IMFC) advises the Board of Governors on the functioning of the international monetary and financial system. Its 24 members represent the same constituencies as the IMF Executive Board (see below). International institutions, including the World Bank, also participate as observers in its meetings.

The IMFC meets twice a year, usually in September or October in conjunction with the full Governors' Meeting (the 'Annual Meetings'), and in March or April (the 'Spring Meetings').

The then Treasurer represented Australia at the Governors' Meeting held on 19-20 September 2006 and represented the constituency of which Australia is a member at the IMFC meeting held on 14 April 2007. The constituency was represented at the 17 September 2006 IMFC meeting by Korea's Deputy Prime Minister and Minister of Finance and Economy, Mr Okyu Kwon.

Senior officials (Deputies) representing IMFC members attend preparatory meetings prior to each IMFC meeting. The April 2007 Deputies meeting was attended by Treasury Executive Director Dr David Gruen.

Executive Board

The Executive Board conducts the day-to-day business of the IMF and determines matters of policy under the overall authority of the Board of Governors. Executive Directors are appointed or elected by member countries or groups of countries.

The Board consists of 24 Executive Directors. Eight countries have single-member constituencies and appoint or elect their own Executive Director: the United States, Japan, Germany, France, the United Kingdom, China, Saudi Arabia and the Russian Federation. The remaining Executive Directors represent multi-member constituencies. The constituency of which Australia is a member comprises: Australia, Kiribati, the Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, the Solomon Islands and Vanuatu.

In June 2007, Australia's constituency held 3.87 per cent of the voting power in the IMF, and Australia independently held 1.48 per cent. Dr Jong-Nam Oh of the Republic of Korea was the Executive Director for the constituency from 1 November 2004 until 31 October 2006. This was the first time since Australia joined the Fund in 1947 that it did not provide the Executive Director — a recognition of Korea's growing weight in the world economy. Dr Oh was succeeded as Executive Director by Mr Richard Murray (a former Treasury Executive Director) on 1 November 2006. Mr Murray's term expires on 31 October 2008.

The Executive Director is supported by an Alternate Executive Director, a senior advisor and a number of advisors from various countries represented in the constituency.

The Treasury, with input from the Reserve Bank of Australia (RBA) and other agencies as appropriate, provides briefing to the Executive Director on key issues being discussed by the Board. The Executive Director must take into account the views of all constituency members. Although an Executive Director may speak on behalf of individual members of the constituency, in the event of a formal vote in the Executive Board all votes of the constituency must be cast as a bloc.

Australia's Article IV consultation

In accordance with Article IV of its Articles of Agreement, the IMF conducts regular discussions with the authorities of member countries on economic policies and conditions.

Australia's 2007 Article IV consultation included a visit by IMF staff between 18 and 27 June 2007. During their visit they met with the then Treasurer, senior Treasury officials, the Governor of the RBA and senior RBA officials. They also met with officials from other agencies in the Treasury portfolio including the Productivity Commission, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority. The IMF staff members also held discussions with other regulatory agencies and representatives from the business community, academia and unions.

The staff report on the consultation is available at www.imf.org.

IMF Institute courses

The IMF Institute is a specialised department of the IMF that provides training in economic analysis and policy and related subjects for officials of member countries. During 2006-07, four Australian officials attended Institute courses.

Table 2.2: Australian attendance at IMF Institute courses 2006-07

Name	Department	Course	Date
Jyoti Rahman	Treasury	DL 06.35 Financial Programming and Policies through Distance Learning	14 August-8 December 2006
Ben Burston	Treasury	HQ 06.14 Financial Programming and Policies	25 September-10 November 2006
Tamara Hartwich	Treasury	DL 07.31 Financial Programming and Policies through Distance Learning	8 January-21 March 2007
Andrew Thomas	Treasury	HQ 07.08 Macroeconomic Diagnostics	4-29 June 2007

Meetings and visits

During 2006-07, Treasury portfolio Ministers and senior officials met with IMF management and members of our IMF constituency:

- Treasury officials met with officials from the Korean Ministry of Finance and Economy in Seoul in August 2006. Discussions covered IMF and World Bank policy and governance issues, the role of the G-20, and the Korean and Australian economies.
- Officials from the New Zealand Treasury met with Australian Treasury officials in Sydney in September 2006 for a bilateral meeting on the International Financial Institutions.

- During the IMF/World Bank Annual Meetings in Singapore in September 2006, the then Treasurer met with then IMF Managing Director, Mr Rodrigo de Rato.
- Also at the Singapore Annual Meetings, senior Treasury officials met with: IMF First Deputy Managing Director, Dr John Lipsky; the Director of the Fund's Asia and Pacific Department, Mr David Burton; and senior officials from Korea, New Zealand, the Philippines and the Solomon Islands.
- In March 2007, Treasury officials visited Seoul, Wellington and Manila to discuss IMF and other issues with relevant officials.
- During the IMF/World Bank Spring Meetings in April 2007, senior Treasury officials met with: IMF First Deputy Managing Director, Mr John Lipsky; the Director of the Fund's Policy Development and Review Department, Mr Mark Allen; the Director of the Fund's Asia and Pacific Department, Mr David Burton; and senior officials from Korea and New Zealand.

Part 2: Australia's financial transactions with the International Monetary Fund

Australia's financial transactions with the IMF in 2006-07 comprised:

- receipts of remuneration for Australia's contribution to IMF reserves;
- payments of special drawing right (SDR) charges and an annual assessment fee for Australia's allocation of SDRs;
- receipts of interest on Australia's SDR holdings;
- a payment by the IMF to Australia to maintain the value of Australia's quota;
- transfers and receipts to facilitate Australia's contribution to the IMF's financial transaction plan, reflecting the borrowing and repayments of other members; and
- a range of small transactions for administrative purposes.

These transactions are described in the following sections.

Special Drawing Right charges, interest and assessment fee

The SDR is an international reserve asset (akin to a currency), created by the IMF to supplement the existing official reserves of member countries. The SDR also serves as the unit of account of the IMF. Its value is based on a basket of key international currencies (the US dollar, euro, Japanese yen and pound sterling).

SDRs are allocated to member countries in proportion to their IMF quotas. Each member country may choose to hold more or fewer SDRs than its net cumulative allocation.

Australia's allocation of SDRs remained at SDR471 million throughout 2006-07 while its actual SDR holdings at 30 June 2007 were SDR127.7 million. Australia's SDR allocation is held by the RBA, having been sold to the Bank by the Commonwealth for Australian dollars.

The IMF levies charges on the SDRs that have been allocated to each member and pays interest on the SDRs that are held by each member. Charges and interest payments are accrued daily at the same rate of interest and paid quarterly. The rate of interest on SDR holdings is calculated weekly and is based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies.

In 2006-07, the Australian Government paid charges of SDR18.7 million on net cumulative allocations, and the RBA received SDR5.3 million interest on its holdings (Table 2.3).

In addition, the IMF levies an annual assessment fee to cover the cost of operating the SDR Department. The fee is determined according to participants' net cumulative SDR allocations. Australia's fee for the IMF's financial year ending 30 April 2007 was SDR22,722 (Table 2.3).

Remuneration

The IMF pays remuneration (in effect, interest) on a member's reserve position in the IMF, except on a small portion that is provided to the IMF as an interest-free resource. The amount of a member's reserves held by the IMF can change frequently during the year. It increases when the IMF calls on the member to contribute some of its currency to lend to other members, and decreases when borrowing members make repayments to the IMF that are then returned to the member. These payments are usually prescribed in advance in the IMF's financial transaction plan.

Remuneration is accrued daily and paid quarterly, and the rate of remuneration is equal to the SDR interest rate minus an adjustment for burden sharing. When receiving the remuneration, the Government instructs the RBA to exchange the SDR amounts for Australian dollars at the prevailing exchange rate. Australia received remuneration payments in 2006-07 totalling SDR6.1 million (Table 2.3).

The IMF's burden-sharing mechanism makes up for the loss of income from unpaid charges and is also used to accumulate resources in the Fund's Special Contingent Account. Resources collected from members under the burden-sharing mechanism are refundable to them as arrears cases are resolved, or as may be decided by the IMF. Thus, resources collected for unpaid charges are refunded when these charges are eventually settled.

Maintenance of value of IMF quota

A member's IMF quota determines its maximum financial commitment to the IMF under normal circumstances, its voting power, and has a large bearing on its access to IMF financing. During 2006-07, Australia's quota remained at SDR3,236 million. Part of this is held in reserve by the IMF and denominated in SDRs (this part is relevant for remuneration purposes) and part is held in Australia — a combination of promissory notes and cash amounts held at the RBA — and denominated in Australian dollars.

Because the exchange rate for transactions between the Australian dollar and SDR amounts changes frequently, the SDR value of the part of Australia's IMF quota denominated in Australian dollars is likewise subject to change. Under the IMF's Articles of Agreement, members are required to maintain the value of their quota in terms of SDRs. The adjustment required to maintain the SDR value of the quota is called the maintenance of value adjustment, and it is settled annually following the close of the IMF's financial year on 30 April.

During the IMF's financial year from 1 May 2006 to 30 April 2007, the value of the Australian dollar in terms of the SDR appreciated by 4.7 per cent. This meant that fewer Australian dollars were required to meet Australia's financial obligations to the Fund. As the maintenance of value adjustment, the Australian Government received a payment of A$319.4 million from the Fund during 2006-07.

Table 2.3: Australia's transactions with the IMF in 2006-07 (cash basis)[(a)]

	Amount in SDRs	Amount in A$
Interest on RBA SDR holdings		
For 3 months ending 31 July 2006	1,247,722	2,435,530
For 3 months ending 31 October 2006	1,316,128	2,529,556
For 3 months ending 31 January 2007	1,364,579	2,600,189
For 3 months ending 30 April 2007	1,344,027	2,446,800
Total interest received	5,272,456	10,012,074
Charges on SDR allocation		
For 3 months ending 31 July 2006	4,347,578	8,486,391
For 3 months ending 31 October 2006	4,622,816	8,884,905
For 3 months ending 31 January 2007	4,839,267	9,221,164
For 3 months ending 30 April 2007	4,847,259	8,824,429
Total charges paid	18,656,920	35,416,889
Annual assessment fee paid to SDR Department	22,722	41,365
Remuneration for Australian holdings at the IMF		
For 3 months ending 31 July 2006	2,021,866	3,946,645
For 3 months ending 31 October 2006	2,025,966	3,893,842
For 3 months ending 31 January 2007	1,261,072	2,402,957
For 3 months ending 30 April 2007	756,603	1,377,395
Total remuneration received	6,065,507	11,620,839
Maintenance of Value transaction		
For the 2006-07 MOV	**n/a**	**319,394,915**
For the 2005-06 MOV(b)	**n/a**	**-27,081,858**

(a) The totals may differ from the sum of the amounts shown due to rounding.
(b) This cash transaction occurred during 2006-07 and was made to settle the accrued payable created as part of the 2005-06 maintenance of value adjustment.

Financial transactions plan and Australia's reserve position in the International Monetary Fund

The IMF manages its lending resources through a financial transactions plan (FTP). This is the mechanism through which the IMF selects the members whose currencies are to be used in IMF lending transactions and allocates the financing of those lending transactions among members included in the plan. Currencies of members included in the FTP can be used both for transfers (loans) from the IMF to borrowing members and for receipts (repayments) from borrowing members. Only currencies of IMF members with sufficiently strong balance of payments and reserve positions — such as Australia — are selected for use in the FTP.

In 2006-07, Australia was involved in both the transfer and receipts sides of the FTP. Australia conducted nine transactions totalling A$353.5 million to facilitate transactions on the receipts side of the FTP and only one transaction, for A$48 million, on the transfer side. This reflected strong global economic growth, with low levels of new IMF loan approvals and a number of borrowing members taking the opportunity to make early repayments.

Australian dollars are also used by the IMF to settle minor $A-denominated administrative expenses incurred by the Fund. In 2006-07, Australia transferred A$250,000 to the IMF for this purpose. Australia receives ongoing interest on these funds through the IMF's quarterly payment of remuneration.

As noted earlier, FTP transactions (and transfers for administrative purposes) directly impact on Australia's reserve position at the IMF. With the value of receipts significantly outweighing the value of transfers during 2006-07, the amount of Australia's reserves held by the IMF fell during the year, from SDR403 million to SDR246 million. This reserve position forms part of Australia's liquid international reserves because, subject to the representation of a balance of payments need, Australia can convert its SDR-denominated reserve asset into useable currency by drawing on the IMF.

Table 2.4 provides details of individual FTP transactions as well as transfers from Australia to the IMF for the Fund's administrative purposes.

Table 2.4: Australia's reserve position in the IMF in 2006-07[(a)]

Date	Description	Debit (SDRs)	Debit (A$)	Credit (SDRs)	Credit (A$)
Reserve position as at 30 June 2006				**403,155,872**	**795,807,090**
14 Jul 2006	Administrative Transfer			102,538	200,000
20 Sep 2006	Administrative Transfer			25,635	50,000
12 Oct 2006	FTP with Indonesia (Receipt)	61,000,000	120,248,935		
6 Nov 2006	FTP with Turkey (Receipt)	35,500,000	68,288,141		
30 Nov 2006	FTP with Uruguay (Receipt)	22,500,000	43,472,717		
2 Feb 2007	FTP with Turkey (Receipt)	40,788,000	78,730,977		
30 Mar 2007	FTP with Pakistan (Receipt)	1,579,167	2,968,939		
17 Apr 2007	FTP with Romania (Receipt)	1,813,875	3,316,661		
20 Apr 2007	FTP with Pakistan (Receipt)	2,588,958	4,725,531		
3 May 2007	FTP with Turkey (Receipt)	10,000,000	18,405,868		
22 May 2007	FTP with Turkey (Loan)			26,000,000	47,975,260
22 Jun 2007	FTP with Turkey (Receipt)	7,480,000	13,353,781		
Reserve position as at 30 June 2007				**246,034,045**	**438,954,585**

(a) As Australia's reserve position is denominated in SDRs and SDR/AUD exchange rates vary during the year, when expressed in Australian dollars, the 30 June 2007 reserve position does not exactly reflect summation of the opening position and transactions during the year.

Section 3: Annual Report of Australia's interactions with the World Bank

(This section of the report is required under the *International Monetary Agreements Act 1947* and the *International Bank for Reconstruction and Development (General Capital Increase) Act 1989*)

Part 1: Activities of the World Bank

World Bank operations

Managing for development results

The World Bank supports the world's developing countries in their efforts to boost economic growth, lower poverty and improve the living conditions of people. The 'results agenda' adopted by the Bank aims to ensure that development assistance yields sustainable poverty reduction. The Bank attempts to evaluate its success by directly measuring the impacts of its products and services on poverty reduction. The primary measurement tool is results-based Country Assistance Strategies, specifying expected linkages between the Bank's interventions and long-term development goals and including measurable indicators of progress.

Additionally, the International Development Association (IDA) Results Measurement System shows aggregated results across IDA countries. Linked to the Millennium Development Goals framework, it reflects the priorities and processes of national poverty-reduction strategies and assesses IDA's contribution to development results. It measures results on two levels: aggregate country outcomes; and IDA's contribution to country outcomes. An interactive website now facilitates the tracking of key indicators (www.worldbank.org/results).

Operations evaluation

Evaluation of the World Bank's project quality is an integral part of the Bank's performance review processes. There are several major independent reviews of Bank performance prepared by the Independent Evaluation Group (IEG) and the Quality Assurance Group (QAG). The IEG is an independent unit within the Bank that reports directly to the Board of Executive Directors. The IEG's evaluations seek to provide an objective basis for assessing the results of the Bank's work, to ensure accountability in the achievement of objectives and to facilitate learning from experience. The QAG monitors the quality of World Bank operational work, including loans and advisory services, during implementation.

The Annual Report on Portfolio Performance (ARPP) produced by the QAG provides a strategic overview of the size, composition and quality of the Bank's lending portfolio and the Analytic and Advisory Activities (AAA) program. Annual approvals in FY06 reached US$23.9 billion, continuing the upward movement of the previous two years. Project-level IEG evaluations continued the positive trend of the past decade and the share of satisfactory outcomes now hovers around 80 per cent. Development outcomes for IDA projects achieved a 77 per cent satisfactory rating, which although still below the 85 per cent outcome for IBRD operations, is an improvement over previous years. The Bank's management has recently taken active measures to enhance the Bank's performance and organisational response to fragile states whose 56 per cent satisfactory outcome level remains of concern.

IEG's 2007 assessment of *IFC's Development Results — Results, Lessons & Implications from 10 Years of Private Sector Development Evaluation* took stock of the performance of 627 investment operations approved during 1991-2001 and evaluated between 1996-2006, and drew on other evaluative materials to highlight lessons and strategic implications for IFC going forward. The report concluded that: 59 per cent of IFC-supported projects (65 per cent by volume) achieved high development ratings at the project level; development effectiveness and profitability tend to go hand in hand; and IFC has generally made sound strategic choices.

Financial activities of the World Bank

International Development Association

The International Development Association (IDA) is the largest source of concessional finance assistance to the world's poorest countries. IDA's resources help support country-led poverty reduction strategies in key policy areas, including: promoting economic growth; enhancing public sector governance and transparency; developing infrastructure; improving the quality of basic education; strengthening the fight against HIV/AIDS, avian flu and other communicable diseases; and building a healthy investment climate as a prerequisite for private sector investment.

IDA committed US$11.9 billion for 189 operations in 2006-2007. This was a record high for IDA, with commitments 25 per cent higher in dollar terms than in 2005-2006. This funding included US$9.6 billion in credits, US$2.2 billion in grants and US$0.1 billion in guarantees. The largest share of IDA resources was committed to Africa, which received a record US$5.8 billion or 49 per cent of the total. South Asia received US$4.0 billion of IDA resources in 2006-07 and East Asia and the Pacific received US$1.2 billion, approximately 10 per cent of total IDA commitments.

IDA is financed from reflows from earlier loans, resources from donor governments and internal resources from the World Bank Group. Negotiations on the 14th replenishment of IDA concluded during 2004-05 with approximately US$33 billion to be made available over three years, including approximately US$18 billion in new contributions from 40 donor countries. This represents the largest expansion of IDA resources in two decades with overall resources increasing by approximately

25 per cent. Negotiations for the 15th replenishment of IDA were launched in March 2007.

IDA's financial support to poor countries takes systematic account of vulnerability to debt in accordance with the World Bank and IMF's Debt Sustainability Framework for Low Income Countries. Poor countries with the highest levels of debt will receive support from IDA in the form of grants, while relatively less debt-burdened countries will continue to receive highly concessional long-term loans, or in a few cases, a mixture of grants and loans. It is expected that around 20 per cent of total IDA support in the coming year will be on grant terms.

International Bank for Reconstruction and Development

The International Bank for Reconstruction and Development (IBRD) is a AAA-rated financial institution which aims to reduce poverty in middle-income and credit-worthy poorer countries by promoting sustainable development. The IBRD provides financing (loans, guarantees and related risk management products) and analytical and advisory services.

New lending commitments by the IBRD fell in 2006-2007 to US$12.8 billion for 112 projects. The East Asia and Pacific region received 22 per cent of new commitments by the IBRD amounting to US$2.8 billion. Fiscal year 2007 represented another year of negative net disbursements (that is, loan repayments exceeded loan disbursements) with total loans outstanding falling to US$97.8 billion, from US$103.0 billion at the end of 2005-06. In 2006-07, the IBRD reported operating income of US$1.66 billion.

International Finance Corporation

The International Finance Corporation (IFC) promotes economic development through the private sector within the World Bank's overall poverty reduction mandate. The IFC invests with local or foreign business partners in developing economies, often in high-risk commercial environments, to add new commercial capacities in local markets and demonstrate viable opportunities to local business. The IFC also assists private businesses in developing countries to secure financing in international financial markets and provides advice and technical assistance to business and governments.

In 2006-07, new investment commitments for the IFC's account amounted to US$8.2 billion, including US$982 million in signed guarantees. This represents an increase of 22 per cent compared to US$6.7 billion in fiscal year 2006. Europe and Central Asia along with Latin America and the Caribbean received the largest proportion of commitments for IFC's own account, at 22 per cent for each region. The East Asia and Pacific region received 11 per cent of new commitments from the IFC in 2006-07.

The IFC has recorded positive annual profits in each year since its inception in 1956. In 2006-07, the IFC recorded an operating income of US$2.61 billion, up from $1.41 billion in 2005-06.

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) promotes foreign investment into emerging economies by offering political risk insurance (guarantees) to investors and lenders. The MIGA also provides technical assistance and advice to help developing countries to attract and retain foreign investment.

In 2006-07, the MIGA issued 45 guarantees amounting to US$1.4 billion, an increase from US$1.3 billion in FY06. That year's guarantees covered 26 new projects and three existing projects. Of these, 14 projects were in IDA-eligible countries.

Net income increased to US$62.3 million in 2006-07 from US$23.2 million in 2005-06 as a result of a higher investment income and translation gains.

The **International Centre for Settlement of Investment Disputes** (ICSID) helps encourage foreign investment by providing international facilities for conciliation and arbitration of investment disputes between foreign investors and their host countries. Australia signed the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States on 24 March 1975, and deposited its instrument of ratification on 2 May 1991.

World Bank administrative budget and human resources

Total administrative expenses in 2006-07 were budgeted at US$2.12 billion. In June 2007, an increase in the total administrative budget of 1.4 per cent to US$2.15 billion for 2007-08 was agreed. Staffing levels remained largely static during 2006-07, with 8,575 staff as at end-March 2007.

Part 2: Australia and the World Bank

Australia's shareholdings and contributions

Australia continued to actively support the World Bank's operations in 2006-07 through both its capital shares, and additional replenishments and contributions. This included contributions of A$108.12 million for IDA; Australia's contribution to IDA's costs under the Heavily Indebted Poor Countries (HIPC) Initiative; and cofinanced and trust fund activities.

International Development Association

As at 30 June 2007, Australia had contributed US$2.6 billion to IDA, equal to 1.55 per cent of total IDA subscriptions and contributions.

Australia has committed to provide a total of A$424 million to the 14th replenishment of IDA, including contributions for IDA's debt relief costs under the HIPC Initiative during the IDA 14 period.

In September 2006, Australia also made an upfront payment of A$136.2 million to IDA for Australia's share of IDA's costs under the first ten years of the Multilateral Debt Relief Initiative.

International Bank for Reconstruction and Development

As at 30 June 2007, Australia held 24,464 shares in the IBRD, valued at US$3.0 billion and representing 1.55 per cent of the total capital subscribed to by members of the IBRD. Of this amount, US$181.8 million is paid into the IBRD, with the remaining US$2.8 billion at call.

International Finance Corporation

As at 30 June 2007, Australia held 2.0 per cent of the IFC's capital stock, valued at US$47.3 million.

Multilateral Investment Guarantee Agency

As at 30 June 2007, Australia's shareholding in the MIGA was 3,019 shares, valued at US$32.6 million and equal to 1.73 per cent of MIGA's total capital stock.

International Centre for Settlement of Investment Disputes

Members are not required to make a financial contribution to the ICSID as the expenses of the ICSID Secretariat are financed out of the Bank's budget, and the costs of individual proceedings are borne by the parties involved.

Australian cofinancing

Operationally, the Australian Agency for International Development (AusAID) continued to collaborate with the World Bank on a number of cofinanced activities to complement Australia's IDA contribution. Specific contributions included:

- A$1.0 million to support education reform in the Philippines.
- A$10.0 million over six years to the Policy Facility for Decentralisation and Service Delivery in South Asia to promote improved service delivery

through decentralisation, with a focus on institutional reform in the delivery of water and sanitation services.

- A$10.0 million to help negotiate key reforms to improve Vietnam's international economic integration.

Engagement with Australian firms

Australia's membership of the Bank allows Australian firms to compete for contracts to supply goods and services financed by the Bank. Decisions on the supply of goods and services to Bank-financed projects are usually made in borrowing countries by their executing agencies under guidelines agreed by the Bank. In addition, the Bank finances some contracts for project preparatory work by consultants from its own resources or from donor-contributed funds. The Bank's procurement guidelines use international competitive bidding principles, with some preference for local suppliers.

The Australian Trade Commission (Austrade), through its network of domestic and international offices, assists Australian companies to pursue Bank project work and procurement opportunities. Austrade has a Trade Commissioner in Washington assisting companies with Bank work. Austrade offices in borrowing countries also provide assistance by representing the interests of Australian firms to implementing agencies.

Australian representation at the World Bank

Governors and Executive Directors

The highest decision-making body of the World Bank Group, which includes the IBRD, the IDA, the IFC, the MIGA and the ICSID, is the Board of Governors. The Board of Governors consists of one Governor from each member country. In 2006-07, the then Treasurer, the Hon Peter Costello MP, was Australia's Governor to the Bank. The Parliamentary Secretary to the Minister for Foreign Affairs was the Alternate Governor. During 2006-07, this position was initially filled by the Hon Teresa Gambaro MP and subsequently by the Hon Greg Hunt MP. A list of resolutions on which Governors voted during 2006-07 is set out in Table 3.1 together with the Australian Governor's votes.

Table 3.1: Australian Governor's votes on World Bank Group resolutions — 2006-07

Resolution title	Adoption date	Australian Governor's vote
IDA		
Financial Statements, Accountants' Report and Administrative Budget	20 September 2006	Supported
Resolution of Appreciation	20 September 2006	Supported
Membership of the Republic of Montenegro	29 December 2006	Supported
IBRD		
Forthcoming Annual Meetings of the Boards of Governors — Proposed Dates for the 2007 and 2008 Annual Meetings in Washington, DC	17 July 2006	Supported
Direct Remuneration of Executive Directors and their Alternates	2 August 2006	Supported
2006 Regular Election of Executive Directors	3 August 2006	Supported
Dates for the 2007 and 2008 Annual Meetings in Washington, DC of the World Bank Group and the International Monetary Fund	21 August 2006	Supported
Allocation of FY06 Net Income	20 September 2006	Supported
Transfer from IBRD Surplus to Fund Trust Fund for Lebanon	20 September 2006	Supported
Resolution of Appreciation	20 September 2006	Supported
Membership of the Republic of Montenegro	29 December 2006	Supported
Transfer from Surplus to Replenish the Low-Income Countries Under Stress Implementation Trust Fund	10 January 2007	Supported
Transfer from Surplus to Replenish the Trust Fund for Gaza and West Bank	31 January 2007	Supported
Transfer from Surplus to Fund the Caribbean Catastrophe Risk Insurance Facility Trust Fund	23 April 2007	Supported
IFC		
Financial Statements, Accountants ' Report, Administrative Budget and Designations of Retained Earnings	20 September 2006	Supported
Resolution of Appreciation	20 September 2006	Supported
Membership of the Republic of Montenegro	29 December 2006	Supported
MIGA		
Election of Directors	3 August 2006	Supported
Financial Statements and Accountants' Report	20 September 2006	Supported
Resolution of Appreciation	20 September 2006	Supported
Membership of the Republic of Montenegro	12 January 2007	Supported

Annual Meetings of the Governors of the Bank and the IMF normally take place in September/October each year. Meetings of the Development Committee, a joint ministerial committee of the Bank and the IMF, are held in September/October and April/May of each year. Australia was represented at the September 2006 and April 2007 meetings by the then Treasurer, the Hon Peter Costello MP. Preparatory meetings of the Development Committee (Deputies) were attended in 2007 by Dr David Gruen, Executive Director, Macroeconomic Group, the Treasury.

Executive Board

The Executive Board takes decisions on the day-to-day business of the World Bank Group and determines matters of policy under the overall authority of the Board of Governors.

The Board consists of 24 Executive Directors. An Executive Director is appointed by each of the five member countries that have the largest numbers of shares in the capital stock. The remaining Executive Directors are elected to represent other individual countries or constituencies of countries. Australia belongs to the constituency that also includes Cambodia, Kiribati, the Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, the Solomon Islands and Vanuatu.

As at 30 June 2007, the constituency in which Australia is a member held 3.45 per cent of the voting power of the Bank, and Australia independently held 1.53 per cent. By agreement between the member countries, the staffing of the constituency office rotates. During 2006-07, Mr Joong-Kyung Choi from the Republic of Korea was Executive Director and Mr Terry O'Brien from Australia was Alternate Executive Director. Australia also holds an advisor position in the Executive Director's office.

On 11 April 2007, the then Treasurer announced the nomination of Dr Jim Hagan to the position of Executive Director at the World Bank from 1 August 2007 for a period of four years. Dr Hagan replaced Mr Joong-Kyung Choi, who simultaneously commenced as Alternate Executive Director in the constituency office. Dr Hagan is an experienced Commonwealth public servant who has held various senior executive positions. From December 2004 to December 2006, Dr Hagan was the Undersecretary to the Solomon Islands Department of Finance and Treasury, deployed under the Regional Assistance Mission to the Solomon Islands, where he gained first-hand experience of both the development challenges confronting countries in Australia's region and the work of the World Bank.

The briefing provided to the Executive Director on matters coming before the Bank Executive Board is prepared by relevant Australian Government departments and agencies, principally Treasury and AusAID. Periodic consultations are also held with non-government organisations.

Bilateral meetings

During 2006-07, Australian Government Ministers and/or officials met with the following World Bank management and staff:

- Mr Paul Wolfowitz, President, 1 June 2005 — 30 June 2007;
- Dr Juan Jose Daboub, Managing Director;
- Dr François Bourguignon, Senior Vice President & Chief Economist;

- Mr Jeffrey Gutman, Vice President and Network Head, Operations Policy and Country Services;
- Mr James Adams, Vice President, East Asia and Pacific;
- Dr Danny Leipziger, Vice President and Network Head, Poverty Reduction and Economic Management;
- Mr Lars Thunell, Executive Vice President, International Finance Corporation;
- Mr Nigel Roberts, Country Director for Papua New Guinea, Timor-Leste, and Pacific Islands.
- Mr Joong-Kyung Choi, Executive Director (representing Australia); and
- Mr Terry O'Brien, Alternate Executive Director (representing Australia).

Section 4: Australia’s interactions with the Asian Development Bank

Part 1: Activities of the Asian Development Bank

ADB operations

Managing for development results

The ADB is dedicated to poverty reduction in Asia and the Pacific, a region that is home to two thirds of the world’s poor. The ADB's focus is on encouraging economic growth, social development and good governance, while promoting regional cooperation and integration in partnership with governments, the private sector, and non-government and international organisations.

To improve its effectiveness and efficiency, the ADB has agreed with shareholders to enhance its relevance, responsiveness, and results orientation. The ADB is implementing a reform agenda aimed at strengthening operational policies, strategies, and approaches; mainstreaming a results-based management approach (the Managing for Development Results agenda); refining organisational processes and structures; reinforcing knowledge management; and improving human resources management and staff incentives.

Initiatives identified under the ADB’s reform agenda as reported in the ADB’s 2006 Annual Report include: agreement to ADB’s medium-term strategy; a regional cooperation and integration strategy; a revised strategic private sector development framework; enhanced ADB support to middle-income countries and Ordinary Capital Resources borrowers; and the second governance and anti-corruption plan. Business processes have been refined and new financial instruments introduced.

Evaluation of ADB operations

Evaluation of completed projects/programs

The ADB undertakes ongoing assessment of policies, strategies, programs, and projects. These assessments examine design and implementation to evaluate the results that are being achieved, what improvements should be considered, and what is being learned.

Operations evaluation at the ADB has changed significantly over the past 30 years. Operations evaluation now shapes decision making throughout the project cycle and in the ADB as a whole. The current system of operation evaluation consists of two levels:

- self-evaluation — conducted by those responsible for designing and implementing a country strategy, program, project, or technical assistance activity; and
- independent evaluation — undertaken by the Operations Evaluation Department (OED).

A total of 716 completed public and private sector projects/programs had been independently evaluated up to 31 December 2006. The percentage of projects rated as being 'successful' has trended upward since the 1990s. Evaluations by sector show continuing high success rates for transport and communications and for energy projects/programs. While further analysis is required before a firm conclusion can be drawn, these results suggest that the financing of infrastructure projects is a major strength of the ADB.

Financial activities of the ADB

The ADB's resources are comprised of its Ordinary Capital Resources (OCR), Special Funds, and Trust funds. While OCR and Special Funds are used to finance operations that are solely under ADB administration, Trust funds are externally funded and are administered by the ADB on behalf of donors.

Ordinary Capital Resources (OCR)

OCR are a pool of funds available for ADB's lending operations. Loans from OCR are offered at near-market terms to better-off ADB borrowing member countries. The ADB's OCR operations are principally financed through paid-in capital provided by member governments and funds borrowed from private placements in capital markets. The ADB's accumulated retained income (reserves) is also a source of finance for these operations.

ADB provides financial assistance through loans, technical assistance, guarantees, and equity investments to its developing member countries to help them meet their development needs.

Loan operations

New loan commitments by the ADB increased in 2006, to US$7.4 billion for 67 projects. South Asian countries received 27 per cent of new loan commitments while Central West Asian, South East Asian and East Asian countries received 26, 25 and 23 per cent respectively. The People's Republic of China and Pakistan were the largest borrowers, receiving 23 and 22 per cent of 2006 loans respectively.

Of total new commitments in 2006, 83 per cent (US$6.1 billion) was committed from OCR, while the remaining 17 per cent (US$1.3 billion) was committed from the Asian Development Fund. Year on year, funding allocated from OCR increased by around 38 per cent and funding allocated from the Asian Development Fund declined by 7 per cent in 2006.

Loan disbursements in 2006 totalled US$5.8 billion representing an increase of 21 per cent from the $4.7 billion disbursements in 2005. Of total loan disbursements, OCR disbursements were US$4.4 billion (77 per cent) and ADF disbursements were US$1.3 billion (23 per cent). In 2006, net disbursement (that is, loan disbursements minus loan repayments) was US$2.2 billion compared to negative US$0.4 billion in 2005.

Technical assistance

Technical assistance is a vital element of the ADB's development strategy. The ADB provides technical assistance on project preparatory activities, project implementation, institution strengthening policy studies and in dealing with regional/sub regional issues.

The ADB approved a total of 260 technical assistance projects for US$241.6 million, including 234 new projects and 26 supplementary projects. In monetary terms, this amount is 21.7 per cent more than the US$198.5 million for the 299 projects approved in 2005.

Grants

ADB approved 43 grant projects for US$538.4 million in 2006. Of this amount: US$274.9 million was funded from the ADF IX; US$28.5 million from the Asian Tsunami Fund and Pakistan Earthquake Fund; and US$235.0 million from external resources.

Multi-tranche Financing Facilities

Multi-tranche Financing Facilities (MFF) are similar to a standby letter of credit or purpose-specific credit line. The MFF is applicable to large stand-alone projects with discrete components. Eight multi-tranche financing facilities totalling US$3.8 billion were approved in 2006, compared with two for US$1.5 billion in 2005.

Cofinancing and guarantee operations

In line with the approval of the financing partnership strategy and the review of credit enhancement operations in 2006, the ADB is now focusing on direct value-added cofinancing.

Direct value-added cofinancing involves active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by the ADB to facilitate mobilisation, administration, and participation in cofinancing.

In 2006, total direct value-added cofinancing amounted to US$1.5 billion for 103 projects, of which US$1.4 billion was for 29 loan projects and US$92.7 million was for 74 technical assistance projects. Non-direct value-added co-financing amounted to about US$4.5 billion in the form of parallel grants and loans for 20 ADB-financed projects and programs.

The ADB provides guarantees as credit enhancements for eligible projects to cover risks that the private sector cannot easily absorb or manage on its own. The ADB offers two guarantee products — political risk and partial credit — designed to mitigate risk exposure of commercial lenders and capital market investors. A political risk guarantee is designed to facilitate cofinancing by providing lenders/capital market investors of ADB-assisted projects with coverage against specifically defined political risks. A partial credit guarantee provides comprehensive cover of commercial and political risks for a specific portion of the debt service provided by co-financiers.

In 2006, total ADB outstanding guarantee exposure increased by about 4 per cent to approximately US$1.2 billion, partial credit guarantees increased by about 7 per cent to approximately US$1.1 billion, and political risk guarantees declined by about 17 per cent to approximately US$149.6 million.

Asian Development Fund

The Asian Development Fund (ADF) is funded by ADB donor member countries and offers loans at very low interest rates and grants that help reduce poverty in ADB's poorest borrowing countries.

The eighth replenishment of the ADF (ADF IX), authorised by the ADB's Board of Governors in August 2004, became effective on 29 April 2005. Donors endorsed a total replenishment of US$7.0 billion, representing a 25 per cent increase over the ADF VIII replenishment. Australia was the third-largest donor to the ADF IX replenishment, after Japan and the United States. The ninth replenishment of the ADF (ADF X) is expected to be finalised in May 2008 and will cover the period from 2009-2012.

Up to 21 per cent of the ADF IX replenishment will be provided in the form of grants, rather than as concessional loans. Donors agreed to channel 3 per cent of the grant envelope into the Bank's Technical Assistance Special Fund, which will be particularly valuable for countries without substantial lending programs.

Administrative budget

The ADB's administrative expenses for 2006 amounted to US$299.4 million, a saving of US$13.5 million against the original budget of US$312.9 million. Overall savings were primarily attributed to lower than expected staff-related costs. Lower staff years resulted from the implementation of the enhanced separation program, and lower than anticipated relocation costs, business travel, and administrative expenses.

The 2007 budget of US$332.9 million, approved by the Board of Directors in December 2006, provided adequate funding for high priority work programs and initiatives, including aligning priorities with the medium-term strategy.

Human resource management and development

At the end of 2006, the ADB had a total staff of 2,405 from 54 of its 66 member countries. The total comprised five management, 856 professional staff members and 1,544 local staff members.

In 2006, the ADB made some progress in implementing the Human Resources Strategy, approved by the Board of Directors in 2004. However, sustained efforts to change the management culture to strengthen the focus on project implementation (not simply approval) and the maximisation of development effectiveness will be needed over several years.

Part 2: Australia and the Asian Development Bank

Australian shareholding and contributions

Australia values the role the ADB plays in the region and sees the Bank as an important development partner. With 5.8 per cent of total subscribed capital, Australia is the fourth largest regional shareholder in the ADB, and the fifth largest shareholder overall.

As at 31 December 2006, Australia held 204,740 shares in the ADB, valued by the ADB at US$3.08 billion (A$3.89 billion as at 31 December 2006) and representing 5.79 per cent of the total capital stock of the ADB. Of this, US$215.70 million (A$272.59 million as at 31 December 2006) is paid-in capital, and the remaining portion (US$2.86 billion — A$3.62 billion as at 31 December 2006) is subject to call.

In 2006-07, Australia provided cash payments of A$91.5 million to the ADF, the concessional loan facility of the ADB.

Australian cofinancing

In 2006-07, Australia and the ADB cooperated on a number of cofinanced activities contributing:

- A$11 million over five years to promote innovative activities in development, governance, inclusive economic growth and regional integration in South Asia; and
- A$1.35 million to a HIV/AIDS Prevention and Control in Rural Development Enclaves program in PNG.

Engagement by Australian firms

Australia’s membership of the ADB enables Australian suppliers to bid for work generated under ADB-financed activities. ADB-financed activities provide sizeable commercial opportunities for Australian firms and can be stepping stones to further work in the Asia-Pacific region. Competitiveness in terms of price, quality and timely delivery is the key determinant of a successful bid.

Procurement contracts for goods and related services, civil works, and consulting services under loan and technical assistance projects totalled A$6.5 billion from 1 January to 31 December 2006. Most contracts were awarded on the basis of international competition, which is open to firms and individuals from any ADB member country, regional or non-regional. The ADB's Procurement Guidelines outline alternative methods of procurement to international competitive bidding to be used in exceptional circumstances where other methods are deemed more appropriate. These can be found at www.adb.org/Documents/Guidelines/Procurement.

The Australian Trade Commission (Austrade), through its network of domestic and international offices, assists Australian companies in pursuing ADB project work and consulting opportunities. Austrade Manila is the liaison post for the ADB head office, based in Manila, and works closely with key Bank representatives in coordinating and arranging the annual Australian business mission to the ADB and assisting the Bank with its Business Opportunities Seminars held in September 2007 in Australia. Austrade maintains a close working relationship with ADB project officers and assists Australian companies to pursue ADB projects by representing their interests with implementing agencies.

In 2006, the ADB's procurement from Australian firms (including goods, related services, civil works, and consulting services under loans and technical assistance operations) was valued by the ADB at US$119.52 million (A$151.04 million as at 31 December 2006).

Australian representation at the ADB

Governors and Executive Directors

The Board of Governors is the ADB's highest policy-making body, consisting of one Governor for each member country. In 2006-07, the then Treasurer, the Hon Peter Costello MP, was Australia's Governor, while the then Parliamentary Secretary for Foreign Affairs, the Hon Greg Hunt MP, was Australia's Alternate Governor. Mr Hunt succeeded the Hon Teresa Gambaro MP in January 2007. The Australian Governor's votes on ADB resolutions during 2006-07 are noted in Table 4.1.

Table 4.1: Australian Governor's votes on ADB resolutions during 2006-07

Resolution Title	Adoption Date	Australian Governor's Vote
Earmarking of Ordinary Capital Resources Surplus for Reconstruction of Yogyakarta and central Java Provinces	3 July 2006	Supported
Membership of Georgia and Increase in Authorized Capital Stock	25 August 2006	Supported
Election of President	22 September 2006	Supported
Decisions Relating to Section 5 of the By-Laws	11 November 2006	Supported
Amendment to Section 7(B)(a) of the By-Laws	11 November 2006	Supported
Eighth Replenishment of the Asian Development Fund and Third Regularized Replenishment of the Technical Assistance Fund: Access of Armenia to ADF Resources	20 April 2007	Supported
Financial Statements and Independent Auditors' Reports	7 May 2007	Supported
Allocation of Net Income	7 May 2007	Supported
Place and Date of Forty-First Annual Meeting (2008)	7 May 2007	Supported
Procedures for the Election of Directors	13 June 2007	Supported

The 2007 ADB Annual Meeting of the Board of Governors was held in May, in Kyoto, Japan. Australia's then Parliamentary Secretary to the Treasurer, the Hon Chris Pearce MP, led the Australian delegation, which included senior officials from Treasury, the Australian Agency for International Development (AusAID), and the Department of Foreign Affairs and Trade.

The Board of Governors has delegated authority for conducting the day-to-day oversight of ADB operations to the Board of Directors. Directors exercise their authority through: the supervision of the ADB's financial statements; approval of the ADB's administrative budget and other key planning documents; and the review and approval of country strategies, policy documents and all major loan, equity and technical assistance operations.

Eight of the Board's 12 Directors represent regional countries while the remainder represent non-regional countries. Each Director represents a constituency of member countries, except for Japan, the United States, and the People's Republic of China, which hold their own seats.

Australia belongs to a constituency that also includes Azerbaijan; Cambodia; Georgia; Hong Kong, China; Kiribati; Federated States of Micronesia; Nauru; Palau; the Solomon Islands; and Tuvalu. Australia is the largest shareholder in this constituency, holding around 4.9 per cent of the ADB's voting power at 31 December 2006, with the total constituency voting power at 9.22 per cent.

Mr Phil Bowen, formerly the Deputy Secretary and General Manager, Budget Group, Department of Finance and Administration, was elected Director of our constituency on 1 April 2007. Mr Bowen succeeded Mr Steve Sedgwick in this position. Mr Dereck Rooken-Smith of Australia commenced as the constituency's Alternate Executive Director on 1 August 2007, taking over Mr Richard Moore's position. Up to 31 March 2007 Mr Sedgwick served as Dean of the ADB's Board of Directors and as

Chairman of the Board Compliance Review Committee, while Mr Moore was a member of the ADB’s Development Effectiveness Committee until 30 June 2007. From 1 July 2007, Mr Phil Bowen was elected to the Budget Review Committee and Mr Dereck Rooken-Smith to the Board Compliance Review Committee, with both terms ending 30 June 2009.

By agreement between the member countries of our constituency, the Directors are supported by two advisors, one of whom rotates between the constituency’s Pacific Island members, and the other between Cambodia; Georgia; Hong Kong, China; and Azerbaijan.

Briefing for Australia’s Director on matters coming before the ADB Board is prepared by relevant Australian Government departments, principally Treasury and AusAID. Throughout the year, the views of non-government organisations (NGOs) are sought on matters of particular interest to those bodies.

Bilateral meetings

During 2006-2007, Australian Government Ministers and/or officials met with the following ADB management and staff:

- President, Mr Haruhiko Kuroda;
- Managing Director General, Mr Rajat Nag;
- Vice Presidents Mr Lawrence Greenwood, Mr Liqun Jin, Ms Ursula Schafer Preuss, and Dr Bindu Lohani;
- Department Director General, Mr Philip Erquiaga (Pacific);
- Mr Kazu Sakai, Director General, Strategy and Policy Department;
- Ms Naomi Chakwin, Regional Director, Pacific Liaison and Coordination Office;
- Mr Steve Sedgwick, former ADB Executive Director (to 31 March 2007) representing Australia;
- Mr Phil Bowen, Executive Director (representing Australia); and
- Mr Richard Moore, Alternate Executive Director (representing Australia).