AUSTRALIA

AND THE

INTERNATIONAL FINANCIAL INSTITUTIONS

2012-13

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 Joe Hockey MP, Treasurer of the Commonwealth of Australia

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Australia and the International Financial Institutions 2012-13

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 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 each 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 a report on the operations of the Act during each financial year.

This report aims to meet the requirements of both Acts for the financial year 2012-13.

The IMF and the World Bank Group (comprising the IBRD, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID)) publish annual reports that provide comprehensive reviews of the operations of these institutions. The IMF and World Bank also make information available on their websites: www.imf.org and www.worldbank.org.

I commend this report to the Parliament.

J. B. HOCKEY
Treasurer of the Commonwealth of Australia

Contents

Acronyms and abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
DC	Development Committee
EBRD	European Bank for Reconstruction and Development
FCL	Flexible Credit Line
FSAP	Financial Sector Assessment Program
FTP	Financial Transaction Plan
G20	Group of 20
GFRP	Global Food Crisis Response Program
GFSR	Global Financial Stability Report
GNI	Gross National Income
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IDA16	16th Replenishment of the International Development Association
IDA17	17th Replenishment of the International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
LICs	Low-Income Countries
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MOV	Maintenance of Value
NAB	New Arrangements to Borrow
PCL	Precautionary Credit Line
PRGT	Poverty Reduction and Growth Trust
RBA	Reserve Bank of Australia
RCF	Rapid Credit Facility
SDR	Special Drawing Right
TSR	Triennial Surveillance Review
WBG	World Bank Group
WEO	World Economic Outlook

Preface

This report compiles information on Australia's dealings with the IMF and the World Bank Group for the period 1 July 2012 to 30 June 2013.[1]

The 2012-13 report is in three sections:

Section 1 reviews the key developments in the activities of the two International Financial Institutions (IFIs) during 2012-13.

Section 2 reports on Australia's relations with the IMF as required under the *International Monetary Agreements Act 1947*. This section covers — where applicable — Australia's representation at the IMF, its Article IV consultation, participation in IMF Institute courses, meetings and visits, and Australia's financial transactions with the Fund.

Section 3 reports on 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*. This section covers the World Bank's mandate and institutions, Australia's shareholdings and contributions, Australian representation and activities of the Bank during 2012-13.

Other sources of information

Treasury releases information on its activities through a variety of publications, press releases, speeches, and reports, including the Treasury 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 and www.worldbank.org, including information on their communiqués from recent IMF and World Bank Spring and Annual Meetings.[2]

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1 Australia is a member of each of the IMF, World Bank, Asian Development Bank (ADB) and 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 through their annual reports. There is no legislative requirement to provide an Annual Report to the Parliament on the ADB or the EBRD.

2 Communiqués are available on the IMF's website: http://www.imf.org/external/news/default.aspx?cm.

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Section 1: Key developments

In 2012-13 the International Financial Institutions (IFIs) focused on assisting members to adjust to the changing nature of the global economy by identifying systemic risks and designing strong policies, and agreed on new Strategic Goals to end extreme poverty and promote shared prosperity.

Support for the global economy

The IFIs continued efforts to assist members to adjust to the changing nature of the global economy by providing financial and technical assistance and policy advice to its members, and by the strengthening of resources. In addition, the International Monetary Fund (IMF) continued its reform of surveillance activities as well as closely monitored and encouraged the implementation of the *2010 IMF Quota and Governance Reform* package.

The IMF continued to provide considerable support to member countries to address balance of payments needs throughout 2012-13, with new lending commitments totalling Special Drawing Rights (SDR) 75.1 billion, and further strengthened its resources. The IMF continued to encourage the completion of an agreement to double quotas, from SDR 238.4 billion to SDR 476.8 billion, which also includes a corresponding roll-back of credit arrangements under the New Arrangements to Borrow (NAB). In addition, to help strengthen the global financial safety net, IMF members made additional pledges to boost the IMF's borrowed resources through bilateral loan and note purchase agreements, bringing the total to more than US$461 billion.

As part of this, Australia entered into a bilateral loan agreement with the IMF on 13 October 2012 to lend SDR 4.61 billion. The loan has a term of two years and may be extended for an additional one year by the IMF notifying Australia of an extension and by a further additional year with the consent of Australia.

Support for developing countries

In 2012-13 the World Bank Group announced new Strategic Goals. These are to end extreme poverty: reducing the percentage of people living with less than $1.25 a day to no more than 3 per cent globally by 2030; and promote shared prosperity: fostering income growth of the bottom 40 per cent of the population in every country.

The International Bank for Reconstruction and Development (IBRD) is the arm of the World Bank Group which lends to middle-income countries and creditworthy low-income countries. In 2012-13, the IBRD committed US$15.2 billion to eligible countries, a decrease from $20.6 billion committed in 2011-12.

The World Bank Group's concessional lending arm, the International Development Association (IDA), committed US$16.3 billion in grants and highly concessional loans to the world's poorest countries, an increase from US$14.8 billion in 2011-12.

Negotiations for the seventeenth replenishment of IDA (IDA17) commenced in March 2013 and negotiations will be finalised in December 2013. IDA faces a number of challenges to its financial sustainability over the medium term due to falling internally generated income and anticipated graduations of low-income but credit-worthy countries.

In September 2012, the IMF Executive Board endorsed the use of further windfall profits from gold sales to bolster its capacity to provide concessional lending for low-income countries (LICs) through the IMF's Poverty Reduction and Growth Trust (PRGT). Australia has agreed to this second decision and will return its share in the second distribution to support concessional lending for LICs. Further, in April 2013, Australia returned its entire share from the first distribution of windfall profits from gold sales to the PRGT.

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

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

Mandate

Australia became a member of the IMF in 1947. The *International Monetary Agreements Act 1947* formalised Australia's IMF membership. The Act contains provisions, which have been updated through time, to enable Australia to meet any obligations that may arise by virtue of its IMF membership. A brief outline of these provisions, along with an indication of whether the provision was used during 2012-13, is included in Table 2.1.

The IMF was established to promote growth and prosperity. The IMF's purpose (set out in Article I of its Articles of Agreement) is to: promote international monetary cooperation; facilitate the expansion of trade contributing to employment growth; promote exchange rate stability to avoid competitive devaluation; assist in the establishment of a multilateral system of payments; and make resources available to members to reduce the costs of balance of payments adjustments.

The IMF achieves its mandate by: conducting surveillance over the economic policies of members and providing policy advice to assist members in achieving key domestic objectives; providing technical assistance and training to members, enabling them to build the expertise required to implement sound economic policies; and providing temporary financing to members experiencing balance of payments difficulties to reduce the cost associated with significant economic adjustment.

Table 2.1: Activation of *International Monetary Agreements Act 1947* Provisions in 2012-13

Section of the Act	Description of the provision	Provision activated
Section 5A	The Treasurer may provide the RBA with a written direction to exchange SDRs or foreign currency on the Commonwealth's behalf.	There is a standing direction to the RBA to this effect.
Section 6 — Authority to borrow	Provides the Treasurer with the authority to borrow funds in order to meet obligations as members of the IMF, World Bank, and NAB.	The provision was activated during 2012-13 as a result of financial transactions with the IMF.
Section 7 — Issue of securities	Provides the Treasurer with the authority to settle obligations by issuing non-negotiable and non-interest bearing securities, should it be acceptable to the IMF and World Bank.	This provision was not exercised during 2012-13.
Section 8 — Payment of charges	Provides Australia with the authority to pay service and interest charges on	The provision was not exercised during 2012-13.

	any borrowing.	
Section 8A — Appropriation for purposes of SDR Department	Provides the Treasurer with the authority to pay any obligations that arise due to Australia's membership of the SDR department.	The provision was exercised during 2012-13 to pay the quarterly interest charges on Australia's SDR holdings and the annual assessment fee.
Section 8B — Appropriation for the purposes of the NAB	Provides the Treasurer with the authority to meet its obligations under the NAB. Australia's total commitment in 2012-13 under the NAB was SDR 4.37 billion.	The provision was activated during 2012-13 as a result of a transaction under the NAB.
Section 8C — Financial assistance by Australia in support of Fund programs	Provides the Treasurer with the authority to enter into a loan or currency swap arrangement with a member who has received an IMF support package.	The provision was not used during 2012-13.
Section 8CAA — Appropriation for the purposes of the IMF bilateral loan agreement	Provides the Treasurer with the authority to borrow for payments to meet drawings made by the IMF under a bilateral loan agreement entered into by Australia and the IMF.	The provision was not used during 2012-13.

Australia's representation

Board of Governors

The Board of Governors is the highest authority within the IMF and consists of one Governor and one Alternate Governor for each member country. During 2012-13, the then Deputy Prime Minister and Treasurer, the Hon Wayne Swan MP, had been Australia's Governor of the IMF until 27 June 2013, when Australia was represented by the Hon. Chris Bowen MP, Treasurer of the Commonwealth of Australia. Since 7 March 2011, Dr Martin Parkinson, Secretary to the Treasury, has been Australia's Alternate Governor of the IMF.

Member countries cast votes as required throughout the year. The Australian Governor's votes on IMF resolutions during 2012-13 are noted in Table 2.2.

Table 2.2: Australian Governor's votes on IMF resolutions 2012-13

Resolution Title	Adoption date	Australian Governor's vote
Rules for 2012 Election of Executive Directors to the IMF	26 July 2012	Supported
Remuneration of IMF and World Bank Executive Directors and Alternate Executive Directors	30 July 2012	Supported
Activation period for NAB — 1 October 2012 to 31 March 2013	27 September 2012	Supported
2012 Election of Executive Directors to the IMF for Australia's constituency	12 October 2012	Supported Mr Jong-Won Yoon
Activation period for NAB — 1 April 2013 to 30 September 2013	29 March 2013	Supported

International Monetary and Financial Committee

The International Monetary and Financial Committee (IMFC) advises the Board of Governors on the functioning and performance of the international monetary and financial system. Its 24 members represent the full IMF membership under the same constituency arrangements as apply in 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 Deputy Prime Minister and Treasurer, the Hon Wayne Swan MP, represented the constituency, of which Australia is a member, at the IMFC meetings held on 13 October 2012. The Korean Deputy Prime Minister and Minister of Strategy and Finance represented the constituency at the IMFC meeting on 20 April 2013.

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. During 2012-13, the constituency of which Australia is a member (the Asia and the Pacific constituency) comprised: Australia, Kiribati, the Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, and Vanuatu.

As of June 2013, Australia's constituency held 3.62 per cent of the voting power in the IMF, and Australia independently held 1.31 per cent.

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

Mr Chris Legg of Australia represented our constituency as Executive Director from 1 November 2010 to 31 October 2012. Mr Jong-Won Yoon of Korea succeeded Mr Legg as Executive Director on 1 November 2012. As at June 2013 Mr Ian Davidoff of Australia was the Alternate Executive Director.

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.

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 2012 Article IV consultation included a visit by IMF staff from 6 to 20 September 2012. During their visit they spoke to the then Deputy Prime Minister and Treasurer, the Hon Wayne Swan MP, and met with 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 and the Australian Prudential Regulation Authority, and representatives from the business community and unions.

The 2012 Article IV staff report for Australia was released on 15 November 2012 and is available at www.imf.org.

Part 2: Australia's shareholding in the International Monetary Fund and financial transactions

A member's shareholding in the IMF is determined by its allocated quota which broadly reflects its weight in the global economy. Australia's quota as at 30 June 2013 was SDR 3,236.4 million. During 2012-13, Australia held 1.36 per cent of total IMF quota. A member's voting power in IMF decisions is also largely determined by its quota, with one vote allocated for each SDR 100,000 of quota.

Australia's financial transactions with the International Monetary Fund

Australia's financial transactions with the IMF in 2012-13 comprised:

- payments of SDR charges and an annual assessment fee for Australia's allocation of SDRs;
- receipts of interest on Australia's SDR holdings;
- receipts of remuneration for Australia's contribution to IMF reserves; and
- transfers and receipts to facilitate Australia's contribution to the IMF's Financial Transaction Plan (FTP) and the NAB, reflecting the borrowing and repayments of other members.

These transactions are described in the following sections.

Special Drawing Rights charges, interest and assessment fee

The SDR is an international reserve asset 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 cumulative allocation of SDRs as at 30 June 2013 was SDR 3,083.2 million while its actual SDR holdings were SDR 2,926.5 million. Australia's SDR allocation is held by the RBA, having been sold to the RBA by the Commonwealth in exchange 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 of currencies.

In 2012-13, the Australian Government paid charges of SDR 2.7 million (A$3.9 million) on net cumulative allocations, and the RBA received SDR 2.6 million (A$3.7 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 annual assessment fee for the IMF's financial year ending 30 April 2013 was SDR 17,353 (A$26,040) (Table 2.3).

Remuneration

Remuneration is interest paid by the IMF to Australia for the use of its funds. It is earned on the proportion of a member's currency (25 per cent of its quota) that was paid in SDRs and is held by the IMF, and on money lent out under the FTP. The amount of a member's reserves held by the IMF can change frequently through 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.

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 (if applicable). Australia received remuneration payments in 2012-13 totalling SDR 788,948 (A$1.2 million) (Table 2.3).

The IMF's burden-sharing mechanism makes up for the loss of income to the IMF from unpaid charges by member countries. 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. The burden-sharing rate was only positive (at 0.01per cent) for periods of the July (May-Jul 2012), January (Nov 2012-Jan 2013) and April (Feb-Apr 2013) quarters.

Maintenance of Value of International Monetary Fund Quota

During 2012-13, Australia's quota remained at SDR 3,236.4 million. Part of this is held in reserve by the IMF in SDRs (this part is relevant for remuneration purposes) and part is held in Australia — a combination of non-interest bearing promissory notes and cash amounts held at the RBA — in Australian dollars.

The exchange rate for transactions between the Australian dollar and SDR amounts fluctuates in accordance with market exchange rates. Consequently, the SDR value of the part of Australia's IMF quota held in Australian dollars is 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 is settled annually following the close of the IMF's financial year on 30 April.

During the IMF's financial year from 1 May 2012 to 30 April 2013, the value of the Australian dollar in terms of the SDR appreciated by 3.1 per cent. This meant that fewer Australian dollars were required to meet Australia's obligation to maintain the value of its quota in terms of SDRs. Thus, Australia had a Maintenance of Value receivable of A$59.6 million for the IMF's 2012-13 financial year. This financial transaction was settled in May 2013.

Table 2.3 Australia's transactions with the IMF in 2012-13 (cash basis)[(a)]

	Amount in SDRs	Amount in A$
Interest on RBA SDR Holdings		
For 3 months ending July 2012	863,839	1,231,943
For 3 months ending October 2012	581,252	852,151
For 3 months ending January 2013	495,163	738,939
For 3 months ending April 2013	614,362	921,912
Total interest received	2,554,616	3,744,944
Charges on SDR Allocation		
For 3 months ending July 2012	905,575	1,291,465
For 3 months ending October 2012	609,050	892,904
For 3 months ending January 2013	517,685	772,549
For 3 months ending April 2013	647,040	970,948
Total charges paid	2,679,350	3,927,866
Annual Assessment Fee paid to SDR Department	17,353	26,040
Remuneration for Australian holdings at the IMF		
For 3 months ending July 2012	274,599	391,613
For 3 months ending October 2012	184,688	270,764
For 3 months ending January 2013	133,456	199,158
For 3 months ending April 2013	196,205	294,425
Total Remuneration received	788,948	1,155,960
Maintenance of Value transaction for 2012-2013		59,607,428

(a) The totals may differ from the sum of the amounts shown due to rounding.

Lending related transactions and Australia's reserve position in the IMF

The IMF manages its lending of quota resources through the 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 2012-13, Australia was involved in both the transfer and receipt side of the FTP, with one transfer (loan) of A$37.3 million, and two receipt (repayment) transactions totalling A$69.9 million. Table 2.4 provides details of individual FTP transactions and resulting reserve position.

Table 2.4 Australia's reserve position in the IMF 2012-13[(a)]

Date	Description	Debit (SDRs)	Debit (A$)	Credit (SDRs)	Credit (A$)
Reserve position as at 30 June 2012				1,101,159,187	**1,632,314,241**
13 Jun 2013	FTP with Greece (loan)			24,000,000	37,278,890
21 Jun 2013	FTP receipt (repayment)	27,132,500	43,687,124		
25 June 2013	FTP receipt (repayment)	16,000,000	26,247,193		
Reserve position as at 30 June 2013				1,082,026,687	**1,754,258,572**

(a) Because Australia's reserve position is denominated in SDRs and AUD/SDR exchange rates vary during the year, when expressed in Australian dollars, the 30 June 2013 reserve position does not exactly reflect summation of the opening position and transactions during the year.

As noted previously, FTP transactions (and any transfers for administrative purposes) directly impact on Australia's reserve position at the IMF. With the value of receipts outweighing the value of transfers during 2012-13, the amount of Australia's reserves held by the IMF fell during the year, from SDR 1,101.2 million to SDR 1,082.0 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.

In addition to FTP related transactions during 2012-13, Australia also contributed lending under the expanded NAB. The NAB was activated twice during 2012-13, on 1 October 2012 and 1 April 2013, following approval by NAB participants, including Australia, with each activation period lasting six months. This follows from the NAB activation on 1 April 2011, 1 October 2011, and 1 April 2012, each for a period of six months.

In 2012-13, Australia was involved in both the transfer (loan) and receipt (repayment) sides of the NAB. Australia made four transfers (with two transfers to Greece) which totalled A$185.4 million. Australia received a total of A$30.1 million from two repayments. Table 2.5 provides details of individual NAB transactions.

Table 2.5 Australia's NAB Transactions 2012-13

Date	Description	Debit (SDRs)	Debit (A$)	Credit (SDRs)	Credit (A$)
6 Nov 2012	NAB receipt (repayment)	4,300,000	6,346,545		
14 Nov 2012	NAB with Portugal (loan)			74,000,000	108,387,588
18 Jan 2013	NAB with Greece (loan)			29,300,000	42,663,296
23 Jan 2013	NAB receipt (repayment)	6,160,000	8,998,901		
3 May 2013	NAB with Jamaica (loan)			9,600,000	14,029,283
4 Jun 2012	NAB with Greece (loan)			13,100,000	20,348,061
25 Jun 2013	NAB receipt (repayment)	9,020,000	14,796,855		
Net NAB payments for 2012-13				106,520,000	155,285,927

In addition, the Australian Government earns interest on any money lent under the NAB, at the same SDR rate that is used to calculate remuneration, and pay SDR charges. Like remuneration and charges, NAB interest is accrued daily and settled quarterly. For 2012-13, the Australian Government received interest payments on its outstanding NAB loans of SDR 417,556 (A$613,119) (Table 2.6).

Table 2.6 Interest on NAB Borrowings for 2012-13 (cash basis)[(a)]

	Amount in SDRs	Amount in A$
For 3 months ending July 2012	130,998	186,820
For 3 months ending October 2012	88,101	129,161
For 3 months ending January 2013	85,369	127,438
For 3 months ending April 2013	113,088	169,700
Total interest received	417,556	613,119

(a) The totals may differ from the sum of the amounts shown due to rounding.

Part 3: Key activities of the International Monetary Fund

In 2012-13, the IMF continued to assist members to adjust to the changing nature of the global economy by identifying systemic risks and designing strong policies to respond to threats to domestic and global stability through assessments in its various multilateral and bilateral surveillance products and active engagement with its member countries. In addition, the Fund continued its reform of surveillance activities and closely monitored and encouraged the implementation of the *2010 IMF Quota and Governance Reform* package.

Several innovations to the Fund's surveillance framework came to fruition in 2012-13, following the recommendations of the *2011 Triennial Surveillance Review*. Three important upgrades include the new Integrated Surveillance Decision, as well as the launch of a Pilot External Sector Report and Spillover Report. These initiatives bring together the bilateral and multilateral perspectives of the Fund's policy advice, sharpening the Fund's analysis of spillovers and cross-border effects, and focusing on the stability of the international monetary system as a whole.

In light of on-going economic instability, the IMF continued to push for the completion of an agreement to double IMF quotas, from SDR 238.4 billion to SDR 476.8 billion, which also includes a corresponding roll-back of credit arrangements under the NAB. In addition, to help strengthen the global financial safety net, Fund members made additional pledges to boost the Fund's borrowed resources through bilateral loan and note purchase agreements, bringing the total to more than US$461 billion.

Demand for Fund resources remained strong throughout 2012-13 due to the environment of uncertainty from the on-going crisis and financial market volatility. Five non-concessional financing arrangements were approved by the Executive Board, for a gross total of SDR 75.1 billion, with more than 90 per cent of new gross commitments allocated to two successor arrangements under the Flexible Credit Line (FCL) for Mexico and Poland. For the Fund's low-income members, nine countries had arrangements approved or augmented with support from the PRGT. At the end of the Fund's financial year, there were a total of 62 countries with outstanding concessional financing under the PRGT.

Further information on these activities is provided below.

Surveillance

Under its Articles of Agreement, the IMF is responsible for overseeing the international monetary system and monitoring the economic and financial policies of its 188 (as of 30 April 2013) member countries, an activity known as surveillance. Effective surveillance involves identifying possible risks to domestic and external stability and providing independent, objective and persuasive assessments and advice to policymakers at the national, regional and global levels.

During the 2012-13 financial year, the IMF continued its reform agenda to strengthen surveillance, with recommendations of the *2011 Triennial Surveillance Review* (and subsequent progress report released in November 2012) providing the strategic direction for reforms. The IMF continued its spillover analysis with a second Spillover Report which examines the external impacts of domestic policies in the five largest systemic economies comprising China, the Euro Area, Japan, the United Kingdom and the United States. The Fund also released a Pilot External Sector Report which provides a multilaterally consistent analysis of the external positions of major world economies, focussing on detailed examinations of current accounts, reserves, capital flows, and external balance sheets.

In July 2012, the IMF Executive Board took a significant step toward modernizing the legal framework underpinning IMF surveillance and addressing the priorities of the *2011 Triennial Surveillance Review* by adopting a Decision on bilateral and multilateral

Surveillance — known as the Integrated Surveillance Decision (ISD). The new ISD has facilitated better integration of bilateral, multilateral and financial sector surveillance.

In addition, to ensure appropriate coverage of financial issues, in September 2012, the IMF Executive Board endorsed a new Financial Surveillance Strategy that proposes concrete and prioritised steps to further strengthen financial surveillance.

Further, the Fund established a new product, the *Managing Director's Global Policy Agenda*, which pulls together the key findings and policy advice from the Fund's multilateral reports and defines a future agenda for the Fund and its members.

IMF Resourcing

It is important that the IMF has sufficient resources to lend to its members. In October 2010, G20 Finance Ministers announced agreement on a doubling of IMF quotas from SDR 238.4 billion to SDR 476.8 billion, which when effective, will increase Australia's quota from SDR 3.24 billion to SDR 6.57 billion. This quota increase will come into effect following the implementation of the *2010 IMF Quota and Governance Reform*.

The October 2010 agreement to double IMF quotas included a commitment to a corresponding roll-back of credit arrangements under the NAB. The combination of the doubling of quotas and corresponding roll-back of NAB credit arrangements will strengthen the IMF's resource base by reducing the Fund's reliance on voluntary borrowing arrangements such as the NAB.

In December 2011, agreement was reached by the IMF Executive Board that the NAB would be rolled back from SDR 370 billion to SDR 182 billion, in line with the increase in the quotas of NAB participants. This agreement, which will take effect at the same time as the doubling of quotas, will reduce Australia's credit line to the IMF under the NAB from SDR 4.37 billion to SDR 2.22 billion. Enabling legislation to implement the IMF Executive Board decision received Royal Assent on 25 September 2012.

As the effects of the global financial crisis continue to play out, it is important that confidence is maintained in the ability of the IMF to meet the potential financing needs of its members. To this end, at the IMF-World Bank Spring Meetings in April 2012 and subsequently IMF members have announced commitments to temporarily increase the resources available to the Fund through bilateral loan and note purchase agreements totalling more than US$461 billion.

Australia entered into a bilateral loan agreement with the IMF on 13 October 2012 to lend SDR 4.61 billion. The enabling legislation for the loan agreement received Royal Assent on 28 June 2013. The loan has a term of two years and may be extended for an additional one year by the IMF notifying Australia of an extension and a further additional year with the consent of Australia.

IMF role in low-income countries

The IMF continues to provide support to LICs, in the form of technical assistance and financial programs. As a core function of the IMF, technical assistance reinforces member capacities in the fiscal, legal, monetary/ financial markets, and statistics areas. Efforts this financial year focused on helping countries manage the near-term implications of weak world growth, turbulence in Europe, and continued volatility in financial markets. The IMF's concessional lending facilities enable the IMF to assist LICs to maintain or restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. The IMF lends through these facilities to eligible members under highly concessional terms. They are flexible and specifically tailored to the increasing diversity of LICs and their needs.

In September 2012, the Executive Board endorsed the use of further windfall profits from gold sales to fund an increase in concessional lending capacity for LICs. Australia has agreed to this second decision and will return its share in the second distribution to support concessional lending for LICs. Further, in April 2013, Australia returned its entire share from the first distribution of windfall profits from gold sales to the PRGT.

In April 2013, the IMF reviewed the framework for eligibility to use concessional resources through the PRGT. Special provisions were made that allow microstates, many of whom are Australia's regional neighbours and with whom we share a constituency, to be eligible for concessional financing. Cumulative access limits to the Rapid Credit Facility (RCF), a facility that provides emergency assistance to LICs facing urgent balance of payment needs, were also increased.

IMF Quota and Governance Reform

Throughout 2012-13, Australia has been a strong proponent of full implementation of the *2010 IMF Quota and Governance Reform*. Once ratified, the reform package will double total IMF quotas to approximately SDR 476.8 billion, shift more than 6 per cent of quota shares to dynamic emerging market and developing economies and to under-represented, and will protect the quota shares of the poorest members of the Fund. In addition, the 2010 reforms will lead to an all-elected Executive Board, advanced European countries committed to reducing their combined representation on the Board by two chairs, and there will be further scope for appointing second Alternate Executive Directors for large multi-country constituencies.

In 2013, Australia, in its position as a co-chair of the International Financial Architecture Working Group, monitored and encouraged prompt implementation of the 2010 Reform by the G20 members. In addition, Australia is a strong advocate of further IMF reform following the implementation of the 2010 Reform, and has actively supported the timely completion of the comprehensive 15th General Review of Quotas, which is due for completion by January 2014.

Section 3: Australia’s interactions with the World Bank

Part 1: Australia’s shareholding and relations with the World Bank

Mandate

The World Bank Group provides financial and technical assistance to developing countries in line with its poverty reduction mandate. The World Bank Group’s work also includes the advancement of the Millennium Development Goals (MDGs) through supporting investment, job creation and by empowering the poor to participate in development.

Institutions of the World Bank and Australia’s shareholding

The World Bank Group consists of five arms: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). Australia is a member of all five arms of the World Bank Group. Australia’s memberships of the IBRD, IFC and MIGA require the Australian Government to hold shares in these institutions. Australia’s shareholdings in the IBRD, IFC and MIGA as at 30 June 2013 are set out in Table 3.1.

Table 3.1: Australian share holdings at the World Bank Group as at 30 June 2013

	IBRD	IFC	MIGA
Shares	27,595	47,329	3,019
Share of subscribed capital (per cent)	1.49	2.00	1.71
Share of voting power (per cent)	1.44	1.97	1.50
Value of paid-in capital ($US millions)	204.4	47.33	6.20
Value of callable capital ($US millions)	3,124.5	0.00	26.46

International Bank for Reconstruction and Development

Established in 1944, the IBRD is the original arm of the World Bank Group. It aims to reduce poverty in middle-income and creditworthy low-income countries by promoting sustainable development through financing (loans, guarantees and related risk management products), and through providing analytical and advisory services. The IBRD provides these services on a cost-recovery basis and obtains most of its financing through international capital markets.

International Development Association

IDA provides grants and highly-concessional loans to the 82 poorest countries in the world. In 2012-13, these were countries with Gross National Income (GNI) per capita below US$1,195. IDA is primarily financed by donor government contributions, which are replenished every three years. Additional sources of financing include transfers from the IBRD and IFC and borrowers' repayments of earlier loans.

International Finance Corporation

The IFC is the largest global development institution focused exclusively on the private sector in developing countries. The IFC contributes to the World Bank Group's overall poverty reduction mandate through the provision of investment and advisory services to companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities.

Multilateral Investment Guarantee Agency

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

International Centre for Settlement of Investment Disputes

Established in 1966, ICSID is an autonomous institution that supports foreign investment by providing international facilities for conciliation and arbitration of investment disputes between foreign investors and their host countries.

Australia's co-operation with the World Bank Group

The World Bank Group, with 188 member countries, has extensive development expertise, knowledge, products and analytical capabilities, and commands substantial resources to foster development outcomes globally. It has the convening power to bring together donors, governments, other multilateral organisations, civil society and the private sector to work collectively on pervasive poverty and development challenges.

In 2012-13, Australia provided an estimated $522.6 million to the World Bank Group, including $315.7 million in joint activities through Australia's country, regional and global programs. Projects co-financed by Australia were largely targeted at infrastructure, health, education and private sector development, with a particular focus on the East Asia and Pacific regions.

Australia works with the World Bank on bank policy reform to improve operational and organisational effectiveness. For example, in 2012 Australia co-chaired the IDA16 Working Group on Results and Effectiveness. This led to a report recommending improved results management in operations, which was endorsed by association member countries. In 2012, Australia also provided disability sectoral policy support to the World Bank and is currently working with it on its safeguards and procurement review.

Australia's representation at the World Bank Group

Board of Governors

The highest decision-making body of the World Bank Group is the Board of Governors. This body consists of one Governor appointed by each of the 188 member countries. During 2012-13, Australia was represented by the then Deputy Prime Minister and Treasurer, the Hon. Wayne Swan MP until 27 June 2013, when Australia was represented by the Hon. Chris Bowen MP, Treasurer of the Commonwealth of Australia. Australia's Alternate Governor was the Parliamentary Secretary to the Treasurer, the Hon. Bernie Ripoll, MP.

A list of resolutions on which Governors voted during 2012-13 is set out in Table 3.2, together with the Australian Governor's vote.

Table 3.2: Australian Governor's votes on World Bank Group resolutions 2012-13

Resolution title	Adoption date	Australian Governor's vote
IBRD		
2012 Regular Election of Executive Directors	3 August 2012	Supported
Forthcoming 2015 Annual Meetings	14 September 2012	Supported
Financial Statements, Accountant's Report and Administrative Budget	12 October 2012	Supported
Allocation of FY12 Net Income	12 October 2012	Supported
Resolution of Appreciation	12 October 2012	Supported
Transfer from Surplus to Replenish the Trust Fund for Gaza and the West Bank	28 June 2013	Supported
IDA		
Financial Statements, Accountant's Report and Administrative Budget	12 October 2012	Supported
Resolution of Appreciation	12 October 2012	Supported
Membership of Romania	14 February 2013	Supported
IFC		
Financial Statements, Accountant's Report and Administrative Budget	12 October 2012	Supported
Resolution of Appreciation	12 October 2012	Supported
MIGA		
2012 Regular Election of Directors	3 August 2012	Supported
Financial Statements and the Report of the Independent Accountants	12 October 2012	Supported
Resolution of Appreciation	12 October 2012	Supported

Executive Director and constituency office

The World Bank Group's Executive Boards (IBRD, IDA, IFC and MIGA), under the authority of the Board of Governors, consider and decide on loan and credit proposals made by the President, and they decide policy issues that guide the general operations of the World Bank Group.

Each Board currently consists of 25 Executive Directors. IBRD Executive Directors are automatically elected to the IDA and IFC Board. MIGA Executive Directors are elected separately, but in practice it is customary for the Directors of MIGA to be the same individuals as the Executive Directors of the IBRD, IDA and the IFC.

In accordance with the Articles of Agreement, an Executive Director is appointed to the IBRD Board by each of the five member countries that have the largest number of shares in the capital stock, currently the United States, Japan, Germany, the United Kingdom, and France. The remaining Executive Directors are elected to represent individual countries (China, Saudi Arabia, and the Russian Federation) or a constituency of countries.

Australia belongs to a constituency that included, in 2012-13, Cambodia, Kiribati, the Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tuvalu, and Vanuatu. As at 30 June 2013, Australia's constituency at the IBRD held 3.84 per cent of total voting power.

By agreement between constituency members, the staffing of Australia's constituency office rotates among members. Mr John Whitehead from New Zealand assumed the Executive Director position for our constituency for a period of two years from 1 August 2011. Mr Michael Willcock from Australia assumed the senior advisor position for our constituency for the same period as Mr Whitehead's term. Australia also held an advisor position in the constituency office during this fiscal year.

Relevant Australian Government departments and agencies, principally Treasury and AusAID, provided briefing and input to the Australian representatives in the constituency office on matters coming before the Board. Periodic consultations are also held with non-government organisations.

Development Committee meetings

The Spring and Annual Meetings of the Development Committee (a joint ministerial committee of the World Bank and IMF), are normally held around April and October of each year respectively.

At the Annual Meetings in October 2012, the Development Committee welcomed the new President of the World Bank Group, Dr Jim Kim, and his modernisation agenda which includes encouraging the World Bank Group to become more results-oriented, knowledge-based, open, transparent, and accountable. The Development Committee also discussed the fragile global economy, the importance of jobs and gender equality to drive poverty reduction, improving natural disaster resilience and food security, and specific challenges faced by fragile and conflict affected states.

In April 2013, the Development Committee noted that the first Millennium Development Goal had been achieved — sustained economic growth over the last decade had halved the number of people living in extreme poverty before the 2015 target. In the context of significant global economic challenges, including high unemployment and volatile food prices, the outlook for developing countries is promising and downside risks in the short run have diminished.

Visits

The World Bank's Vice President for East Asia and the Pacific, Dr Axel van Trotenburg, visited Australia in February 2013 for annual high level partnership meetings with the Minister for Foreign Affairs and Australian Government officials. Among the topics discussed were the President of the World Bank Group's modernisation agenda, the upcoming IDA17 replenishment negotiations, and Australia's priorities for the World Bank Group including delivering strong development outcomes in the Pacific and obtaining value for money.

The World Bank's Vice President for Sustainable Development, Ms Rachel Kyte, visited Australia in March 2013 and met with various ministers, Members of Parliament and Australian Government officials. Among the topics discussed were climate change financing, mining for development, and the interaction between the World Bank Group and the G20 in the lead up to Australia's taking over the chair of the G20 in 2014.

Part 2: Key activities of the World Bank

World Bank Group Strategic Goals

In April 2013, the Development Committee agreed to the World Bank's new Strategic Goals of ending extreme poverty and promoting shared prosperity. These goals are defined as reducing the number of people on less than $1.25 per day to 3 per cent by 2030, and boosting the share of income growth in the bottom 40 per cent of every developing country, respectively. These goals are to be pursued in an environmentally, socially, and economically sustainable manner to ensure that development gains do not harm the welfare of current and future generations. The World Bank Group describes these goals as both ambitious but achievable, and will require continued collaboration with both the private and public sectors to stimulate the strong, private sector-led job creation needed to reduce poverty and build shared prosperity.

World Bank Group lending commitments

In 2012-13, the World Bank Group committed US$52.6 billion in loans, grants, equity investments, and guarantees to meet the development challenges ahead. World Bank Group commitments for 2012-13, including those made in the East Asia and Pacific region, are set out in Table 3.3.

Table 3.3: World Bank Group's 2012-13 Financial Activities

Institution	Number of members	Commitments 2011-12 (US$billion)	Commitments 2012-13 (US$billion)	Commitments to East Asia-Pacific 2011-12 (US$billion)	Commitments to East Asia-Pacific 2012-13 (US$billion)
IBRD	188	20.6	**15.2**	5.4	**3.7**
IDA	172	14.8	**16.3**	1.2	**2.6**
IFC	184	15.5	**18.3**	2.5	**2.5**
MIGA*	177	2.7	**2.8**	0.9	**1.0**

** Refers to value of new guarantees issued.*

IDA17 replenishment

Along with other donors, Australia was negotiating the 17th replenishment of IDA during 2013. Australia has advocated for a greater focus on value for money, enhanced results reporting and improved effectiveness in small, fragile and conflict-affected states. Negotiations will be completed in December 2013 together with agreement on the strategic direction of IDA for the following three years.

Operational evaluation

The World Bank Corporate Scorecard provides information on the Bank's overall performance and results achieved by its clients against the backdrop of global development progress, with a particular focus on the Millennium Development Goals. The four-tier Scorecard covers the full spectrum of IBRD and IDA activities.

The World Bank Corporate Scorecard reported that countries continued to make progress on development priorities, noting that not all of these gains can be attributed to the World Bank Group alone. Average annual GDP per capita in developing countries continued to grow, reaching $2,723 (constant 2005 US$) in 2012, primarily through private sector investments, with domestic credit to the private sector increasing to 81 per cent of GDP in 2012.

Four MDG targets have been met ahead of schedule. These are halving extreme poverty, halving the proportion of population without access to safe water, improving lives of slum dwellers, and reaching gender parity in primary education. However, progress has been uneven, and large disparities remain across and within countries. A number of MDGs are unlikely to be attained in the envisioned timeframe.

The Corporate Scorecard reported that there were steady improvements in the World Bank's organisational effectiveness, citing lending commitments well above pre-global financial crisis levels and accelerated preparation of investment lending projects in a context of a flat administrative budget in real terms.