THE WORLD BANK GROUP

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1991 ANNUAL MEETINGS OF THE BOARDS OF GOVERNORS

SUMMARY PROCEEDINGS

BANGKOK, THAILAND
OCTOBER 15-17, 1991

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INTRODUCTORY NOTE

The 1991 Annual Meetings of the Boards of Governors of The World Bank Group, which consists of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID), held jointly with that of the International Monetary Fund, took place in Bangkok, Thailand, October 15-17, 1991 (inclusive). The Honorable Pablo Better, Governor of the Bank and the Fund for Ecuador, served as Chairman.

The Summary Proceedings record in alphabetical order of member countries, the texts of statements by Governors relating to the activities of The World Bank Group. The texts of statements concerning the IMF are published separately by the Fund.

T. T. THAHANE
Vice President and Secretary
THE WORLD BANK GROUP

Washington, D.C.
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REMARKS BY THE HONORABLE ANAND PANYARACHUN PRIME MINISTER OF THE KINGDOM OF THAILAND

On behalf of the people and the government of the Kingdom of Thailand, I have the great honor and pleasure to welcome heads of governments, Governors, delegates, and participants to the Forty-Sixth Annual Meetings of the World Bank and the International Monetary Fund. I am delighted that these two prominent institutions have chosen Bangkok to be the venue of this most prestigious gathering of finance ministers and central bank governors, as well as all the leading commercial bankers and financiers of the world. The choice of Bangkok reflects the growing significance of Southeast Asia, the region with the highest economic growth rates in the world during the past few years. I hope that when these meetings are over, you will not only have pleasant memories of your stay but will also be back in the near future to visit our country again.

For centuries, the Kingdom of Thailand has been a Southeast Asian cultural and economic crossroad. Gently absorbing immigrants, the indigenous Thai culture has been enriched by diverse ethnic influences. Bangkok is a blend of old and new. It is an indication that the Thai people have respect for tradition, while at the same time we move with the modern world. During your stay in Thailand, we hope that you will find the time to explore the wonderful mix of tradition and modernity that is characteristic of our nation, and that you will be able to travel outside of Bangkok to see the many faces of Thailand, not only the modern capital city of Bangkok but also the countryside, which is blessed with natural beauty and rich cultural heritage.

Both the World Bank and the International Monetary Fund have duly given credit to Thailand's economic performance during the 1980s as an example of successful development that combines growth with stability. The macroeconomic adjustment program launched during the early 1980s has successfully restored economic stability, which subsequently provided the foundation for rapid economic growth. Although we are heartened by this, the success is not without qualifications. Not all Thais have fully enjoyed the fruits of success. Many problems still remain to be solved, and many challenges must be overcome. Some problems are indeed a product of the very success of which we are proud. Therefore, our development achievements so far must be considered a qualified success story, and we have to continue to strive hard to bring progress and prosperity to our people.

The Thai experiences, although unique in many senses, contain several lessons that I would like to share with our colleagues from other developing countries, as well as with our friends from the more developed world.

To start with, we must take a measured and realistic look at Thailand's experience, as perhaps an example of both the positive and negative aspects of the development strategy as prescribed by the World Bank and the IMF.

Thailand has made a dramatic transition from an agricultural and resource-based economy into a more dynamic export-led economy—one that combines agriculture, agro-industry, manufacturing, and services. Along this long and arduous path, there were many difficult decisions to make. And I believe that the decision to pursue early corrective policies in response to the difficult conditions of the early 1980s was the one that has contributed the most to Thailand's recent success. In response to the problems of low and stagnant growth, widening current account and fiscal imbalances, and increasing inefficiencies during the first half of the 1980s, the Royal Thai government embarked on a comprehensive transition and structural adjustment program to unlock the vast potentials of the free enterprise economy, emphasizing promotion of the private sector's role. Furthermore, with continued prudent economic management, I can say with great confidence that Thailand has the ability to maintain its growth potential with economic stability, while making a significant contribution to the overall strength of the global economy.

Economic management is a continuous process. There are no resting points in the process of development and economic adjustments. Allow me again to cite Thailand as an example. After having successfully addressed the problems of instability and minimum growth in the early 1980s, Thailand is now faced with a different set of critical issues. These are no less important, but they require a different approach. In the last decade, we successfully tackled macroeconomic issues through fiscal austerity and monetary discipline, and we improved competitiveness and economic efficiency. In the 1990s, we will have to deal with socioeconomic inequalities in income distribution and ecological issues and continuously improve our competitiveness in production and exports in an increasingly difficult international economic environment.

While there are agreements on the nature of the development issues confronting us in the 1990s, there is less consensus on how to cope effectively with these issues. A conventional approach of fiscal and monetary disciplines, extensively used in the 1980s, is still considered necessary but not sufficient. Perhaps, it is time for a new vision and strategy, and new programs to deal with the problems of the 1990s.

These meetings mark the beginning of the new development era of the 1990s. There are many challenges and problems that demand bold initiatives and strong will to renew the spirit of cooperation among the developed and developing nations in our continuous battle against poverty. In these tasks, permit me to express a few of my concerns.

First, there will be a continuing strain on resource mobilization to cope with old and new demands, including:

—the pressing needs of the least developing countries,
—the continuing demand from countries suffering from the debt "overhang" and made worse by the Gulf crisis,
—the widening economic gap between the rich and the poor within each country, within the region, and within the world,
—the transformation of the U.S.S.R. and Eastern Europe to market economies, and
—finally, new demand for resources to cope with the degradation of the world environment.

All of these entail tremendous resources, which require concerted efforts to mobilize. I trust that in your consideration, a dynamic and balanced approach to respond to all these needs will be found.

Second, in the 1980s, when we put our macroeconomic house in order, we were able to gain entrance to the world export markets. In the 1990s, it is likely to be far more difficult to achieve and sustain export success, given the increasing regionalization of the world economy. Although we hope that the emerging regional groupings will support global free trade, they could just as easily lead to a world of managed trade, greatly constraining the export performance of the developing world.

In coping with this changing economic environment, the Bank and the IMF need to develop new initiatives to expand market opportunities for developing countries. In this context, support to enhance economic complementarities among developing countries is necessary. This includes the proposed creation, among the six member countries of the Association of Southeast Asian Nations, of an ASEAN Free Trade Area within 15 years, as well as cooperation among countries in Southeast Asian subregions, including Cambodia, the Lao People's Democratic Republic, Myanmar, southern China, Thailand, and Viet Nam.

Today we all live in a global community of interdependent nations. Our interests are intertwined. In order to help one another achieve a long and lasting prosperity, I firmly believe that our efforts must be built on the determination, willingness, and spirit for closer cooperation among members of the world community. In this context, the failure to reach an accord in the Uruguay Round is but a clear reminder that the actions taken so far fell short of our stated objectives. Our credibility is at stake, and we need to match our political statements with our actual performance in the negotiation process.

Development to me is not a process only of numbers, facts, figures, and statistics. It has to have a human face. We have to meet the needs and aspirations of people to create a cleaner and gentler world where our children can live, grow, and prosper. A world where the water is clean; the air is sweet; and the vision of beauty endless. There is a tremendous cost in defending our quality of life as equal to, if not greater than, the cost of feeding the poor, housing the homeless, and allowing the least fortunate the

opportunity to uplift themselves educationally, socially, economically, and politically. We, in Thailand, will do our best to participate in this quest to attain sustainable development—development that would enrich the quality of life, as well as enhance income for the wider segments of the population. Today, I still find it difficult to understand why it is harder to help the poor, to feed the hungry, and to make the world cleaner than it is to make war. As a small country, we do not dare to teach; we only dare to hope that with lessening political tension, the rich and the poor, the developed and the developing will invest in instruments of peace and prosperity rather than in instruments of war.

I urge all of you to stand firm in the determination to help the poor, the underprivileged, and the downtrodden, and to improve the quality of life and promote prosperity in the world. The rapid degradation of nature and the environment has put our common global heritage in grave peril. Combined efforts and political will are essential to deal effectively with this most crucial challenge of the 1990s. In this spirit, I wish you every success in your deliberations. The world is awaiting new and bold initiatives for the 1990s to alleviate poverty, reduce income disparities, upgrade human resource development, and safeguard the quality of life for mankind. I hope that these Bangkok meetings will be the beginning of the great quest for sustainable and balanced development in the world.

OPENING ADDRESS BY THE CHAIRMAN THE HONORABLE PABLO BETTER GOVERNOR OF THE BANK AND THE FUND FOR ECUADOR

Introduction and Welcome

Fellow Governors, Ladies, and Gentlemen, it is an honor for me to welcome you to these Forty-Sixth Annual Meetings of the World Bank Group and the International Monetary Fund in Bangkok, the City of Angels. Thank you, Mr. Prime Minister, for your kind words of welcome. We are grateful to the government of Thailand for its generous and untiring efforts to assure the success of these Meetings, especially the provision of this magnificent setting. To the people of Thailand, on behalf of all of us assembled, I offer heartfelt appreciation for the hospitality shown us since we arrived. We have truly experienced the warmth of the famous Thai smile.

I am particularly gratified to end my chairmanship of the Boards of Governors of the World Bank Group and the Fund, initiated by Mr. Jorge Gallardo, former Minister of Finance of Ecuador, in the capital city of a country that exemplifies the realization of many of the objectives of programs and projects assisted by the two institutions. In this context, we salute His Majesty, King Bhumibol Adulyadej, for initiating a significant number of development programs throughout the Kingdom aimed at improving the well-being of his people and protecting the environment. While other countries have experienced economic slowdowns in recent periods, Thailand has seen double-digit rates of growth over the past few years, and all indications are that the long-term prospects for the economy remain favorable. We congratulate the Government and people of Thailand for this remarkable performance.

Let me take this opportunity to extend a warm welcome to the delegation from Mongolia, the newest member of our two institutions. We also warmly welcome the delegations from Albania, Estonia, Latvia, Lithuania, Marshall Islands, Micronesia, and the U.S.S.R., which have applied for membership in the Bretton Woods institutions. We also extend special greetings to the delegation from Switzerland, with which we have enjoyed a long relationship and which has also applied for membership in the World Bank and the Fund.

Ladies and Gentlemen, as you know, the World Bank Group has experienced a change at the helm. It is with great pleasure that I welcome Mr. Lewis T. Preston, the new President of the World Bank. I wish him success in the tasks ahead and assure him on behalf of the Board of Governors of our fullest support and cooperation during his tenure.

My pleasure in welcoming Mr. Preston is tempered by the need to bid farewell to Barber Conable. After five years as President of the Bank,

Mr. Conable has retired. I am confident that all of you will join me in expressing deep appreciation to him for his dedication to and guidance in strengthening the commitment of the World Bank Group to its goals, in particular those of improving the quality of life of the disadvantaged and sustaining the environment.

I also take this opportunity to congratulate Mr. Michel Camdessus for having been unanimously appointed for a second five-year term as Managing Director of the IMF. His presence will continue to guarantee the effective and efficient attainment of our short- and long-term objectives.

World Economic Outlook

The opening years of the 1990s have been and may well continue to be turbulent. We have witnessed the profound effects of a series of disparate but related events on the international economic scene, notable among which are: the slowdown of the economies of the United States, Canada, and the United Kingdom; the mounting costs of resource transfers from the former Federal Republic of Germany to the former German Democratic Republic; the difficulties in reforming the economies of Eastern Europe; the extraordinary changes in the U.S.S.R. and the unfortunate deterioration of the Soviet economy; the disappointing lack of progress in the Uruguay Round; and the crisis in the Middle East. The combination of these events has created major uncertainties in such key areas as financial markets and global savings, oil prices, and financial flows. Developments in these four areas will have a significant effect on the world economic outlook over the next few years.

Allow me to refer briefly to the world economic outlook. Overall growth is estimated at a lackluster 1 percent in 1991 and is expected to rebound to about 3 percent in 1992. However, no clear distinction exists between the prospects of industrial and less developed countries. For example, growth is expected to increase in Japan and Germany, in Africa, Asia, and Latin America, while the economies of Canada, the United Kingdom, and the Middle East are expected to experience a decline in growth this year, but will probably rebound in 1992. The other industrial countries will experience moderate rates of growth this year, while in Eastern Europe domestic output has fallen drastically and may not show signs of recovery for some time.

World trade is projected to follow the overall trend of economic growth, declining by 2.5 percent in 1991 and then rising by 5.5 percent in 1992. We continue to have a worldwide shortage of savings, a situation that is not likely to correct itself without much stronger policies to promote savings mobilization. Global inflation, after hitting a peak in 1990, will slow this year and next, partly on the strength of the projected decline of inflation rates in Latin America. It appears that we are now past the trough of the recession which, for the most part, has not been too deep.

Economic developments since we met in Washington last year have been directly or indirectly affected by two major events: the economic changes in Eastern Europe and the U.S.S.R., and the crisis in the Middle East. We are witnessing exciting changes in Eastern Europe and the U.S.S.R. We must acknowledge the efforts being made by the Eastern European countries to transform their centrally planned economies into market economies, with major institutional and policy reforms. All of them are putting into practice the principles on which our two institutions are based—some more successfully than others. It is our responsibility to support them in this venture by providing technical and financial assistance to encourage their development effort. The U.S.S.R. faces an immense task: to carry out radical economic reform while simultaneously undergoing a period of substantial political change. We congratulate the U.S.S.R. for its effort to become a part of the international economic and financial community.

The crisis in the Middle East led to a sharp, if brief, increase in oil prices and to a distortion of oil trade. The affected areas of the Middle East are now in reconstruction, both physically and economically. Less developed countries in other parts of the world have also been affected, some because of their dependence on oil imports, and most by the economic slowdown in their major industrial trading partners. The fall in the prices of most nonfuel commodities has exacerbated the situation. Our institutions have risen to the occasion, extending significant assistance both during and after the war.

These important developments combined with the external financing shortage and the persistence of the debt problem; require a response from the international community on three major fronts.

First, global trade can most directly be improved through a meaningful reduction in tariff barriers. We all know that wealth can be maximized by specialization and free trade. In practice, however, there exist factors that often require setting up barriers that prevent attaining the objectives of a global economy. What better objective could we set than one that will benefit others while helping ourselves at the same time? I urge each one of you to work tirelessly toward the successful conclusion of the Uruguay Round by influencing your countries' positions on this issue. After all, domestic economic reforms will be insufficient and possible ineffective if the industrial countries' markets are not opened to the goods efficiently produced by developing countries; failing this, much of the latter's efforts will have been for naught. True, a reforming country may enjoy the advantages of a competitive and efficient domestic industry, but that is not enough. Difficult reforms deserve commensurate rewards, and this can be achieved only through cooperation among interdependent nations.

Second, it is critical that worldwide savings be increased so as to free resources to meet more important investment needs. We are in a period of increased worldwide demand caused by the events I have just outlined, but

the problem is made more acute by the strength of current demand, in the United States and Germany in particular. And it is not only the Eastern European countries and Middle Eastern countries that need help in restructuring; the needs of other less developed countries of Africa, Latin America, and Asia have not diminished. Hence, overall investment resources must be increased, not diverted. Only if global savings accumulation improves can a downward trend in real interest rates take hold. In this context, it might be well to consider the potential for increasing savings by reducing defense spending, given the easing of world tensions that we are witnessing. The investment resulting from this increase in savings is the precondition for faster growth.

Third, each country has a responsibility to maximize its own growth potential by increasing its competitiveness, which requires adopting specific structural reforms and implementing sound macroeconomic policies. I am thinking here of a wide variety of measures, ranging from reform of the State based on a better definition of its role, the implementation of anti-poverty programs, financial sector liberalization, the introduction of environmental projects, and greater openness, to strengthening of the economic and social infrastructure. Of course, each country's case is unique, and the same prescription cannot be prescribed for all countries; rather, the individual nature of each must be respected.

Barely two weeks ago, in his address to the General Assembly of the United Nations, the President of Ecuador, Rodrigo Borja, said:

> "The Cold War is over; now we must fight the war against poverty, finance peace rather than war, work for life rather than for death, and create a more ethical and rational world. The spotlight now is on the economic and social challenges facing us; our first concern must be to improve people's living standards, and establishing international social justice is an imperative that cannot wait".

Latin America

On the same occasion, President Borja also said:

> "In Latin America, we have experienced the dramatic paradox of political democracy, laboriously won over the years, together with economic underdevelopment, with all its burden of social injustice, scarcity, and external dependence. We do, in fact, have a part of democracy, namely, political democracy; but we do not have economic democracy and social democracy.
>
> Never before have the boundaries of democracy been so broad in Latin America; never have so many of our countries lived under democratic systems. Virtually all the governments in Latin America are the expression of the people's vote. But this political progress is not linked to economic prosperity or to social well-being. Quite the opposite. Our

democratic systems have inherited the dire consequences of the crisis, of the fall in incomes and the worsening quality of life, of a debt that is out of all proportion to our payment capacity, of the decline in the flow of fresh capital for development, of problems in the external sector of our economies, macroeconomic imbalances, and long-repressed social demands—all this, combined with structural deficiencies that are well known.

This creates two risks: first, it may make it impossible for our democratic regimes to meet popular demands; second, it raises the question of the *governability* of societies in ferment, all of which enormously complicate the tasks of government."

Despite the differences among us, there are common problems that persist in our economies. High rates of inflation and low levels of production are endemic evils in most of our countries. Furthermore, significant proportions of the populations of many of our countries live in abject poverty, entailing a tremendous problem that limits economic and social development. High rates of population growth and continued degradation of the environment threaten the attainment of sustained growth. However, there are signs of hope as we emerge from the "lost decade" of the 1980s into the 1990s. Whereas per capita income in the region declined in the 1980s, it is expected that economic growth will recover significantly in the 1990s from the depression of 1980-89, when it averaged less than 2 percent.

This is a period of profound change. The models that guided much of our economic, social, and political development in the 1960s and 1970s have lost their appeal. Theories that appeared then to be the answer to our economic woes must be reassessed for applicability to the realities of the 1990s. I believe we will all agree that the priority objectives of social and economic development are the achievement of sustainable growth, reduction of poverty, improved income distribution, and protection of the environment. Whether we attain those goals will depend on the progress we make in three important areas: improving human resources—which is indeed a goal for all developing countries, not just Latin America; the effectiveness of economic and trade policies in industrial and in less developed countries; and the availability of financial resources.

How can this progress be effected? What conditions must be met before the entire region is back on the path to sustainable development?

We know that macroeconomic stability must be achieved as a condition for other policies to succeed. Latin American authorities have begun to take some of the steps necessary to achieve both stability and growth. We must recognize the efforts made by several countries to undertake demanding programs of fiscal and monetary tightening to combat the pernicious effects of inflation and external payments imbalances. Among other things, these countries have come to realize that excessive or poorly aimed involvement of the State in the productive sectors of the economy is often a hindrance

to rapid economic growth, as confirmed in the World Bank's recently published 1991 World Development Report. Latin American governments are examining their own domestic situations to determine what is the most appropriate mix of state and private sector participation in their economies. In most of them, spending priorities are being examined and state involvement in commercial activities is being reassessed.

At the same time, structural measures must be taken to create incentives for production factors to be used more efficiently and to encourage productivity increases in low-productivity sectors. After ten years of adjustment, our experience is that such structural reforms often have extremely harmful transitional effects on the population, particularly the poor and disadvantaged. In order to instill confidence in the ability of adjustment programs to improve people's lives, it is important that measures be taken to reduce the temporary harmful effects of adjustment on the most disadvantaged sectors of society through an appropriate reallocation of human and financial resources. This will require greater efficiency in the public sector, which in turn will make it possible to increase direct public expenditure so as to improve the access of the poorest to the education, health, and infrastructure ultimately required to raise productivity and income for all. We must not forget that the goal of adjustment programs goes beyond stability; it is social and economic development.

The investment climate in our countries must be improved, in order to reduce the motivation for capital flight. An enabling environment must be created in our economies to encourage domestic and foreign direct investment.

The debt burden continues to loom large as a threat to our economic recovery. Some Latin American nations have succeeded in refinancing and reducing their debt and debt service, and this progress is evidenced by the renewed access of some countries to international financial markets. However, the debt crisis is far from over. We must persevere in our efforts to ensure that all countries regain their creditworthiness.

Latin American countries are increasingly committed to opening their economies to the rest of the world. However, these initiatives must be accompanied by reciprocal actions on the part of our major industrial trading partners.

Within the region, a number of economic integration initiatives have been undertaken which, in the long run, will benefit all their participants. The Southern Cone Common Market, the Andean Pact, and the plans of the Central American countries to eliminate all tariff and nontariff barriers to trade among themselves are all examples of the various countries' renewed effort to cooperate among themselves to achieve common goals.

Increasingly aware of the connection between the environment and economic development, most Latin American governments are initiating programs geared to protecting the environment. Brazil will host the upcoming

United Nations Conference on Environment and Development in 1992, from which will emerge an Earth Charter and an environmental agenda for the twenty-first century.

The initiatives I have mentioned are positive steps toward the goal of sustained growth and development. But Latin America, like most other parts of the less developed world, continues to have many problems, and the ultimate responsibility for their solution lies with us. Nevertheless, given the interdependent world in which we live, our need for reciprocal treatment is indispensable, and we need help from our friends in dealing with the external debt burden. We must reduce the flow of financial resources to creditor countries, and we must have access to foreign markets. Without the necessary cooperation in this undertaking, we are doomed to remain in crisis and to embark on another "lost decade." The opening of markets cannot be one-sided; in order to be effective, it must be reciprocal.

Ecuador

My own country, Ecuador, is among those that have recognized the need for reform. Since President Rodrigo Borja took office in 1988, the Government has taken consistent measures to stabilize the economy and promote its growth. A number of reforms have been implemented, including significant trade liberalization, fundamental tax reform, labor reforms, a more open foreign investment policy, and measures to promote the efficiency of financial markets. Greater economic integration with members of the Andean Pact is also being sought.

While we have made significant progress on some fronts, we recognize that there is still much to be done. As in all countries undergoing adjustment, the immediate political and social consequences of reforms are often traumatic. In support of our own efforts to establish sound macroeconomic policies and implement structural reforms, the international community must recognize that adjustment is a lengthy and arduous process. In order to succeed, Ecuador and all other countries in similar circumstances will require a favorable international economic environment and substantial support from the international financial community, including effective relief of the debt burden.

The World Bank

The contribution of the World Bank Group and the International Monetary Fund to achieving the goals of sustainable growth, poverty alleviation, and environmental protection is worth stressing.

Let me mention first the World Bank and its affiliates, the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these has an essential role to play in the efforts of less developed countries

to design and implement long-term strategies to address the problem of reducing poverty.

In 1991, the World Bank adopted a comprehensive long-term strategy to address the protracted challenge of poverty reduction. The strategy, which was designed to ensure that the poor benefit from growth and contribute to growth, calls for all World Bank programs to be clearly geared to this goal. An increasingly poverty-conscious approach is evident across the range of the Bank's lending, as is general improvement of social welfare.

The World Bank has pursued the initiatives it had begun in, among other things, development of the countries of Latin America, Asia, and sub-Saharan Africa; improvement of the quality of education; promotion of the role of women in development; checking of environmental degradation at the national, regional, and global levels; alleviation of the debt burden faced by many countries; and efforts to encourage private sector development in member countries.

Noteworthy among developments in the past year were the establishment of the Global Environment Facility, administered jointly by the Bank, the United Nations Development Programme, and the United Nations Environment Programme, and the approval of a new policy to guide the Bank's involvement in the forestry sector.

In addition to its regular activities to promote economic growth and national development, the Bank undertook a number of specific actions to assist borrowing members to deal with the consequences of the Gulf crisis, which was one of the most severe in magnitude, or with those that threatened adjustment programs. In this regard, the Bank stands ready to play an active role in helping to design and administer reconstruction and development programs by providing technical assistance and additional financing and by working with other multilateral institutions to develop appropriate mechanisms to coordinate the improved use of financial resources.

As we prepare to begin the negotiations for the Tenth Replenishment of IDA resources, I urge donors to consider the critical plight of the poorest countries and to increase their contributions, so that essential support for economic development and adjustment programs in those countries can continue.

Regarding the International Finance Corporation, I welcome the $1 billion capital increase recently approved by the Board of Directors, and I urge the Board of Governors to act quickly to approve it so that subscriptions can begin as soon as possible. It is essential that the IFC be sufficiently capitalized to carry out its mandate of promoting private enterprise in developing countries.

The mandate of the Multilateral Investment Guarantee Agency (MIGA) is to encourage the flow of direct foreign investment to less developed countries by offering insurance against noncommercial risks and providing promotional and advisory services. In fiscal 1991, MIGA more than doubled

its volume of business over 1990 totals. In 1991, 23 additional countries signed the MIGA Convention, increasing the number of signatories to 104. I am pleased to note that most of the new members are from Latin America and that a majority of Latin American countries have now signed the MIGA Convention. On a less positive note, only 68 of the 104 countries that have signed the Convention have ratified it. I urge all countries that have not yet done so to ratify the Convention as soon as possible.

The International Monetary Fund

The Fund, too, has strived over the past year to meet its obligations to its membership in the context of the current world economy.

The Fund has made useful and imaginative innovations to its facilities in response to the Middle East crisis, increasing access under stand-by and extended arrangements, increasing the financing under and the length of arrangements under the enhanced structural adjustment facility, and introducing a temporary oil element in the compensatory and contingency financing facility. At the same time it has continued to support less developed countries with more traditional needs, such as those arising from debt-related problems. Reflecting that fact, drawings from the Fund rose substantially over the past year.

The Fund also coordinated the groundbreaking study of the Soviet economy prepared jointly with the World Bank, the Organisation for Economic Cooperation and Development, and the European Bank for Reconstruction and Development in close cooperation with the European Community. It is a testament both to the cooperative nature of our institutions and to the openness of the Soviet authorities that such a useful study could be completed so quickly.

Surveillance is the Fund's primary responsibility, a unique role whereby each member's economic policies are considered in terms of how they influence the rest of the world. This macroeconomic perspective ensures consistency of purpose among the various groups of members.

But the Fund cannot continue to fulfill its increasing responsibilities unless it is adequately financed. It makes its resources available to its members—which does not mean that they will necessarily be used—to give them confidence, but in today's climate even a catalytic financing role requires sufficient resources. To this end, I urge countries that have not yet done so to consent to the quota increases in time for the end-1991 deadline.

Conclusion

Ladies and Gentlemen, as we begin these Annual Meetings, let us rededicate ourselves to the building of a strengthened world economy. Each of us must do his part and bear his rightful responsibility for achieving the priority economic and social goals we have agreed upon. After all, adequate

growth in developing countries, in Eastern Europe, and in the U.S.S.R. will benefit the entire world. The alleviation of poverty among 1 billion human beings is surely something that affects us all. And protection of the environment is paramount, because without sound, coordinated policies to do so we may lose the very resources on which we base our global wealth. At the same time, nations must be willing to take the necessary measures to achieve fiscal balance and thus to free resources for investment in productive processes. Without stable domestic conditions and an orderly matching of resource needs to available resources, active pursuit of a sustained development policy is not possible. The determining factor will be how well the harmonious relationship between industrial economies and less developed economies works. That will depend on how willing all parties are to work together toward greater well-being. Let us pledge ourselves to the goal of making the next ten years not only a decade of hope, but one of achievements for the entire world.

Going still further, without prejudice to the objectives of our organizations, we must all work together to intensify democracy, understood not merely as a formal political system but as human freedom in the context of social justice. There can be no full development of individual and collective well-being without justice and liberty. We know the conditions for pursuing these objectives. Let us make their achievement the greatest challenge of this last decade of the twentieth century.

ANNUAL ADDRESS BY LEWIS T. PRESTON
PRESIDENT OF THE WORLD BANK GROUP

Introduction

Welcome to these Annual Meetings. And a special welcome to the delegates from countries which have applied for membership. I would like to thank the people and government of Thailand for their warm welcome and generous hospitality.

I want to start with a tribute to Barber Conable. At the last Annual Meetings, no one knew—perhaps not even Barber himself—that he would retire before the Governors would meet again. Many of you may not have had an opportunity to say goodbye to him. Allow me, therefore, on behalf of everyone here, to express deep gratitude to Barber Conable for his stewardship of the World Bank Group these past five years. During this tumultuous time, he ensured that the Bank, IFC and MIGA responded effectively to the changing needs of their members. He repeatedly emphasized the importance of the human and environmental aspects of development, and strengthened the Bank's work in these areas. And amidst the urgent need for economic adjustment, he rededicated the Bank to its fundamental objective of reducing poverty. I am honored to follow Barber Conable in this challenging position.

Allow me also to say how pleased I am that Michel Camdessus will be continuing as Managing Director of the Fund. I look forward to working closely with him in the years ahead.

Unprecedented Opportunities for Development

Ladies and gentlemen, this is a time of unprecedented opportunities. The Cold War has ended. Political and economic liberalization is occurring in many parts of the world. Agreement on how to promote sustainable development is broader than ever before.

The pace and complexity of change have been staggering in the last few years. The competition for capital and markets has increased. Nations of the world have become increasingly interdependent. At the same time, strong centrifugal forces have emerged within nations. Environmental problems have become steadily more urgent. And we face new development challenges in the efforts to restructure the centrally-planned economies of Eastern Europe, and to help reshape the economy of the Soviet Union and its Republics. The implications of these changes are truly global in nature.

This morning I want to discuss how we can take advantage of the opportunities and deal with the challenges before us, so that we can make progress toward our ultimate objective—the reduction of poverty.

Ladies and gentlemen, one can be optimistic about the world's prospects. Consider, for a moment, how different the world is today from a decade ago.

The industrial economies appear poised for relatively stable growth. Unlike the early 1980s, there is reasonable price stability. To maintain price stability and steady growth, industrial countries will need to continue to pursue actively the sound policies and cooperation which have served us well in recent years.

Second, the world economy has become much more integrated. Trade expanded more rapidly than income during the 1980s, which benefitted both efficient producers and consumers. A successful conclusion this year to the Uruguay Round of trade negotiations will push this process forward. Industrial nations must accept the major responsibility for fostering a more open international trading system. Failure to reach an agreement which results in significantly reduced barriers to trade will undermine domestic policy reform and reduce potential output in developing countries. Failure will also reduce the impact of external assistance to these countries. No international issue affects the developing countries more.

Third, over the past decade, progress also has been made in managing the debt of low- and middle-income countries. Yet, many developing countries are still struggling with their debt burden. This, in turn, discourages new investments and impedes access to capital markets. Experience shows that adjustment programs and good faith negotiations with creditors, both public and private, can help relieve the pressure of debt and restore access to capital markets. Foreign direct investment is on the rise, reflecting a welcome shift from debt to equity financing. Chile and Mexico have demonstrated what can be done. We must build on that experience.

Fourth, the most dramatic difference from 10 years ago, of course, is the relaxation of superpower tension. This offers an opportunity to redirect vast resources in industrial countries to investment and development. It can help reduce budgetary strains and thus ease the worldwide competition for capital. Just as important, the stage is now set for the countries of Eastern Europe, the Soviet Union, and other countries around the world to be fully integrated into the global economy. The entire world community will benefit.

Fifth, and equally fundamental is the broad convergence of development thinking which has replaced ideological conflict. The role of government is being reconsidered throughout the world, and the potential of the private sector increasingly appreciated. Peoples and governments are recognizing that it is their country's policy framework and governance which will largely determine their future prosperity. External conditions are a factor, of course. But the quality of domestic institutions and policies determines how well countries adjust to external shocks and exploit economic opportunities. This realization is perhaps the most important building block for the future.

These developments over the past decade are the source of my optimism. Developing countries *can* meet the tremendous challenges ahead with the effective support of the international community.

Competitiveness Requires Sound Policy

Measured by indicators of economic growth, literacy, mortality and nutrition, the quality of peoples' lives in developing countries as a group has improved over the last 30 years. The income of developing countries has increased faster than in either the United Kingdom or the United States during their periods of most rapid expansion. But aggregate figures mask wide differences in performance between countries and regions. For instance, over the last 30 years, per capita income in East Asian countries increased over 5 percent annually, compared to less than half a percent in Africa. And, any optimism must be tempered by the realization that 1990 and 1991 have been the years of slowest growth for developing countries since 1965.

In the decade ahead, competition for capital and for goods and services will be intense and will place great pressure on developing countries. The competition for scarce resources will put a premium on sound investments and on increased efficiency in the use of resources. The decisive influence on a country's economic performance will be the policies the government pursues and the quality of services it provides. Those that pursue policies which permit producers and consumers to adapt to the changing world economy will flourish; those that do not, risk being left further behind.

Implementing efficiency-oriented policies takes perseverance and commitment. It also requires skill, well-run institutions, and a conducive legal framework. The consensus on what constitutes appropriate policies must be followed by actions which will sustain these policies. Only then will these policies yield the expected improvements in standards of living.

Balance Between Government and Market

Our experience as a multilateral development institution demonstrates that development is most likely to succeed when there is an appropriate balance between the role of government and the role of the private sector. Governments must assume those economic tasks which markets cannot; markets should be relied upon for the production and distribution of most goods and services. Striking this market-friendly balance ensures more efficient use of both private and public resources.

Increasingly, countries are relying on, and responding to, market forces to improve the efficiency of resource use. The outward-looking policy practiced by the rapidly growing countries of East Asia continues to yield excellent results. Eastern Europe is adopting the market model. Chile and Mexico are inspiring imitation in Latin America; and Indonesia is doing likewise in Asia. In Africa, more than two dozen countries are undertaking bold adjustment programs which were unthinkable only a decade ago. Yet, much remains to be done.

The potential for enlarging the scope for private initiative must be exploited. A healthy private sector can be the main source of innovation and employment, provided there is confidence in sound and consistent economic management. Many governments are trying to enlarge the private sector by selling off state enterprises.

But privatization, which can be complicated and slow, is only part of the answer. Government policies must encourage new and existing entrepreneurs, support the creation of small enterprises, and provide a well-supervised, efficient financial sector. They also must ensure access to technology, information and best practices.

As governments do less of what they should not be doing, they must do more of what they should be doing. And they must do it better.

In our increasingly interdependent and competitive world, where communications and technological innovation have no boundaries, nations can thrive *only* with a healthy, literate, well-trained population. Efficient investment in education, especially for females, and health care systems must have the highest priority. A critical requirement for improving both the human condition and the environment in many countries is to slow down population growth rates. Improved access to voluntary family planning services is essential. These investments in people will reap enormous benefits, not only for the individuals and families involved, but also for their nations as a whole.

Beyond investments in human resources, governments must make or encourage the needed investments in infrastructure to support efficient production and distribution. Governments must provide incentives and establish regulations to protect the environment. Regulations also must ensure that markets operate fairly and consistently with the country's objectives to develop its people and reduce poverty.

Emphasizing government commitment in one area often implies reducing it in another. Given the changing world order, the security situation in all countries may permit a reduction in present defense outlays. Sovereign nations, of course, have an obligation to provide for their national security. But current military spending in many developing countries far exceeds their spending on education and health together. Reductions in defense expenditures would increase domestic savings, allowing a reallocation of scarce resources to other high priorities, and would reduce requirements for external capital. We cannot afford to miss this opportunity.

Growth and Poverty Reduction Remain Fundamental

Ladies and gentlemen, the role of the World Bank Group will be shaped by the constantly changing global opportunities and challenges. But, our fundamental objective remains the same—to promote sustainable growth and reduce poverty. In order for the World Bank Group to continue to

provide leadership for development and help our members adapt to new realities, it, too, must accommodate to change and remain flexible.

The effectiveness of the Bank as a multilateral development agency, and the strength of the Bank as a financial institution, rest heavily on the quality of its staff and its continuously accumulating knowledge. Ideas and analysis derived from worldwide experience are the foundation of our advice to policy-makers in industrial and developing countries. In recent years, policy reform and adjustment, debt management and our new members have increased the demand for some of the Bank's non-lending services. Our commitments to reducing poverty, to integrating environmental protection into all our work, to enabling women to realize their potential for development, and to stimulating the private sector *all* rely heavily on these services.

Because there is stiff competition for both domestic and external capital needed to accelerate growth and reduce poverty, one of our fundamental objectives must be to help improve efficiency of investment and maximize its return. The potential benefits are immense. Even a modest improvement in the efficiency with which resources are utilized in the developing world would result in greatly improved living standards for the world's poor.

Mobilizing Additional Capital

More efficient use of existing resources must be complemented by additional capital. Bank Group lending and investment should be expanding. The restraint is neither our capital base nor our capacity to take risks prudently. Rather, it is the need for our borrowers to establish a conducive climate for investment with high economic payoff. Vigorous implementation of adjustment programs, including reform in major sectors, will expand opportunities for investment lending.

The World Bank Group, and the other development lending institutions, must intensify efforts to mobilize funds from the private markets for development. IFC will be well-placed to expand its role as a result of its capital increase. The World Bank, with its capacity to intermediate at the finest terms, likewise can expand its operations in support of the private sector. MIGA's guarantees help overcome investor reluctance to venture into unfamiliar country environments.

The poorest countries, of course, cannot borrow on commercial terms. For these countries, a substantial replenishment of the International Development Association is crucial to sustain reform programs and reduce poverty. Discussions on IDA-10 started this week. Simply maintaining the real volume of IDA-9 will not be adequate, if we are to respond to the many and diverse requirements of the increased number of countries which must rely on concessional assistance. Despite the budgetary constraints in many donor countries, I hope we can count on everyone to make a determined effort to expand IDA's resources.

Competition for external capital also puts a premium on effective coordination of assistance. We continue to collaborate closely with our sister institution, the International Monetary Fund and with other international agencies, bilateral donors and the private sector. Together, we must make the best use of all available resources in support of our common objectives. I attach particular importance to the Global Environment Facility as a new and evolving multilateral instrument for addressing our environmental concerns in a collaborative and pragmatic manner.

Mr. Chairman, we live in a complex, rapidly changing and highly competitive world. We must help our members use scarce domestic and external resources as effectively as possible to accelerate development, stimulate employment and, thus, reduce poverty. Poverty reduction, to which I personally am fully committed, remains the World Bank Group's overarching objective.

Role of The World Bank in Reducing Poverty

And how do we plan to realize this objective?

First, the Bank Group must serve as a strong leader of the worldwide development effort. We must articulate the interests of developing countries in global fora and policy councils of industrial countries, and help coordinate the efforts of the many government and non-governmental organizations that contribute to development.

Second, the Bank Group must support policy reform at both macro and sector levels to help assure that the incentive and regulatory frameworks promote efficiency in the use of resources. Country policies determine the effectiveness with which human and financial resources can be used. Through our economic and sector analysis, our technical assistance and our policy dialogue, we must provide our members with the best available advice on the design and implementation of improved policies.

Third, the Bank Group must ensure that the policy framework is balanced. The Bank must take into account interests of the poor so that growth is equitable; environmental aspects so that development is sustainable; human resource issues to provide the basis for a modernizing economy; and the role of women who are vital to the development effort.

Fourth, the Bank Group must continue to be strong financially, capable of mobilizing funds from the world's markets and lending them to our members at the lowest possible cost. We must be in a position to expand our lending and investments in support of sound reform programs.

And, *fifth*, the Bank Group must have efficient management. The size of our resources and the complexity of our mandate are no justification for a ponderous bureaucracy. We must speed up our decision-making and improve our responsiveness. The changes announced recently in our management structure and processes should continue to provide us with the needed

organizational capacity to respond effectively and quickly to the growing needs of our clients.

Fundamental to all of our efforts is our client focus. We must continue to provide useful services to our member countries in the most effective way. Our capacities must remain consistent with our priorities. We must maintain the right balance between finance, policy dialogue and technical assistance. We must be adequately equipped to help our borrowers at various levels of development, and with different needs.

Conclusion

The task is formidable, but the World Bank Group has almost half a century's experience, a strong capital base, and a highly skilled, internationally experienced and dedicated staff. I am optimistic that, with your full backing, we *can* achieve our development objectives. I hope you share both my optimism and my determination. I look forward to working with all of you.

REPORT BY ALEJANDRO FOXLEY
CHAIRMAN OF THE DEVELOPMENT COMMITTEE

The Development Committee is formally a Joint Committee of the Governors of both the Bank and the Fund, and it is required to present a report each year to the Boards of Governors. That Annual Report is before you today, and has been circulated already. It covers the last meeting chaired by my distinguished predecessor, Bernard Chidzero, and the first meeting that I had the honor of chairing in April of this year.

I believe that the Committee has made progress in becoming a more policy-oriented body, and I hope to move further in that direction. I will not repeat the details of our debates, which are set out very clearly in our report. Instead, let me illustrate the Committee's achievements by singling out four main topics and showing how our deliberations have had an impact.

One of the themes in the Spring meeting of the Committee was the encouragement of the private sector. This coincides with a renewed interest in developing countries on the need for foreign direct investment. There was a degree of unanimity in the Committee's debates on these two topics that would have been impossible ten or even five years ago. The pace of change has clearly and rightly differed among countries, but the direction of change is unmistakable. The World Bank has responded with a reorientation of its operations toward the private sector and with a related agreement on the capital increase of IFC. These World Bank changes have been welcome steps in the right direction. In my opinion, increased lending to small and medium-sized private firms is a logical next step. Such Bank and Fund lending can become important means of creating jobs and thereby reducing poverty.

The fight against poverty has been a second main topic. We have had two debates now on poverty and on its financial consequences. There was already, of course, an emerging consensus on the need to put poverty at the head of any development agenda. I believe our two discussions and the communiqués that followed have crystalized that consensus. Both the Bank and the Fund have found this clear consensus helpful, and their internal procedures are now being revised to include a much stronger "poverty" component in most of their programs. I am sure this is also having its effect on bilateral donors, many of whom were at the forefront of the battle against poverty.

The third area where I think the Committee has had an impact is debt. This is, of course, a subject for the Interim Committee as well. In the last year or so, however, the emphasis has shifted from debt owed to commercial banks—already covered by the Brady Plan—toward official bilateral debt of the kind handled in the Paris Club. This seems to me so close to the question of development assistance that it was right for the Development Committee to discuss it, too. I am pleased that the so-called Trinidad propo-

sals were so widely welcomed at our last two meetings, because this has undoubtedly had an impact on the creditor governments. This was shown by the recent agreement at the London summit. The Committee yesterday called on all the creditor governments to put that agreement into force as quickly as possible.

The fourth success story is the environment. It began at the Berlin meeting three years ago and led to the recent creation of the Global Environment Facility. I do not think that would have happened so quickly without the early discussions in the Development Committee, which stimulated others into action.

So there are four areas where I believe the Development Committee has had an impact. I wish I could say the same about my fifth theme: trade. The Committee has just decided that it wants to take an annual look at the way the policies of industrial countries impact upon the developing world. The most obvious case is access to markets. The continued deadlock in the GATT talks, despite all the speeches and all the communiqués of the past year, is particularly worrisome.

If the GATT Uruguay Round is not successfully concluded, the prospects for economic growth in the developing world and in the industrial countries themselves will be threatened. My Committee, like the Interim Committee, could debate it endlessly; that would do no good. But all the finance ministers and central bank governors in this room can help by telling their governments and parliaments how short-sighted it is to allow narrow sectoral interests to impede a new trade agreement. The World Bank has said it before, and I make no apology for repeating it today on behalf of the Development Committee: if all the existing barriers that prevent developing countries from selling their goods could be removed at a stroke, this would do more good to the developing countries than doubling the flow of aid—welcome though that would be. And as most of us here are finance ministers, let me remind you: it would also be cheaper.

I have singled out five themes. The Committee discussed a good many others. They are all in the report, and in our last two communiqués. For example, we spent some time discussing the impact of the Middle East crisis. Perhaps this illustrates that the Committee can respond to short-term and immediate crises, as well as to longer-term development issues. In yesterday's communiqué we said something about Development Priorities for the Nineties; and about Human Resource Development—which includes women in development, one of our most underutilized resources. This is another area where the Committee has helped to set the tone of the international debate.

I invite my Development Committee colleagues to continue the effort. While our work involves long hours and is never done, I am confident that we are moving toward the goal of development.

I hope you will agree, Mr. Chairman, that the Committee is beginning to assume a significant role. I am sure that the Managing Director, and still more the new President of the World Bank, whom I join in welcoming to his first Annual Meetings, will take note of what we have to say. And I hope that all the governments represented here today will do the same.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS[1]

AFGHANISTAN: MOHAMMAD HAKIM

Governor of the Bank

On behalf of the Afghan delegation and myself, I would like to express our heartfelt thanks to our hosts for their most hospitable welcome and for their excellent organization of these Annual Meetings of the World Bank and the International Monetary Fund. We would also like to extend a warm welcome to our newest members, Mongolia and Albania.

We are passing through a delicate but decisive upturn in our globe's economic life. It appears that at the turn of the decade we are poised for a sequence of drastic changes of long-standing duration.

There are many factors that cause the underlying sources of economic instability and unpredictable tides of financial crisis. A large number of countries (the developing and the least developed, in particular) are experiencing economic shocks produced by such recent events as the war in the Gulf and the upheavals in the Soviet Union. It is not logical to assume, however, that such economic traumas are the only factors responsible, or that the suffering nations did not inherit their pains from preceding decades in which a large part of the developing world remained mired in relative economic stagnation, often accompanied by financial disorders.

This situation further widened the inequitable gap in the distribution of economic welfare, and increased the alienation between the wealthiest and the poorest parts of the world. This could be presumed to be one of the causes of the regional and global turmoil.

The tasks of breaking the vicious circle of poor growth, over-indebtedness, and the consequent financial disorders, still remain critical problems for the developing world.

We have also noticed that general growth in world trade was also accompanied by large fluctuations in the value of the major convertible currencies and by problems in marketing. However, there is a gradual but significant "opening of the door" to market economies in almost half of the world. This could bring about some profound changes and reevaluations of financial and monetary policies, which, even in the initial stages, would give a welcome boost to the total volume of trade.

It is worth mentioning that, for the developing countries, and particularly for the less developed ones, nontariff barriers still continue to shadow the prospects for export earnings and national incomes. Their effects could be substantial in relation to the level of official development assistance. My

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Comprising statements relating to the work of the World Bank Group. Omitted passages are indicated by dots (. . .). Statements relating to the International Monetary Fund are produced in the IMF Summary Proceedings.

delegation supports the idea of the transfer of real resources to the developing countries, emphasizing the responsibility of advanced countries to reduce trade barriers and further liberalize the multilateral trading system so as to ensure export-oriented economic growth.

It can never be ignored that the insurmountable debt service, coupled with a scarcity of internal financial resources and external financial restraints, has the developing world on the verge of real catastrophe. It is unimaginable that countries in such a position would indulge in long-lasting regional wars, high military expenditures, and the large-scale exodus of refugees.

In recent years the Government, in order to facilitate a political settlement of the Afghan issue, has presented a number of peace programs that have paved the way for a peaceful settlement both inside and outside the country. Among these are the following: the creation of a government of national unity; the introduction of changes in the constitution; practical steps toward the promotion of the private sector in the economic life of the country; the purification of the education system of all ideological vestiges; political freedom covering the establishment of political parties, freedom of speech, and the expansion of political and economic relations with all countries, particularly neighboring and Islamic countries; and steps for the protection of human rights and consolidation of law through the independence of the law protection agencies.

The position of the leadership of the Republic of Afghanistan toward the realization of national reconciliation and the ending of the war through discussion and political dialogue, has provided the opportunity for the great powers and the United Nations to give preference to a political settlement and to initiate comprehensive measures to end the bloodshed in Afghanistan.

The world community, recognizing the necessity of a peaceful settlement of the Afghan issue in conformity with the objectives of national reconciliation, has declared its support through UN General Assembly Resolutions Nos. 44, 45, and 46. However, to our great regret, some of the countries involved in the issue have not spared any effort in supporting the forces of extremist warmongers. They continue their interference in the internal affairs of Afghanistan and still have not abandoned the enforcing of a military settlement. Their position is a great obstacle to peace, and is contrary to all the measures and steps taken by the United Nations and the great powers toward the political solution of the Afghan issue.

We have offered a sincere hand of cooperation to UN-sponsored initiatives aimed at untying the Afghan knot, including the most recent five-point statement of Secretary-General Perez de Cuellar.

Our country, which, in fact, first proposed a peaceful political settlement to the war, accorded a full welcome to the recent Soviet-American statement

of a reciprocal arms cutoff to the conflicting sides; but the world continues to wait as the flow of arms from other sources continues.

In accordance with recent changes and amendments in the constitution, the Government has taken legal and administrative steps toward the liberalization and privatization of the economy. The newly-promulgated foreign and domestic investment law fully guarantees and encourages foreign and internal investments in the country. The readjustment and modification of the money, banking, and insurance laws of Afghanistan sanction the operation of privately owned banks and insurance companies, as well as the setting up of branches of foreign banks and insurance companies in the country. By the recent decision of the Government, the traditional state monopoly on fuel and sugar imports has been abolished and their pricing is no longer controlled by the Government.

From the economic and financial points of view, the years 1990 and 1991 have been the most difficult period for our country. The budget revenues during 1369 (1990/91) declined because of diminishing incomes from domestic sources and the nonrealization of assistance from donor countries, who were facing their own economic difficulties. Meanwhile, budget expenditures have increased due to the continuation of the war and the rise in prices. The budget deficit was 70 percent higher than in 1368 (1989/90). The general price index during 1990-91 was up by 60 percent on a countrywide average basis, the gross domestic product in the same year indicated a decrease of 2.79 percent, and the national income declined by 4.02 percent.

As a result of the war, the agricultural sector has faced destabilization and insecure conditions in some areas, as well as the displacement of the agricultural population, and scarcity of agrotechnical services and facilities. The decline of assistance to farmers has decreased the land under cultivation and, therefore, agricultural production. Areas under cultivation of grains decreased from 2.8 million hectares in 1368 (1989/90) to 2.5 million hectares in 1369 (1990/91) and the wheat harvest fell from 2.20 million tons to 1.65 million tons. Likewise, cotton production decreased from 35,000 tons to 28,000 tons.

In 1369 (1990/91), our balance of payments recorded a deficit of $286 million, and the trade balance indicated a deficit of $130.4 million more than in the previous year.

Owing to 13 years of war, a great part of the infrastructure such as irrigation systems, roads, bridges, hospitals, schools, and mosques were destroyed. Reconstruction and rehabilitation of these losses will require, according to a preliminary estimation, up to $10 billion.

Although Afghanistan, in view of its prevailing extensive economic problems, is fully entitled to benefit from Fund resources and from the assistance of the World Bank. Nevertheless, the said institutions have hesitated again

this year to extend necessary assistance to our country just as had been done in previous years. This, we presume, is not in conformity with their Articles of Agreement.

The plight of my country is now reaching a truly startling point; not only because of the afflictions of war, but also because of economic and social instability. While the Afghan people are on the march toward a national concord, in full conformity with the principles on which the entire world is pinning its hopes, my delegation invites all the prominent economic quarters, the World Bank and the International Monetary Fund included, not to miss any chance to support our hard struggle toward the salvation of a whole nation that is on the verge of economic disaster. This support would be remembered in history and would revive confidence in the idea that prospering humanity should never abandon a part of its own in times of severe austerity.

We are also thinking of our postwar reconstruction, which is unimaginable in the absence of coordinated high-level international assistance. The Bank's share in this will be pivotal.

Once again, I take this opportunity to repeat my feelings of honor and gratitude for the attention given to my words here, and to wish this important gathering every success.

ALBANIA: GENC RULI

Governor of the Fund

For a period of 45 years, under an extreme communist dictatorship dedicated to national isolation, Albania lost its connection to the world. Now this system has been overthrown, and we are determined to restore our links with the world. This meeting represents an important milestone in our reintegration into the international financial and economic community. We thank all the members for their support for our membership in the International Monetary Fund and the World Bank Group. I would like today to share with you our ambitions for the future and ask for your support in realizing them.

Albania is now in the process of creating an economic reform program which, with the help and support of the international financial community, will allow us to achieve our goal of establishing a market economic system in the not-so-distant future. Several important reform measures have already been taken:

—In September, we devalued our currency by 150 percent.

—Price liberalization and rationalization is under way, with tangible effects in consumer markets.

—A substantial portion of the agricultural sector has been privatized.

—The process of privatizing small-scale retail trade, services, and small-scale producers has begun.

—Enterprise reforms are under way; private firms can be established and the system of central planning is being dismantled.
—Residents are now allowed to hold and use foreign currencies.
—Important laws to establish the framework for a market economy have been enacted.

The day we left Tirane for Bangkok, we began the next step in the reform process by presenting a package of reform legislation to our Parliament covering the following areas:

—unemployment benefits;
—wage contracts;
—privatization of residential housing;
—joint-venture companies;
—salaries;
—statistics;
—taxation;
—competition law;
—restructuring of the Bank of Agriculture; and
—restructuring of the banking system.

The passage by our Parliament of this legislation will authorize the relevant ministries to begin implementation. These are only further steps in a program that is ambitious and far-reaching. Our next goals will be to bring about the convertibility of our currency and the liberalization of both the internal and external trade regime. We will work very closely with the World Bank and the International Monetary Fund, as well as with other multilateral institutions, in this process.

These reform measures are essential to ensure that our economy does not deteriorate further in the coming months. Already this year, we have had a 30 percent decline in production compared with 1990. Few factories are working and only a small percentage of agricultural fields have been planted because of a lack of imported inputs, including seed and fertilizer. We cannot import because we have almost nothing to export. We have no foreign reserves and no inflows from commercial banks. The fiscal deficit is roughly 43 percent of budget revenues. The balance of payments deficit is at a level of nearly 20 percent of GDP. Our people will have enough food and medicine for the winter mainly owing to the generosity of many of the countries represented here today. We have also begun to receive technical assistance from several countries, which has been invaluable in helping to put in place an economic system that is completely new to most of the Albanian people.

In order for the reform program, which I have outlined above, to succeed, we need the confidence of our own people and foreign assistance to facilitate the transition period. In addition to continued food, medical, and technical assistance, we need financial support. We hope that we will be able to count on financial, as well as technical assistance, from the World Bank, the

International Monetary Fund, and the European Bank for Reconstruction and Development within a very short time. We hope that we can count on further assistance from bilateral donors, and we expect to generate investment and commercial flows from the international business and banking communities. The Albanian public is now supportive of the reform process, but I cannot promise that this support will continue if international assistance for our effort is not forthcoming. As many of you know, young Albanians and our country's intellectuals—the cream of our population—have been emigrating to seek a better life abroad. The intention of my Government is to make Albania a place where these people will want to establish their future. Foreign assistance is desperately needed before we lose our opportunity to provide a future for these people.

One of the final hurdles that we must overcome is our foreign debt situation. We pledge to begin discussion with our creditors as soon as we are able to do so, with a view to resolving our arrears situation.

I hope that I have not given you too gloomy a picture of the state of my country. I, myself, have great hopes because Albania has a lot to offer. Our population has a rich European cultural tradition, is well educated, youthful, eager to learn new jobs, and to work hard to keep them. Many people speak English and other widely spoken European languages. What we lack, owing to our isolation, is training in modern techniques of finance, business, management, banking, law, and other fields. We have rich natural resources, such as oil, chrome, and other materials, as well as beautiful, unspoiled beaches, pristine forests, lakes, and mountains, and magnificent historical monuments.

We thank the World Bank, the International Monetary Fund, the Group of Twenty-Four, and the many bilateral donors for the fruitful assistance they have given us thus far. We thank the government and people of Thailand for making us feel so welcome here today. We are convinced that the objectives of the Albanian economic reform program, if properly implemented and financially supported, will contribute to the ability of the newest member of the Fund and the World Bank to become a welcome and productive member of the international community.

ANTIGUA AND BARBUDA: MOLWYN JOSEPH

Governor of the Bank
(on behalf of the Joint Caribbean Group)

I have the honor to speak on behalf of the members of the Caribbean Community and Common Market, namely, Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

We have all been overwhelmed by the charm and hospitality of the people of Thailand, and also by the graciousness of our reception by the Government. We are impressed by the excellent arrangements that have been made for our deliberations and our comfort. We are taking the opportunity to look at what energizes this wonderful country, and what we have so far seen augurs well for the future of this nation. We wish Thailand well in its future plans and programs.

We would like to welcome Mongolia to the Bretton Woods institutions. We also welcome the delegations from Eastern Europe, the Soviet Union, and the Pacific, which have applied for membership. We look forward to their becoming full-fledged members of the Fund and the Bank.

We take this opportunity to say farewell to Mr. Barber Conable and to express our appreciation for the priority he gave to the issues of poverty and the environment in the development agenda. We wish him success in his future endeavors. In a similar regard, we welcome Mr. Lewis T. Preston as President of the World Bank. We are confident that he will maintain and enhance the Bank's emphasis on poverty alleviation, sustainable development, and protection of the environment. Incorporating the respective agendas of 156 nations into the operations of the Bank is both a pressing and herculean assignment. Mr. Preston can be assured of our commitment to the spirit of cooperation that is needed for this task.

We also congratulate Mr. Camdessus on his re-election as Managing Director of the Fund. We appreciate how he has labored to put a human face on the Fund, particularly by his continuing efforts to promote the enhanced structural adjustment facility. We hope his second term will be marked with success in stabilizing developing countries, generally, and our economies of the Caribbean, particularly.

As Mr. Conable had earlier observed, both the Bank and the Fund will soon emerge as truly global institutions, embracing in their membership practically every nation on the planet. With the inclusion of the GATT system and with global membership, the institutions will have the opportunity to influence all of the world's trading arrangements and monetary, exchange, and financial systems. This places an immense responsibility on the management of the institutions and on us, both as Governors and as managers of our individual economies, to shape an appropriate vision of a community of nations characterized by mutuality of interest in solving the problems and exploiting the opportunities that change brings. That vision must recognize from the outset that development means, first and foremost, the development of all people. That vision must also begin by recognizing the opportunities from increased economic interdependency in the world economy. This interdependency ought to find meaningful expression in a successful conclusion to the Uruguay Round of multilateral trade negotiations—a result that we eagerly anticipate.

The future of developing countries lies ultimately in their own hands, but they cannot succeed single-handedly. In the domestic sphere, they have the responsibility for promoting macroeconomic stability, improving the climate for domestic and foreign investment, and developing human resources. It is worth reiterating, however, that the developed countries produce about 70 percent of the world's output, and therefore bear the prime responsibility for the existence of a global environment conducive to sustainable development. In large measure, this will depend on their pursuit of responsible fiscal, monetary, and trade policies.

The increased global need for savings is an expression of the need for developed countries to strengthen their fiscal performances. Opportunely, the end of the Cold War offers large possibilities for providing such savings through reductions in military expenditures. If the developed countries can generate higher growth for themselves through the peace dividend, the possibility exists for developing countries to benefit from increased demand. If, at the same time, lower real rates of interest are achieved, then for developing countries capital will become cheaper, investment stimulated more rapidly, and debt burdens reduced more quickly. This does not gainsay the need for more effective measures for developing countries' debt relief and the need to ensure that debt relief is not extended at the expense of official development assistance.

The leadership of both the Bank and the Fund should rise to these global tasks. We are convinced that they can, but we wish, nevertheless, to indicate our concerns regarding certain areas of their operation.

We are impressed at the speed with which substantial amounts of non-reimbursable resources were made available for the study of modalities for Bank membership of the Soviet Union. In contrast, however, many countries with urgent development needs have had to canvass very diligently to get the attention and support warranted by their social and economic circumstances. We hope the approach taken by the Bank in providing technical assistance to the Soviet Union will be replicated in developing countries generally.

In the countries for which I speak today, negative net transfer of resources to the Bank and the Fund over the past seven years is estimated at about $1 billion. These negative transfers result not only from the borrowing cycle but also from the nature of the adjustment programs themselves. The premise on which the borrowing took place is that countries would have grown at a fast enough pace to repay the institutions without undue difficulty. However, such levels of growth have not taken place and are unlikely to do so in the near future. The risk of a further intensification of poverty in these countries is therefore quite high.

The responses of the institutions to these developments are often contradictory at both the regional and global levels. Rules of access to the resources of the Bank and the Fund are constrained precisely at the time when the countries need those resources most.

We are also concerned that not enough consideration has been given to the reduction of multilateral debt. We suggest two approaches that can be taken. The first lies in an effort to reduce the interest costs of borrowing. If an overall interest rate reduction is not considered appropriate, an interest rate reduction can be targeted to special cases. The second approach is to increase access to funds to develop human resources and modernize sectoral activity to make the countries more competitive and more receptive to foreign and domestic investment. We are willing to make the necessary economic adjustments; we ask only for speedy and resolute reciprocity on the part of the multilateral institutions.

The interest cost reduction approach has relevance to the role of national development banks which, by definition, are not commercial banks. We quite appreciate the Bank's concern with administrative inefficiencies in subsidizing interest rates and with the need for an efficient and transparent means of assistance to sectoral activity. Nevertheless, real interest rates are high, and small farmers and entrepreneurs face a double barrier to market entry, in the form of minimum sizes of equipment, which are beyond their reach, and high capital costs, which are not always substitutable by more use of labor. An indiscriminate rule of no interest rate subsidies should be qualified by the special circumstances of particular cases. The Bank should re-examine the operations of financial systems to identify those special circumstances and revisit its present emphasis on nondiscriminatory interest rates when financial markets are so imperfect.

Another instance of the special case is that of the small size of Caribbean economies. We urge the international institutions to be sensitive to the needs and particular vulnerabilities of small states. We are told that research costs on small economies are too high, and so, the conditionalities applied to large developing economies continue, unrealistically, to be applied to small states. Small economies, however, almost always exhibit virtual monopolistic and oligopolistic market conditions, and competition cannot always be imported. The Bank and the Fund should consider to what extent special regulatory measures or appropriate state intervention may be necessary for achieving the levels of efficiency that can sustain external competitiveness in very small economies.

These special circumstances make us very wary of some of the proposals to switch more Bank resources to the private sector. If private sector development is to be relied upon as the main engine for growth and if domestic savings are likely to be in short supply, then we would stress the need for additional resources to the private and public sectors. We would hope that realism and not ideology informs the decisions on the allocation of resources to the public and private sectors.

History will probably designate the 1990s as the "decade of change"—change that holds major implications for the development process, and change that has already begun to shape a new world order. We are convinced

that, with appropriate and concerted international action, change can indeed be for the better and can lead to a new era of peace, security, stability, and prosperity for all humankind. What we need, and must not fail to achieve in the 1990s, is a coherent and consistent vision of balanced global development, including restoration of our natural environment. We cannot with good conscience pass on to future generations less than we ourselves have inherited. Above all, we must not fail to improve the lot of the poor, the dispossessed, and the disenfranchised. If international change is not for the better in all countries, then in the long run, it will not be for the better in any.

AUSTRALIA: JOHN CHARLES KERIN

Governor of the Bank and the Fund

I am very pleased to have the opportunity to address this meeting of the Governors of the World Bank and the International Monetary Fund, my first as Governor for Australia.

On behalf of Australia, I extend a warm welcome to Mr. Preston. We look forward to working closely with you in your important role as the new Bank President. I also congratulate Mr. Camdessus on his reappointment as Managing Director of the Fund.

Australia is very pleased to welcome Albania and Mongolia, the newest additions to our membership.

Our particular thanks go to the government and people of Thailand, for their impressive efforts in hosting this event and for their charming hospitality.

The past year has been one of great difficulty in the world economy. The countries of Eastern Europe and the Soviet Union are in upheaval. The aftermath of the Gulf war, the difficulties of many heavily indebted countries, and the recession in several major countries have affected not only the countries concerned but the whole of the international community.

The best available forecasts for the world economy suggest that the economic tide has turned. But there remain two major dangers.

One danger is that fiscal and monetary policies in industrial countries may depart from their adherence to a medium-term approach. It is vital that their macroeconomic policies be directed toward the medium-term objective of securing sustainable growth with low inflation. Rising demands on global savings will need to be met by fiscal consolidation, particularly in the United States. Fiscal and monetary policies must avoid pump priming and safeguard against a return to high inflation. That would undermine much of what has been achieved over the past decade.

The second danger lies in the urgent problem of international trade, where the industrial countries have a special responsibility to show leadership. As

the President of the Bank has noted, 20 of the 24 OECD countries are more protectionist now than they were 10 years ago. The loss in income to developing countries caused by industrial countries' protectionism is estimated to be about twice the total value of all official development assistance. The cost to themselves of industrial countries' protectionism is even greater. It has been estimated that the ending of agricultural subsidies would reduce the U.S. trade deficit by more than $40 billion, and generate 3 million new jobs within the European Community.

Success in the Uruguay Round, in the very near future, is critical to the future of the multilateral trading system. The President of the Bank has already observed that no international issue affects the developing countries more than this. If the Round fails, many countries may react by stepping backward into direct protectionism and inward-looking trading blocs, depriving the world of large efficiency and welfare gains.

Australia was profoundly disappointed at the failure of leadership shown by industrial countries in the Uruguay Round last year. We must ensure that this is not repeated this year. As finance ministers, we have a special responsibility to insist that our ministerial colleagues for agriculture and industry recognize the broader national and international interests involved.

Reductions in protection, especially in Europe and especially in agriculture, are necessary for success in each of the great economic endeavors before us now—bringing prosperity to Eastern Europe and the Republics of the Soviet Union, helping countries in other regions to make the transition to open, market-oriented economies, and restoring heavily indebted countries to a more viable condition.

The challenge for industrial countries in reducing protection is considerable—as we in Australia know from recent experience—but it should be seen in perspective. The extent of adjustment required on the part of sectional interests in the industrial countries is much less than what is now occurring in Eastern Europe, or what is required of many developing countries under the Bank's and the Fund's adjustment programs.

Our host country, Thailand, is one of several in the Asian region that demonstrate to all the benefits of adopting market-oriented policies. Other countries in Indochina are beginning to move in a similar direction. The comprehensive settlement in Cambodia which is now imminent, should mark a turning point in external assistance to this area, including that from the Bank and the Fund. The time has now come to help Viet Nam clear its arrears and become eligible for drawings, which I hope will be associated with a sound program of structural adjustment and financial assistance from other sources.

Australia has been particularly hard hit by the current export subsidy war in agricultural products between the European Community and the United States. We have experienced our most severe recession in 60 years, and

there has been a sharp cyclical turnaround in our fiscal situation from surplus to deficit. Despite this, we have increased our aid budget this year, but our capacity to provide aid in coming years will remain constrained.

Whereas in past replenishments of multilateral funds we have been able, on several occasions, to help fill gaps beyond our burden-sharing allocations, we have now been forced, regretfully, to reduce our share of the next replenishment of the Asian Development Fund. We shall need to take the same approach toward the next Replenishment of the International Development Association. I stress that this is not motivated by any large misgivings about IDA's objectives or methods, which we continue to support, but only by the present constraint on our capacity to make new financial commitments.

Australia supports the Bank's recent initiatives on poverty reduction, human resource development—including women in development—and protection for the environment. We have also stressed the need for borrowing countries themselves to increase their budgetary support in these areas. We would encourage other countries to examine critically their public expenditures, especially military spending, and ask themselves whether they can afford *not* to have these resources devoted to education, to health, or to other constructive purposes. We also support the increased emphasis being given by the Bank to private sector development in mixed market economies.

Australia believes that both the Bank and the Fund have important roles to play in helping to overcome the many challenges facing the world economy, and in fostering a favorable environment for economic growth. The institutions need support from all of us in performing their roles.

The extent of that support in the future will be enhanced by evidence of their effectiveness in implementing programs and projects, and the efficiency with which they administer themselves. They have an opportunity to show the same strength of purpose in pruning activities and in cutting costs as we are being encouraged to have as ministers in our own governments.

So, Mr. Chairman, I am finishing where I began—extending support to the Bank's new President, and the Fund's re-elected Managing Director, in their leadership of their institutions, and ourselves as members, in the challenging years ahead.

BANGLADESH: M. SAIFUR RAHMAN

Governor of the Bank

It is a great pleasure for me to once again represent, after about a decade, the government of Bangladesh in these meetings. After years of autocratic rule and after long struggle and turmoil, the people of Bangladesh have a democratically elected Government under the leadership of the country's first lady, Prime Minister Begum Khaleda Zia. This new Government is

firmly committed to democratic pluralism, human rights, rule of law, social progress, accountability of the Government, and bold economic and social reforms.

I should at the outset like to join others in placing on record our warm appreciation of the inspiring address of the Prime Minister of Thailand. Your statement, Mr. Chairman, gave a good start to our deliberations.

In recent years we have witnessed many changes in international political and economic relations with direct impact on the membership. Membership is growing, and the organizations are becoming truly universal. With courage, commitment, and cooperation, this can be a creative time for the World Bank Group and the International Monetary Fund. Today we see the success of the original Bretton Woods vision for a multilateral world economic order. We also see the challenges: What are these challenges?

First, alongside affluence, poverty and underdevelopment still blight the world. Many low-income countries have been bypassed by the growth of the 1980s. To quote you, Mr. Chairman, the 1980s have been a lost decade to many. The imperative to respond to the increasing resource-flow requirements of the poorest nations is stronger than ever.

Second, environmental degradation caused by economic activities and human interference with nature contribute to the recurrence of natural disasters that face the earth and future generations.

Third, poor nations still face the international trading environment on unequal terms with industrial giants.

In many respects the recent political and economic developments in Bangladesh seem to be running on a parallel course with developments in most developing countries. Our experiences with change echo the themes and strategies considered pragmatic and realistic in the rest of the world for meeting the challenges that I have just enumerated.

In recent years, Bangladesh has been implementing some far-reaching structural reforms in many areas. In the field of international trade, we have been following the policy of trade liberalization by dismantling nontariff barriers and rationalizing tariff structure. We have also introduced flexible and realistic exchange rates. Bangladesh urges commitment to continuing efforts to strengthen and to protect the multilateral trading system through the GATT. We are dismayed at the entrenched protectionism in major industrial economies, and we only hope that these tendencies can be reversed. We look forward to an early and satisfactory conclusion of the Uruguay Round talks.

We are striving toward a self-reliant development process. To that end we have taken bold measures for domestic resource mobilization through the introduction of a value-added tax (VAT), rationalization of the tax structure, and improvement in the tax administration to close the loophole of tax evasion. We have also rationalized our investment and current expenditures. We have taken hard measures to ensure monetary and fiscal discipline and

the efficient management of agriculture, industry, energy, and other sectors, with a view to eliminating waste and inefficiency in resource use.

These adjustment programs are being supported by the World Bank, the Fund, and other multilateral and bilateral agencies and are needed to give our economy a sound footing for sustained growth. And yet, we cannot be oblivious to the social and political tensions that the pace and nature of such reforms may generate, particularly in a society devoid of social safety nets. We are concerned that such tensions, if not recognized while formulating and reviewing policy packages, may destabilize and disrupt the broad political consensus required to stabilize the democratic process. Hence reforms, if pushed too hard and too fast, may become counterproductive and defeat the very objectives the reform programs aim to attain.

A critical thrust of our policy reforms is privatization. Efficiency in the use of resources and in management is a cornerstone of our industrial policy. In the process of industrialization we have put much greater reliance on the private sector. However, our experience shows that transition from the public sector to the private sector is not always a smooth one. In developing countries with an inadequate institutional infrastructure and weak financial markets, inexperienced entrepreneurs, and widespread poverty, the task indeed is formidable. Besides, it is to be appreciated that a broadly based national consensus is a prerequisite for a successful execution of reform programs in a democracy and is not easy to come by. We have removed all obstacles to foreign investment. We hope that this will invite greater international interest and participation in our development process.

My Government would like to see IFC and MIGA make special efforts in the poorer developing countries. In many countries, persistent underdevelopment can be explained at least in part by inappropriate government policies and weak private sector activity. It is for the poorer countries that the expertise, advice, and assistance of IFC and MIGA are especially relevant. We ask that IFC and MIGA consider opening new offices and locating staff in poorer countries.

Over many years, consensus has been very important to the working of the Bretton Woods institutions. With shared goals and a long-term perspective we can contain potentially disturbing short-term differences. This year we see a stronger and uniting commitment on the part of these institutions to those who are least represented: Who are they? The poor on the one hand and future generations on the other.

In 1991, the Bank adopted "a comprehensive, long-term strategy to address the protracted challenge of poverty." The strategy calls for rapid growth and improved social services. With multilateral and bilateral aid, Bangladesh has achieved some gains against poverty, but we have yet to travel a long way. To this end we, like other poorer nations, require additional external resources. Diversion of funds from "peace dividends" will make that easy. In this context, we are heartened by the expectation of

Managing Director Camdessus about the potential increase in global savings in view of the lessened international tension, and we strongly endorse his call, and the calls of other Governors, for reduction in military expenditure. We all gain from this, and both the developing and the industrial countries have their roles to play in this field. It is here I would strongly emphasize the need for the Tenth IDA Replenishment and the IMF quota increase for resource augmentation to meet the enlarged resource needs of the developing world.

Human resource development is now a major challenge in developing countries who have invested less in this area and consequently had less success. It is particularly gratifying to see the high priority that the World Bank and President Preston are according to this important task. Substantially increased investment in this area, which includes population, health, education, and nutrition, combined with sound economic management, will pay handsome dividends. This brings up the important and crucial role that government and the public sector have to play in meaningful social development. While the private sector and the free play of market forces have to be the major engines of growth, the catalytic and complementary role of the public sector should not be ignored. In many countries that have shown robust economic growth in recent years, government and public sector support play a significant role.

From 1990, the Bank, with the UNDP and the United Nations Environment Programme, has initiated a Global Environment Facility as a channel for the world community to exercise some influence over greenhouse gases, ozone-layer depletion, and other environmental issues. With much of Bangladesh only meters above sea level and with one of the highest population densities among countries, we are very conscious of, and interested in, the relevant environmental issues.

In view of the fact that Bangladesh has been prone to natural disasters, we strongly feel that human interference with nature should be done with extreme caution and only when it becomes absolutely unavoidable. Interference with the normal flow of water in the upper reaches of rivers that pass through many countries can cause havoc and can degrade the environment in an irretrievable manner. The world has seen that we are indeed the victim of such degradation. The increasing frequency with which Bangladesh is experiencing floods and droughts is the obvious manifestation of environmental degradation. For the sake of development, for the sake of minimizing the recurrence of natural disasters, and for the sake of alleviating human suffering, it is absolutely necessary that nations and multilateral institutions pay utmost attention to these aspects of environment and development.

The tasks that lie before us are difficult and enormous, and the Bretton Woods institutions have the most significant role to play in fulfilling them. This is where leadership will matter. I extend a hearty welcome to the new

President of the World Bank, Mr. Lewis T. Preston, whose statement we found to be reassuring. I also express my appreciation for the contributions of Mr. Barber B. Conable at a difficult time. My warmest wishes for Mr. Michel Camdessus, whose next term is a tribute to his achievements in the earlier one.

With this formidable leadership in both the institutions, we hope to pursue together our common objectives and strive to achieve our set goals.

BELGIUM: PHILIPPE MAYSTADT

Governor of the Bank

I should like to begin by thanking the Thai authorities and expressing my gratitude for their hospitality.

Our meetings in Bangkok will be recorded in the histories of the Bank and the Fund as the meetings at which the universal calling of our institutions was confirmed. I am pleased to be able to greet Albania as a new member and to acknowledge from this podium those countries for which the membership process is under way, including the U.S.S.R., which is joining us here today as an Associate Member. I wish to congratulate the staffs of the Bank and the Fund for the professionalism with which they conducted these historic negotiations, always taking the proper line of conduct and carefully marshalling the human resources that from now onward can be made available for an intense and fruitful technical cooperation.

The universal calling of our institutions applies not only to their new members: their missions will be truly accomplished only to the extent that they take advantage of the current advance of democratic principles in order to create the conditions for lasting progress in all parts of the world, including those areas where economic development is held back by domestic civil disturbances or by excessive external indebtedness. The challenge is enormous, all the more so as it comes at a time when there is a slowdown in the world economy.

Our institutions will need leaders of stature in order to inspire and guide their efforts in the years ahead. I am happy to congratulate Mr. Michel Camdessus on being re-elected Managing Director of the IMF and to welcome Mr. Lewis Preston as the new President of the World Bank. His international financial experience will be of great value to achieving the development objectives the Bank has set for itself.

What conditions must be met in order for these two men and their colleagues to be able to achieve the tasks we have entrusted to them? To my mind, there are five:

—First, we must do everything within our power to ensure that the economic recovery predicted by the IMF will serve as the starting point for a new period of lasting economic expansion without inflationary pressures or the risk of a renewed interest rate spiral.

—The need to control interest rates entails, as a second condition, that we accord high political priority to making better use of the available productive resources in order to address right away the risk of a worldwide shortage of capital.

—Third, I see a need to strengthen the debt strategy to adapt it to the exceptional circumstances now facing us. The relief provided should be more closely based on the general operating principles of the Bank and Fund, involving strict complementarity between adjustment and financing, the allocation of financial contributions on the basis of objective and stable parameters, and applying the recommended relief criteria across the board.

—An absolutely essential condition for preparing our institutions for the new challenges is the rapid implementation of the Ninth General Review of Quotas of the IMF. We would be risking a serious disruption of the international adjustment process if the Fund did not have the resources it needs to perform its key monetary role.

—Fifth, I am gratified that the World Bank has clearly defined, in the document presented to the Development Committee, the development priorities for the 1990s and the resulting agenda of its activities. This general framework should help the Bank to formulate development strategies for each member state and to identify those cases in which additional financial assistance would be fully justified.

Allow me to state my views briefly on each of these issues.

Short-Term Economic Prospects

Our discussions in the Interim Committee led us to conclude that a recovery in world economic activity is in sight. This process could, however, involve certain inflationary risks, and it could also be disrupted by the instability of interest rates or exchange rates. Personally, I find it worrisome that the recovery and subsequent stabilization in the United States, and the opposite course of action proposed in Germany and Japan, depend to such a large extent on the success of monetary policy. The fact that the interest rate movements required by this scenario must be orchestrated in the absence of any general framework for coordinating the macroeconomic policies of the major countries is not reassuring.

The economic and monetary union which we are now constructing in Europe is based on a different approach. By attaching the highest priority to price stability and imposing strict budgetary discipline on its participants, this union will give member states of the Community a clearer framework for formulating their future economic actions. Monetary and budgetary policies will be firmly located within a medium-term stabilization framework, and the risks of disagreements over the appropriate policy mix will be greatly reduced. Growth policies will be principally based on structural

measures, which will also guarantee the permanence of their results. The creation of this vast area of stability will facilitate the task of other European countries wishing to link their economies to the Community and, in my view, it represents a valid model for strengthening coordination in world economic management.

Anticipating this community discipline, Belgium has continued the adjustment strategy on which it embarked ten years ago. Let me suggest three lessons which I draw from this strategy and from the economic success it has produced thus far. First, the pursuit of a firm monetary policy, expressed in 1990 by the formal pegging of the Belgian franc to the strongest currencies in the European monetary system, has allowed a structural disinflation that has facilitated the social consensus on the need to protect the competitiveness of the Belgian economy. Second, the introduction of a coherent macroeconomic framework based on monetary stability and budgetary discipline has enabled Belgium to reap the maximum benefit from the structural reforms recently undertaken in the areas of money market organization and management of the public debt. Third, the continuing rehabilitation of the public finances from a medium-term perspective has had a positive and sustained influence on the behavior of economic agents and in particular on the investment climate. In the preparation and implementation of the three planks in this strategy, Belgium has had recourse to close and continuing collaboration with the IMF; I would encourage my colleagues in other industrial countries to embark on a similar dialogue with the Fund on their economic policy priorities.

Medium-Term Outlook

The medium-term outlook continues to be dominated by the debate on world savings. The exchange of views which we had in the Interim Committee has enabled us to better identify the problem, but it must continue. Personally, I hope that at one of our upcoming meetings we can develop an overview of this issue from an analysis of all the international institutions involved in these problems. However, we should not wait for the results of this analysis to implement the economic solutions which are likely to be required, specifically those designed to improve the allocation of available resources worldwide. Let me make the following suggestions regarding the savings that could be achieved in this area.

The first source of savings, both obvious and difficult to achieve, is the elimination of protectionism in world trade. I congratulate the Fund staff for having made this an essential issue in their latest analyses of world economic prospects by putting their finger on the important contribution that the elimination of protectionist measures could make to restoring equilibrium to world savings. As Governors, responsible for achieving the objectives of our institutions, we cannot ignore the enormous stakes involved in completing the negotiations on the Uruguay Round.

—Because of the economic distortions that it preserves, protectionism leads to suboptimal commercial exchanges just at the time when new countries are seeking to participate in world trade.

—Furthermore, it confronts the IMF with the risk of having to provide balance of payments assistance to cover deficits which ought normally to be absorbed by freer access to world markets. This situation is all the more worrisome in that it is contrary to the statutory objectives of the IMF's financial operations.

In order to highlight the negative effects of protectionism in this area, I would invite the Fund staff to make a more systematic estimate of the additional resources that the institution is required to mobilize in the context of stabilization programs which suffer from the start from serious trade constraints.

A second area, also sensitive but equally important, is that of military expenditure. I would like to pay tribute to Mr. Barber Conable for having been the first person to criticize in public at these meetings the tremendous waste of resources that military expenditure represents, particularly for developing countries which have such a need for capital to accelerate their economic and social progress. All too often military expenditure contributes to budget problems, is favored over the financing of development priorities and, last, serves to protect the interests of a minority, to the detriment of the majority of the population.

If more complete information on arms budgets were available to the Bank and the Fund this would certainly be a considerable step forward. Nonetheless, in my view an improved statistical instrument should be only a first step: ideally, it should lead the Bank and the Fund to take a position regarding excessive military expenditures when they impede a country's development.

In my view, this kind of assessment by our institutions would be difficult to object to, since it would be part of the overall judgments that they must make regarding the proper allocation of the resources available to member states to achieve their economic objectives. This function would also have to be set in the current world context: the Bank and the Fund will increasingly be required to implement fundamental restructuring programs in countries and regions which in the past have seen numerous conflicts and escalating military expenditure. It would seem logical to me that reform programs in these countries should henceforward be partly financed by mobilizing the resources which up to now have been earmarked for military purposes.

The "conditionality" inherent in this approach could be based on the proposal from the "Independent Group on Financial Flows to Developing Countries" chaired by Helmut Schmidt. This group suggests that countries that spend less than 2 percent of their GNP on their security (in 1988 the military expenditure of the developing countries was 4.7 percent of GNP)

should be given special treatment in the provision of international assistance. Even if the application of this formula caused occasional difficulties, it would be a powerful incentive to reducing the waste of resources resulting from excessive armaments purchases by poor countries.

For the industrial countries supplying these weapons—and Belgium is one of them—it should be clear that the desire of the Bretton Woods institutions to reduce military expenditure ought to lead to a reduction in arms production, which consequently should induce them to plan for the conversion of the industries involved.

As my third and final suggestion for improving the allocation of world savings, I would recall that two years ago I told you of my desire to see the introduction of a minimum degree of harmonization of the tax treatment of earnings on savings. Apart from its budgetary effects, the competitive tax reduction now taking place has the inevitable consequence that the allocation of the most mobile factors of production—particularly financial savings—is increasingly affected by tax considerations. In the absence of this minimum degree of harmonization, there is no guarantee that the deregulation of capital movements will produce an optimal allocation of world savings. This issue is currently being studied by various international organizations. Given its international adjustment responsibilities, the IMF should participate actively in analyzing this issue.

Debt Strategy

The strengthened debt strategy has enabled substantial progress to be made. The silent revolution referred to by the Managing Director of the Fund in his speech last year has continued in a number of countries and has enabled some of them to return to the private capital markets. However, new challenges are on the horizon. Certain indebted countries have benefitted from special relief from their public creditors. The capacity for action displayed by the international community in such cases is entirely praiseworthy, but these decisions should be based on objective criteria and not merely on political considerations.

This special relief should in the first place observe strict complementarity between the scope of the respective financial and adjustment efforts, so as not to discourage other countries that are making considerable efforts, often painful for their populations, to service their debt. To avoid such "moral hazard," the Bank and the Fund could examine the possibilities of temporarily increasing their financial assistance to these countries until such time as the commercial banks realize that a modest expansion of their lending to this category of debtors does not constitute an excessive risk.

In addition, the industrial countries should examine whether the prudential rules introduced under the aegis of the Bank for International Settlements should be amended to prevent them from unduly discouraging the

commercial banks from lending to this category of debtor. More specifically, the ratios imposed on the banks could take account of the performance of the debtor states in implementing stabilization and adjustment programs financed by the Bretton Woods institutions.

The special decisions to which I have just referred have often been prepared at ad hoc meetings bringing together various configurations of creditor countries. There are risks in this approach insofar as it may lead to diverging views on burden-sharing among creditors and eventually to inequitable solutions. This risk will grow if the international community is faced by much larger financial needs than has been the case so far. I therefore urge a return to the decision and burden-sharing formulae of the Bretton Woods institutions, that is, formulae based on a global assessment of the repercussions of the decisions reached, and derived from the objective and stable criteria on which the financial participation of these financial institutions depends. Insofar as the needs in question exceed the normal intervention capacity of our institutions, I propose that this issue be examined in the Group of Ten, given the mandate of that organization to assist the IMF to tackle situations of a systemic nature.

The key role which I wish to preserve for the Bank and the Fund in the debt strategy is also justified by the need to ensure the universal application of the solutions which we may approve in exceptional cases. On this point I regret that the debt reduction recently agreed for Poland and Egypt has not led to a formal consensus among the major industrial countries on the utilization of these decisions as a new minimum benchmark for future debt relief to low-income countries. I regard this as deeply unjust and consequently cannot accept that what was agreed for Poland and Egypt should not also apply to the poorest countries in Africa. An objective and nondiscriminatory application of the debt strategy would entail formal acceptance of the principle of a reduction of at least 50 percent in the debt stock of all low-income countries that are implementing fundamental structural adjustment programs. I hope that this anomaly will be corrected as soon as possible within the Paris Club.

I would now like to make a few remarks directly concerning Fund and Bank operations. . . .

World Bank

The World Bank's program for this decade is particularly ambitious. It will not only have a key role to play, in conjunction with the EBRD, in the establishment of a viable infrastructure and a propitious climate for investment in the countries in transition toward a market economy; it will also have to ensure that the ongoing advance of democracy and freedom is not hampered in the countries currently paralyzed by serious poverty and the marginalization of their economies. No true democracy can develop in these

countries without the establishment of social justice that will provide access for all to food security, health care, and education. Let me make two general suggestions to prepare the Bank to carry out this program.

First, I would invite the management of the Bank to spell out its agenda for the 1990s in light of the discussion on development priorities in the Development Committee. This agenda should focus on those areas in which the Bank has for a long time had a comparative advantage and a particular responsibility. It must therefore cover the introduction of programs that promote the enhancement of human resources, correct inequities, and improve living conditions for the poorest groups, using a participatory development model. The fundamental options that will result from this exercise require the President of the Bank to engage in a permanent dialogue with the body which, apart from the Board of Governors, represents its shareholders, namely, the Executive Board.

Second, I would encourage the Bank to continue to organize its activities around development strategies that would establish, for each member country, an inventory of priority needs and economic assets. This decision framework would promote a better understanding of the links that must exist in each country between priorities in terms of public and social infrastructure and support for the private sector, while avoiding any preconceptions or dogmas in this area. It should also prevent net transfers between the Bank and the borrowing countries from becoming negative too soon or at the wrong moment. This approach, based on an overall evaluation of the strategy to be followed by each member, ought if necessary to encourage the Bank to increase its lending to some of these countries. On this point I regard the introduction of a contingency facility, such as already exists in the IMF, as a potentially useful enlargement of the range of financial instruments available to the Bank.

The challenges facing us are exceptionally large. If, through the Bretton Woods institutions, we succeed in overcoming them, we will have helped to create a better integrated, more prosperous, and more democratic world economy.

BULGARIA: TODOR Y. VALTCHEV

Governor of the Fund

It is just one year since Bulgaria became a member of the World Bank and the International Monetary Fund. We are now happy to welcome the representatives of the new member countries—Albania and Mongolia—as well as the countries applying for membership.

I would like to remind you of the fact that only by late January 1991, that is, somewhat later than most of the Eastern European countries, did the political situation in the country allow the Bulgarian government to launch a comprehensive and bold economic reform. No one needs to be convinced

now that the transition to a market economy will take more time and engender more hardship than was apparent at the start. This is true for Eastern Europe as a whole and for Bulgaria in particular, where the conditions are particularly unfavorable because of the years-long unilateral dependence on the CMEA market. This has resulted in a tremendous loss of markets to which Bulgaria has traditionally had access, both on the export and on the import side. The much sharper drop in both output and living standards than that experienced in other Eastern European countries is by and large a consequence of this major dislocation.

Under these conditions, the inflow of foreign financial resources could—in principle—facilitate the Bulgarian transition process. Yet, the reform government was virtually deprived of any support as the communist regime had succeeded in accumulating a huge external debt and the last socialist government, faced with the depletion of foreign exchange reserves, had declared a unilateral moratorium on debt service. Now, Bulgaria has no access to world capital markets whatsoever. To this could be added the specific internal political situation which until recently was characterized by a confrontation of the major political forces—the BSP and the UDF—with the majority of the BSP representatives being in Parliament and within the economic institutions. The evidence reaching Bangkok on the preliminary results of the general and municipal elections that were held on October 13 gives reason to consider as a plausible outcome that a Cabinet excluding the Socialist Party would be in place. Hence we can expect a major increase of legislative activity within Parliament.

Despite the unfavorable starting conditions in early 1991, the Government did not hesitate to take a number of harsh monetary and fiscal measures. As prices were liberalized, a unified exchange rate started floating on the emerging interbank foreign exchange market. The Bulgarian National Bank, the central bank, no longer depends on the Government and is carrying out an anti-inflationary policy supported by high interest rates and credit ceilings. The government budget no longer finances production, consumption, and exports; it has sharply cut back investments and administrative outlays, but it has had to accommodate the higher-than-expected costs of the social safety net. Social peace was thus preserved due to the operation of the tripartite agreement between the Government, the employers, and the trade unions. The people were remarkably patient in bearing the burden of the severe hardships and the sharp drop in real incomes. We are currently facing increased pressure on the part of some trade unions that are demanding higher wages in an amount that neither the economy nor the budget can accommodate.

Parliament adopted several important economic laws, such as the Law on Commerce, the Law on Foreign Investment, and the Law on Land Restitution. Other laws, for example, the Privatization Bill, the Tax Bill, the Banking and Credit Bill, and the Securities Exchange Bill, were not passed,

though. In the process of preparing and implementing the reform, we have worked in close cooperation with the Bank and the Fund missions. They succeeded in getting straight to the specifics of our economy. We therefore are particularly grateful to them for their continuing effort and involvement. It is a pity to have to recognize once again that the international financial organizations have ways of their own and sometimes fairly complicated procedures, and that action by the international financial community as a whole turned out to be particularly slow. Financial aid from official sources came in quite late in substantially reduced amounts. Instead of the envisaged $1.5 billion to bridge the gap in our balance of payments for 1991, Bulgaria might receive barely half of this amount, if not even less. This will further aggravate the depression, and by now we see no signs of revival whatsoever.

The Sunday election results, as they are now reported in the media, provide ample support to our determination to proceed with the reform with unabated zeal and commitment. First and foremost, we are focusing on giving a major impetus to privatization in various forms and under different schemes, incorporating both domestic and foreign investors.

Similarly, the reform of the banking system, elaborated in close cooperation with the World Bank, is pending. The disproportionately large number of state-owned, small, and largely decapitalized commercial banks will consolidate and clean up their balance sheets. Their shares will subsequently be offered for public sale—to residents as well as to foreign investors and banks. We welcome the emergence of foreign banks in Bulgaria. We are all too well aware that without a modern banking system, it would prove impossible to restructure the economy successfully.

We are now expecting continuing financial support from official sources through 1992. Without the provision of reasonably tailored financial support from the relevant institution, the Bulgarian reform process could well lose momentum and internal political support. We are nevertheless determined to pursue our efforts to further consolidate the early achievements of the stabilization program. We do hope that we are close to a broader political consensus and to increased political stability.

The Bulgarian road to the market economy has so far been characterized by a lack of violence, armed conflicts, or casualties. Bulgaria, therefore, is clearly a stabilizing factor in the Balkans and Europe. Prospects are, it is hoped, that this situation will be retained and further consolidated.

CANADA: DOUGLAS E. SMEE

Temporary Alternate Governor of the Bank and the Fund

It is a pleasure to have the honor of addressing this body. I thank our hosts for their gracious hospitality and splendid facilities, and I extend best wishes to those countries who have this year joined our ranks.

World Economic Outlook

When we last met, there was a growing consensus that recovery was on its way, but tangible evidence was yet to emerge. Today, we can now be more positive. The recession has ended or bottomed out in several major industrial economies, and inflationary pressures are moderating across a broad front.

These developments should encourage a balanced and sustainable expansion for the major industrial countries, which, in turn, will contribute to improved economic prospects in the rest of the world, including both Central and Eastern Europe and the developing countries. Yet questions remain on our macroeconomic outlook: will we create the jobs we need, and will inflationary pressures continue to recede so that the recovery can be sustained?

Macroeconomic Policies

To achieve our shared objective of sustained noninflationary growth, we must not compromise our medium-term orientation. The three pillars of Canada's strategy are fiscal balance, price stability, and structural reforms. These pillars provide support for the lower interest rates, higher investment, and greater productivity necessary to sustain and strengthen economic recovery.

Increased international demands for savings have emerged to meet the need for reconstruction in the Middle East and to finance economic reform in Central and Eastern Europe and in the Soviet Union. These pressures are additional to the financial requirements of developing countries. Lowering fiscal deficits will increase national savings and allow these demands to be satisfied at lower real interest rates. Furthermore, as the Fund points out, considerable scope exists to reduce these deficits by eliminating subsidies and reducing military expenditures.

The government of Canada remains committed to the progressive reduction of our fiscal deficit and to the achievement of price stability in the medium term. I note that the International Monetary Fund expects Canada to have the strongest growth and lowest inflation among the major industrial economies next year.

Structural Policies

In Canada, we have acted to complement our macroeconomic strategy with market-oriented structural policies to improve our economic performance.

We are also focusing, in our recent constitutional proposals, on ways to strengthen Canada's economy. We will soon introduce a major initiative to involve all Canadians in practical ways to improve our competitiveness.

International Trade

No structural reform is more important internationally than the successful conclusion of the Uruguay Round. It must be the top priority on the international economic agenda over the next few months. We must find the political courage to succeed.

Agriculture remains a key element. Eliminating the $100 billion budgetary cost of agricultural subsidies would finance the increased investment needs of Eastern Europe and the Middle East. Eliminating destructive subsidies would allow productive efficiency, not government dictate, to determine trading and production patterns.

The U.S.S.R. and Central and Eastern Europe

The situation in the U.S.S.R. has been a major focus of discussion in Bangkok over the past few days. The responsibility for adopting democratic principles and successfully implementing market-based reforms rests with the Soviets themselves. The costs of failure and the fruits of success will ultimately be borne by the Soviet people.

The countries of Eastern and Central Europe have already moved forward with reform programs. I urge the governments of these countries to persevere with these endeavors. We must stand ready to help the people of the region help themselves, as they confront their challenges.

In a recent speech at Stanford University, my Prime Minister proposed doubling the capital of the EBRD and removing its borrowing limits on the Soviet Union. This is the only institution that currently includes the U.S.S.R. as a full member. The EBRD should have the resources needed to operate at full speed in all countries in the region as soon as possible.

In his speech, my Prime Minister also indicated that Canada, as part of a coordinated initiative, is prepared to provide preferential tariff treatment to the Soviet Union and its Republics, provided they make continued progress toward democracy and free market economies.

International Debt

We must continue to tackle the persistent problem of international debt. The Brady Plan has made a good start. It demonstrates that the case-by-case approach is workable and viable.

As creditors, we accept that certain lower-middle-income countries may face genuine debt overhang problems. The London summit's directive to the Paris Club to continue "examination of the special situation of some lower-middle-income countries on a case-by-case basis" must be pursued.

The desperate plight of the highly indebted poorest countries would be mitigated by progress on enhanced Toronto terms. The London summit agreed on the need for additional debt relief, on a case-by-case basis, "going

well beyond the relief already granted under Toronto terms" and called on the Paris Club "to continue discussions on how these measures can best be implemented promptly." Canada is disappointed that progress has not been more rapid. We urge that creditor countries make every effort to clear away any domestic impediments as soon as possible so that they can help forge a consensus at the Paris Club.

Development Priorities for the 1990s

There is a growing convergence of views on priority objectives for international development: poverty reduction, women in development, the environment, a greater reliance on markets, and a more sharply delineated role for governments. We must focus more closely on integrating these priorities into the World Bank's activities. The Bank should also focus more on key policy conditions placed on these activities and ensure these are fully met.

I fully agree with the Bank's increasing emphasis on lending for human resources and institutional development. Progress toward sustainable development can be achieved only through better access to basic social services.

In times of financial constraint, developing countries must critically review their spending priorities. Military spending cannot take precedence over the provision of basic health and primary education.

The bottom line for the Bank must be the quality of its loans. The criteria against which progress is judged need to be articulated more clearly. The Bank must put less emphasis on lending targets as a measure of its success.

CHILE: ANDRES BIANCHI LARRE

Governor of the Fund
(on behalf of the countries of Latin America and Spain)

Changes Under Way in Latin America

It is a great honor for me to address these Meetings on behalf of Latin America and Spain and to share our views on a number of recent regional and world economic developments and trends, whose significant economic and social implications are, in some cases, a source of concern and, in others, grounds for hope for the countries in our region.

Moreover, it is satisfying to fulfill this responsibility at a time when Latin America is beginning a new stage that represents not only the end of the period of prolonged stagnation and high inflation that began with the external debt crisis of the early 1980s, but also the beginning of a phase characterized by the introduction of profound structural reforms and application of firmer and more coherent adjustment and stabilization policies.

In fact, most Latin American countries have begun to apply policies aimed at asserting an export orientation, promoting the openness of trade, introducing greater fiscal austerity, conducting monetary policy more prudently, and reducing the controls and regulations applicable to private sector activities.

Of course, these policies have been applied with different degrees of intensity, perseverance, and consistency in the various countries of the region, and their effects to date have varied as well. But the overall trend is clear and promising, in that these policies are ultimately aimed at bringing about more open, more dynamic, and more competitive economies.

Because of the adoption of this new development strategy and the application of stricter macroeconomic policies, most Latin American countries are experiencing renewed economic growth and making substantial—though still insufficient—progress in the fight against inflation. In fact, in 1991 the per capita product of the region as a whole will increase for the first time since 1988, and it is expected to increase even more rapidly in 1992. At the same time, the average inflation rate has fallen markedly, largely as a result of the progress achieved this year in Argentina, Nicaragua, and Peru—which until a short time ago were facing the danger of hyperinflation—and of the gradual but persistent decline of inflation in such countries as Bolivia, Chile, Mexico, Paraguay, and Venezuela, which have continued to pursue strict stabilization policies.

These positive domestic changes have been accompanied by an improvement in the external situation and, in particular, by the resumption of external capital inflows and capital repatriation.

But these quantitative changes in growth, stabilization, and the balance of payments are outweighed by qualitative changes in the behavior and expectations of economic agents—most tellingly reflected in the spectacular stock market booms that have recently occurred in Argentina, Chile, Mexico, and Venezuela—and, primarily, by qualitative changes in the orientation and consistency of economic policies.

In fact, it is in this area that the most profound and encouraging changes are taking place. Populist policies—which in the not too distant past helped trigger not only runaway inflation and external crises, but also economic stagnation—are being replaced by more pragmatic approaches that emphasize fiscal adjustment and containment of the money supply as essential prerequisites to attaining and preserving domestic price stability and external equilibrium. At the same time, it is increasingly recognized that trade openness and expanded exports are factors that are critical to the achievement of more dynamic, sustainable, and efficient growth. Finally, many countries are reducing or abolishing government controls and subsidies, have begun or expanded public enterprise privatization programs, and have taken steps to focus government action on maintaining macroeconomic equi-

libria and promoting greater equality of opportunity through increased and more clearly targeted social expenditures.

Challenges and Opportunities of the New International Scenario

Precisely because of the spreading adoption in the region of structural adjustment programs—one essential component of which is the liberalization of foreign trade and the prioritization of exports as an engine of economic growth—we are concerned about the intensification of protectionist policies in the industrial countries and attach fundamental importance to the successful conclusion of the Uruguay Round.

In fact, we are concerned by the fact that the nontariff barriers set up by the industrial countries have increased significantly, quotas and voluntary export restraints have proliferated, and 20 of the 24 OECD economies are now relatively more protected than during the 1980s.

Not only do these policies run counter to the basic principles of free trade and lead to less efficient resource allocation on a world scale, they also reduce the benefits Latin American countries can obtain by adopting a development strategy emphasizing the role of exports.

This is why we believe that efforts must be redoubled to take advantage of the historical opportunity represented by the Uruguay Round to prevent the distortions and negative economic effects generated by protectionism, subsidies for various sectors, and unfair international trade practices.

This is not, however, the sole opportunity for economic progress now available to the international community. Another no less significant area—and one with vast implications—is that offered by the new climate of peace and reduced tensions in the international arena. This new and auspicious state of affairs opens, like never before, the genuine possibility of significantly reducing the enormous expenditures heretofore devoted to defense and armaments and of reallocating to development the resources thus made available.

Last, there is a third historical event in our time whose possible economic impact on Latin America justifies some comment, namely the revolutionary process of transformation under way in the economies of Eastern Europe and the U.S.S.R. Advancing and consolidating this novel process will surely require considerable external financial support as well as extensive technical assistance. However, it would be unfortunate if these resources were to be channeled toward the countries in question at the expense of the support heretofore received by the countries of Latin America and other developing regions. In our opinion, these resources should stem from an additional fiscal savings effort on the part of the industrial countries and, above all, from the "peace dividend" generated by the end of the Cold War.

The External Debt Situation and Outlook, and the Cooperative Strategy for the Settlement of Arrears

Our assessment of the current status of the external debt problem is now more favorable than in the past. We cannot underestimate the progress made by several Latin American countries in implementing adjustment programs and restructuring their external commitments. Also noteworthy are the new and gradual access to voluntary credit achieved by some of them and the almost-generalized increase in secondary market quotations for their external debt instruments.

However, many developing countries continue to face serious problems owing to the continuing excessive indebtedness they still have, and resolving them will require the participation and support of all the parties concerned. In this regard, we appreciate the unprecedented debt reduction policy implemented for some middle-income countries, such as Poland and Egypt, in the context of Paris Club negotiations, and reiterate our appeal to its members for equivalent operations to be carried out with other countries at comparable levels of development and for furthering the recent progress achieved in the implementation of the Trinidad terms for heavily indebted, low-income countries.

We are also pleased that external debt and debt service reduction operations, as well as the provision of guarantees and financial enhancements, have come to form an integral part of Fund programs, thereby contributing to reducing the premium paid for country risk and to reversing capital flight.

But to continue moving toward restoring our countries' access to voluntary credit, it is essential that the institutions regulating banking activity in the developed countries acknowledge the headway made by the countries of Latin America, so that those which have made progress toward solving their debt problems can be removed from the list of countries for which special provisions are required, thereby facilitating the resumption of lending from the private international banking sector.

In sum, while there have been significant advances regarding debt, to resolve the issue definitively, it will be necessary to continue the approach that combines the essential domestic adjustments in the countries of Latin America with the equally irreplaceable contribution of the multilateral organizations, the governments of the creditor countries, and the international banking community.

It bears noting, finally, that the cooperative strategy for the settlement of arrears adopted in 1989 has been put to the test in the case of Peru and that it is therefore crucial for both Peru and the International Monetary Fund that this agreement be fully successful.

Indeed, it would be no exaggeration to maintain that had Peru's attempt to normalize its relations with the Fund and the international financial community not succeeded, it would not only have called into question the

Fund's credibility as an institution catalyzing adjustment finance, but would also have undermined the strategy aimed at preserving its financial integrity as a privileged creditor of the system.

It is obvious that Peru is the only one of the four main countries with arrears that is in full compliance with the basic conditions laid down by the Fund to serve as proof of cooperation with the organization, namely: (a) to freeze the amount of arrears at a given date and strictly comply with new payment maturities and (b) to apply an economic policy consistent with the principles recommended by the Fund. The approval of Peru's rights accumulation program on September 12, 1991, has thus made it possible to keep in operation the cooperative strategy aimed at preserving the privileged creditor status both of the International Monetary Fund and of other international credit organizations.

Quotas and SDRs

On the subject of quotas, we wish to emphasize the advisability of promptly approving and rapidly implementing the increase in quotas under the Ninth General Review, to better meet the financial requirements of a growing number of member countries. It is also important to ensure regional representation, which could be affected by the adherence of new countries and by the potential activation and application of the Third Amendment to some Latin American countries.

We wish to note also that, taking into account the adjustment programs now being implemented, we believe that the SDR should have greater relative importance in the reserve assets of the system. Accordingly, we support a new, unconditional, and sizable SDR allocation and urge those industrial countries that have yet to voice their support for this initiative to reconsider their positions, thereby making it possible to seek alternatives under which most of that allocation would be available to developing countries.

The Experience of Chile

In concluding, I would like to make a few brief observations about economic developments in my own country, Chile. In general, since the mid-1980s these developments have been favorable in terms of growth and as regards the control of inflation and the trends in the external sector.

In 1991, gross domestic product will increase by about 5 percent—marking eight consecutive years of economic expansion—and it is hoped that a comparable increase will be recorded next year.

At the same time, inflation has been kept at a relatively moderate level and this year will decline to 18 percent.

All in all, the most noteworthy advances have been in the external sector. Indeed, between 1984 and 1991 merchandise exports more than doubled,

increasing from $3.6 billion to $8.7 billion. At the same time, the structure of exports has been extensively diversified owing to the vigorous expansion in sales of nontraditional products.

From 1986 to the present, it has also been possible to reduce the overall external debt from $19.5 billion to $16 billion, while the debt to commercial banks has declined to less than a third of its former amount, principally as a result of the debt-for-investment swaps. As a consequence, and owing to the expansion of exports, the debt service ratio declined from 45 percent in the mid-1980s to only 15 percent in 1991.

These changes, of course, have required the introduction of far-reaching structural reforms and the application of strong adjustment policies that have had no small social costs in the short term. But it is precisely because of Chile's perseverance in introducing and continuing to support structural change in the economy and in observing the fundamental macroeconomic equilibria, that it has consolidated significant growth and change and has been able to define a development strategy whose key components are accepted by almost all sectors of Chilean society.

Thus, Chile's experience with opening, liberalizing, and modernizing its economy confirms two fundamental principles. First, in the final analysis, economic progress is basically dependent on domestic efforts and on the quality, persistence, and consistency of national economic policies. Second, as clearly illustrated by our experience in the past two years, it is also possible in Latin America to design and apply policies oriented toward simultaneously promoting economic growth, price stabilization, and social justice within the framework of open and fully democratic societies.

CHINA: LI GUIXIAN

Governor of the Fund

Mr. Chairman, it gives me great pleasure to have this opportunity to address the Annual Meetings of the World Bank Group and the International Monetary Fund. First of all, please allow me, in the name of the Chinese delegation, to extend our sincere gratitude to our host, the Thai Government, for its warm welcome and for the excellent arrangements it has made for these Meetings. I would also like to welcome the new members joining the Bretton Woods institutions and to congratulate Mr. Preston on his assumption of the presidency of the World Bank, as well as extend our congratulations to Mr. Camdessus on his reappointment as Managing Director of the International Monetary Fund. In addition, we wish the Meetings much success under your chairmanship.

We have noted that, in the preceding year, deceleration of the world economy and trade became more pronounced. Other than Japan and Germany, major industrial countries either moved into recession or continued their slowdown of economic growth. Notwithstanding the signs that eco-

nomic activity in the major industrial countries may improve somewhat, recovery will be slow and weak. Underlying difficulties remain in the economies of the industrial countries.

In recent years, although major industrial countries took a few measures to improve their fiscal positions, high fiscal deficits remained virtually unresolved. These huge budgetary imbalances and the resulting monetization gave rise to either inflationary pressures or constrained productive investment, both of which have been detrimental to economic growth. The failure to complete the multilateral talks of the Uruguay Round as scheduled, together with escalating world protectionism, has had serious repercussions for the steady growth of the world economy and trade. Despite the resumption of multilateral talks, prospects remain gloomy. Although improvements have been observed in the external imbalances among the three largest industrial countries since 1990, this reflects to a large extent temporary progress related to the Gulf war, and the underlying factors affecting the external imbalances have not been eliminated.

We note that short-term interest rates in the major industrial countries have been reduced since 1990 with the objective of fostering economic recovery. However, to avoid a rekindling of excess demand and inflation, major industrial countries should further improve their fiscal positions, curtail the crowding-out effects on other sectors of the economy, and increase productive investment. These measures are imperative in order to increase public saving, ease the global shortage of savings, and foster sustained world economic growth. Over the past few years, efforts have been made to consolidate the fiscal position in the major industrial countries. This policy stance should be continued.

We have noted with regret in recent years the trend toward slower economic growth in the developing countries compared with the industrial countries. In addition, the external environment confronting the developing countries has deteriorated further. This situation has imposed more difficulties on the macroeconomic and structural adjustments of the developing countries, which, in turn, has widened the gap between the North and the South.

In order to revive domestic economies and achieve long-term economic growth, in past years many developing countries, especially the heavily indebted ones, designed and implemented measures to stabilize their economies and readjusted the economic structure with the purpose of obtaining price stability, export promotion, and increased foreign exchange earnings in order to ease their external debt burdens. Nevertheless, the slowdown in economic activity in the major industrial countries has led to reduced demand for exports from developing countries. As a result of a continued decline in non-fuel commodity prices, the terms of trade of the developing countries have deteriorated further. Because of the sharp rise in oil prices in late 1990, albeit short-lived, the burden of the oil importing developing

countries has increased and inflationary pressures in these countries intensified, all of which hampered economic growth. Furthermore, the changes in Eastern Europe and the U.S.S.R. have aggravated the uncertainties of world economic prospects. Global saving shortfalls, compounded by the financing demands related to reconstruction in the Gulf region, restructuring in Eastern Europe and the U.S.S.R., and the reunification of Germany, have intensified the difficulties of the developing countries in gaining external financial assistance. Despite recent reductions in interest rates, real interest rates remain high, which has exacerbated the debt-service burden of the heavily indebted developing countries.

There is no doubt that, faced with an unfavorable external environment, the developing world should steadfastly continue with adjustment policies that are commensurate with domestic situations and conducive to economic growth. More important, industrial countries should:

—strengthen economic policy coordination in order to reduce external imbalances among the major industrial countries;

—adjust macroeconomic policies with a view to creating an international economic framework conducive to well-ordered adjustments and continued developments in developing countries;

—roll back trade protectionism and complete the Uruguay Round negotiations as early as possible so as to foster the development and perfection of the multilateral trade system; and

—take effective action, in particular through provision of sufficient financial assistance, to help developing countries overcome their economic difficulties. It is widely recognized by the international community that, without the arrest of the continuing widening gap between the North and the South in which the poor become poorer and the rich richer, the world economy will encounter more and more difficulties in maintaining long-term, steady growth. Thus, global peace and development will be endangered.

We have noted that, since 1990, some progress has been made in addressing the debt problems facing the developing countries through the concerted efforts of debtors, creditors, and multilateral international financial institutions such as the World Bank and the Fund. We have to recognize, however, that the debt strategy has advanced slowly. The present magnitude of the number of countries confronting debt problems raises questions concerning the efficacy of the conditions imposed in debt reduction operations to improve the underlying debt problems of the developing countries. Obviously, the debt problems remain grave. Unfavorable external conditions have impeded the implementation of macroeconomic stabilization and structural reforms in debtor countries and have also aggravated their exports and economic growth. It is our belief that the underlying solution to the debt problem will depend on economic growth and increases in exports. Nonetheless, adjustments should not only be made by the debtor countries. Con-

certed efforts by both debtors and creditors are required. In this connection, we urge major industrial countries to make efforts to improve the international economic environment with the aim of creating a better external environment for adjustment and growth in the developing countries. . . .

. . . Achievement of development is the greatest challenge facing the international community in the 1990s. As the largest multilateral development institution in the world, the World Bank should continue to make greater contributions to long-term steady development in the developing countries in accordance with its charter. In recent years, the World Bank has paid due attention to poverty reduction and environmental protection. Notwithstanding the appropriateness of this stance, we are of the view that the Bank should continue to strengthen its support for real sector development in the developing countries and particularly for infrastructural projects essential to long-term economic development. Human resources are the most abundant asset of the developing countries. Therefore, investment in human resources is of vital significance both for poverty alleviation and for the accomplishment of long-term development. We commend the World Bank for its intention to increase lending in this regard.

Over the past decade, the World Bank has played an increasingly important role in facilitating capital flows to developing countries. In view of the global savings shortage at present and in the years to come, together with the dearth of extremely needed development funds, we believe that the World Bank should continue to give priority to supporting developing countries—in particular low-income developing countries—with a view to making the most efficient use of the funds available from the multilateral development institutions. Noting that the negotiation of the Tenth Replenishment of IDA will commence soon, we hope that donor countries will demonstrate political will and make the Tenth Replenishment bigger than the Ninth so as to meet the needs of the increased number of borrowers eligible for IDA funds.

Since the initiation of reform and opening policies, remarkable achievements in China, as well as considerable improvements in the living standards of the Chinese population, have been made. With the continued deepening of reform and opening, contact between China and the rest of the world has been increasing. As a result of increased integration of the world economy and strengthening of interdependence among countries, the Chinese economy has increasingly become an indispensable part of the world economy. China has benefitted from the opening policy and has made due contribution to world economic development. Therefore, reform and opening will continue to be the underlying policy of China.

In 1991, the Chinese economy is continuing to maintain appropriate growth, reflecting mainly an improvement in the industrial sector as well as a continued rise in agricultural production, in spite of severe floods. Moreover, there has been further improvement in the balance of payments posi-

tion. Use of foreign capital continues to increase, while the external debt has been kept within the capacity to repay. Despite upward adjustment in retail prices of grain and edible oils, the price index for the year as a whole will continue to remain low.

Notwithstanding the good performance of economic activity, some difficulties remain in the economy, including the low efficiency of enterprises, the unresolved stockpiling of unsold products, the large magnitude of interenterprise debt, a weaker fiscal position, and the potential rekindling of inflation. In this context, the stabilization policy, as well as continued deepening of economic reform, will continue to be pursued.

In short, the underlying resolution to the above-said economic problems depends on a further deepening of reform. In this context, reform measures have been taken in many areas. They include:

—further adjustment in retail prices of grain and edible oils toward the market level;

—elimination of subsidies on foreign trade corporations;

—reinvigoration of large and medium-size enterprises through increased investment in technological transformation and scaling back of the mandatory plan imposed on them; and

—wider opening of the financial sector to foreign competitors and the continued development of the financial markets.

In communicating with the rest of the world, we continue to maintain the view of respect of sovereignty, peaceful coexistence, equality, and mutual benefits. Based on the history and experience of individual countries, the people and governments have the right to choose their own social and economic systems commensurate with their specific situations. We firmly believe that as long as China persists in reform and opening, the living standard of the population will continue to improve, and the nation will become more prosperous.

CZECHOSLOVAKIA: VACLAV KLAUS

Governor of the Bank

When I first spoke to this gathering a year ago, my country had just rejoined the Bretton Woods institutions after 36 years of absence and stood on the threshold of the most comprehensive reform ever attempted by a centrally planned economy. Since then and after more than nine months of implementing the economic program undertaken by the Government of the Czech and Slovak Federal Republic and supported by the World Bank and the International Monetary Fund, we can speak here of our successes but also of problems that lie ahead of us on this unexplored path.

The execution of the Czechoslovak reform program coincides with an especially difficult economic situation abroad. The Czechoslovak economy

was severely damaged by the collapse of COMECON, by the disintegration of the Soviet economy, and by instability throughout the whole region of Eastern Europe. In spite of all this, we believe that the only way we can resolve our situation today is to continue with our radical economic reform, which already has created basic preconditions of a market environment and which has visibly changed the behavior of all domestic economic agents. Only in this way it is possible to achieve the necessary structural changes without considerably prolonging the undesirable agony of an economy in an unfinished transition.

The first stage of the radical economic reform began with a far-reaching liberalization of all markets on January 1, 1991. Now more than 90 percent of all prices are fully determined by the market on the basis of supply and demand. At the same time all remaining subsidies to consumer and intermediate goods were removed. Forty years of price distortions, together with the existing monopolistic structure of industries and of trading companies, resulted in 26 percent inflation for the first month of 1991 alone. However, the stabilization policy proved enormously successful and monthly inflation measured by the CPI slowed down to a negative 0.1 percent in July and 0 percent in August. Preliminary results for September show monthly inflation at 0.3 percent. Though economic policy could never have averted the initial one-time price increase, it quickly neutralized it.

In addition to prices, foreign trade was also liberalized, and the Czechoslovak koruna was made internally convertible starting January 1, 1991. After three consecutive devaluations of the koruna in 1990, the exchange rate stabilized. The balance of payments has shown much better results than we originally expected. At the end of September the balance of payments, including the capital account, showed a surplus of $152 million. Gross official reserves grew from $1.2 billion in the beginning of this year to $2.2 billion at the end of September. In addition, the gross national debt grew by only $800 million this year and remains low at $8.9 billion.

The successful liberalization of markets brings a dramatic change in the behavior of consumers and producers. The main change in the behavior of producers was brought about by the sudden switch from an economy of excess demand to one of excess supply—the switch caused by sweeping price liberalization. Companies unaccustomed in the past to market conditions are finding themselves advertising, marketing, and competing in quality and price with other companies and products. A healthier environment was created under which the producer can no longer dictate his terms to the consumer. A balanced and stable macroeconomic environment is forcing the producers to behave in a market-like fashion even before privatization.

We can confirm that a necessary precondition for the liberalization of the markets is a cautious macroeconomic policy, which maintains macroeconomic stability by eliminating inherited inflationary pressures and by not

producing new inflationary impulses. Appropriate tools for attaining that goal are fiscal and monetary restrictions to curb the aggregate demand through the budget surplus and only slow expansion of the money supply.

Our budget surplus was mainly accomplished by the elimination of price subsidies that for decades distorted the internal price structure and by our resistance to the acceleration of other budgetary expenditures. Expenditures for the social safety net are, however, rapidly growing. The social safety net in Czechoslovakia was developed in due time to provide adequate protection for those most adversely affected by the economic readjustments. The state budget has experienced considerable fluctuations as revenues increased during the price explosion in the first months of 1991, but it subsequently declined due to the drop-off in production and profits as well as to the necessary increase in expenditures and to the lowering of taxes. It is therefore essential for the fiscal policy to react quickly to the changing situation to be able to maintain the anti-inflationary role that the budget should play. We are confident that we will succeed in achieving the budget surplus that we originally planned.

We feel, with the benefit of hindsight, that the monetary policy during the first nine months of this year may have been too restrictive because it did not inject enough money into the economy. It was not caused by the administrative limits on the growth of credits imposed on commercial banks by the central bank, but rather by the very cautious approach of the commercial banks in granting credit to enterprises that were approaching privatization and were fighting with the burden of "bad loans."

One of the most difficult problems to explain and to defend in Czechoslovakia now is the unprecedented and unexpected drop in output. Over the first nine months industrial output fell by about 18 percent and unemployment reached 5.6 percent. In addition, we know that we have not yet reached the "transformation bottom" and that output will continue to decline—pushing the unemployment rate higher next year. The causes of the decline in output are both internal, which relate to the intentionally introduced reform measures, and external, which we could not and cannot influence. We estimate that as much as one-half to two-thirds of the decline in output was caused by exogenous external factors and would have occurred even without our economic reform.

Domestic economic problems reflect not only negative, unfavorable foreign economic influences, but also a large shortfall in effective demand at home. The drop in consumption was caused by lower real wages and other incomes resulting from the large price increase at the beginning of the year, as well as by the autonomous shift in consumption patterns. Another cause of the drop in aggregate demand is the reduction in the investment activities of companies resulting from the drop in consumer demand, the difficult financial situation (too much debt or insolvency), and pre-privatization expectations. Many companies are postponing their investment decisions until

the ownership rights are cleared in privatization. Also, the Government expenditures as a percentage of GDP have decreased from 55 percent in 1989 to less than 50 percent in 1991, and this has caused a large decrease in the demand for goods and services traditionally purchased by the Government.

In addition, our decline in output was largely influenced by a number of external factors that had a serious impact on our exports, including the disintegration of COMECON, the adoption of convertible currencies for payments with other former communist countries, and the loss of most of the Soviet market because Soviet importers are unable to pay for our goods. Because of this, our exports to the U.S.S.R. over the first seven months of this year dropped by almost 40 percent compared with the same period in the previous year. Moreover, after the reunification of Germany, we lost a large part of our market in the former German Democratic Republic when demand for our goods disappeared, and exporters in the former Federal Republic of Germany seized most of the market. Our troubles were aggravated by our inability to increase our exports to the West.

To alleviate this, we could be helped by a greater openness toward our goods in Western Europe and other countries. Our exporters have an especially difficult time refocusing their exports from uncompetitive and insolvent markets to competitive Western ones, and if they have to overcome artificial trade barriers, it is a task above their heads. In this respect, the troubles with negotiating the Association Agreement with the European Community are disappointing; however, we believe that this agreement will be concluded in the near future. The countries that want to assist us in overcoming this difficult transition period must understand that financial assistance cannot substitute for the removal of protectionism. We especially need to find new markets for our goods.

As far as foreign investment in Czechoslovakia is concerned, we have created a legislative framework embracing it. Since the beginning of this year more than 5,000 joint ventures have been created. Foreign investors can own 100 percent of a Czechoslovak company and reinvest their profits or transfer them out of the country. They have even more generous tax treatment than their domestic counterparts, but we want to gradually abolish this difference. In the first half of this year, the flow of foreign capital into our economy amounted to more than $400 million. It is more than triple the amount of the previous year. These are all long-term investments.

Privatization continues very fast, and after its completion we expect a much larger inflow of foreign capital. Foreign companies have a unique opportunity to participate in the privatization process and to buy whole Czechoslovak companies or their shares through the privatization plans that each enterprise must prepare.

Privatization, next to the liberalization of markets, acts, therefore, as another major pillar of our economic reform. The whole privatization pro-

cess began early this year with the so-called small privatization which involves the auctions of small businesses, retail stores, and services to Czechoslovak nationals. Giving domestic investors an advantage in small privatization over foreign investors enables the creation of a local class of entrepreneurs. The first results are very encouraging and 14,148 small enterprises have been sold in this way by the end of September.

The lack of domestic capital and the time frame available to us does not allow us to privatize all state property using the standard methods: auctions, joint ventures with foreign companies, tenders, or outright sales to foreign or domestic investors. Therefore, the so-called nonstandard voucher (coupon) privatization method was devised to enable a transparent and fair transfer of property rights to Czechoslovak citizens for a small registration fee. Vouchers are convertible for shares in companies of the registrant's choice. The sale of voucher books has already begun this month, and voucher holders will have to register them starting November 1. The actual exchange of voucher points for shares in companies will begin in January. This method gives an equal chance to everybody, creates a securities market, speeds up privatization, circumvents the complicated issue of valuation and state-orchestrated restructuring, and enables privatization without significant domestic or foreign capital. The scope of this effort is unprecedented in Eastern Europe and probably in the whole world.

Risk-averse citizens can deposit their vouchers with one of the many, just-created mutual funds. These funds will also play the role of institutional owners and will concentrate ownership and exercise control on behalf of the investors.

On the basis of our experience from the first stage of Czechoslovak radical economic reform, we conclude that the liberalization and stabilization phase was successful. It is apparent that the internal and external balance was achieved, but other problems—especially the drop in output, rising unemployment, and foreign trade decline—remain.

The assistance that Czechoslovakia receives from the Bretton Woods institutions is essential in overcoming external instability and in supporting the implementation of domestic reform. The stand-by arrangement and the compensatory and contingency financing facility provided by the Fund at the beginning of this year were a decisive factor in establishing internal convertibility of the Czechoslovak koruna and in obtaining additional financial support from the European Community and the Group of Twenty-Four. All performance criteria under all reviews were met with comfortable margins. The World Bank granted Czechoslovakia a structural adjustment loan, which we currently utilize. We are also working with the Bank on possible sectoral loans for the environment and energy sectors and are considering applying for a loan for trade promotion and development. The opening of the IFC office in Prague is proving to be useful. It is especially active in the

privatization of companies, selection of foreign partners, and location of funding from abroad.

From what I just said, it is obvious that the activities of the Bretton Woods institutions are very important. Constrained by the lack of personnel, we were sometimes flooded with a variety of different missions that were not always effectively coordinated. We hope that the recent organizational changes in the Bank will improve the already useful assistance of this institution to Czechoslovakia.

We know well that "reform-neutral" or "reform-unsupportive" foreign assistance will not solve our problems, and we are, therefore, not asking for altruistic help. We know that the main responsibility for the success of our economic reform lies with us alone. We are ready to face it. However, international support and the opening up of world markets to our products will ease the reintegration of our country into the world economy. Such reintegration is a necessary precondition for the final success of our unprecedented economic transformation and of our economic rebirth.

EL SALVADOR: MIRNA LIEVANO DE MARQUES

Governor of the Bank

I join previous speakers in welcoming the new members of the World Bank Group and International Monetary Fund. I am grateful on behalf of the government of El Salvador for this opportunity to share with you some reflections and to briefly present the achievements we have made in implementing our economic and social program and the challenges still facing us.

The 1990s have begun with a series of major worldwide changes that fill us with optimism insofar as they strengthen democracy and international cooperation. But it is a cause for concern for developing countries such as El Salvador that the sources of official development financing are increasingly limited at a time when some of our countries are working to consolidate an internal transformation by seeking to lay the foundations for sustained growth and mitigate the poverty of our populations.

We are seeing genuine efforts to reduce trade barriers and promote new areas of free trade, whose consolidation requires that the less developed countries receive the support they need to strengthen and modernize their productive apparatus.

This international climate has fostered and seen the rebirth of regional blocs. In Central America this effort has received the firm support of all the presidents of the countries in the area. So that these efforts may bear fruit, El Salvador is supporting forms of integration based on trade liberalization and trusts that integration programs in Central America will help to enhance economic efficiency, improve living conditions for the poorest

groups, and, in political terms, consolidate the process of democracy and peace in the region.

Internally, El Salvador is engaged in major economic, social, and political changes.

In the economics sphere, we have gone through a stabilization phase, with highly satisfactory results. After more than a decade of economic stagnation, high inflation, and growing imbalances, economic activity increased 3.4 percent in 1990—the highest rate since 1978—and inflation fell from 23 percent in 1989 to 19 percent in 1990. It is expected that economic activity will again grow by around 3 percent in 1991, despite a severe drought that has affected much of the country this year, and it is expected that inflation will decline to 14 percent.

These achievements stem from the implementation of stabilization and structural adjustment programs, the main measures being: (a) a continuing effort to maintain monetary and fiscal discipline; (b) a free exchange rate policy and the establishment of exchange offices; (c) a start on the deregulation of interest rates; (d) elimination of price controls and adjustments to public service rates; (e) a program to reduce customs duties (currently ranging from 5 percent to 30 percent) and quantitative barriers to trade; (f) the elimination of state monopolies on foreign trade in coffee and sugar; (g) tax reforms, especially as regards income and sales taxes; (h) financial reforms, involving the strengthening of the Superintendency of the financial system, rehabilitation of the banks, the launching of the privatization of the nationalized banks and a new legal framework for the operations of banks and financial institutions, as well as greater autonomy for the Central Bank; and (i) institutional reforms that include a start on efforts to privatize state enterprises and activities.

In the social sphere, the Government has implemented a series of programs to offset the costs of adjustment on the low-income sectors. Direct subsidies have been introduced for the poorest groups, along with employment and family income enhancement programs. The El Salvador Social Investment Fund (FISS) has also been established and started operations this year, channeling resources to nongovernmental organizations (NGOs) as a way of amplifying government activities.

As part of the strategy to alleviate extreme poverty, priorities have been adjusted and changes made in the level and structure of social expenditure, both targeted on the poorest groups. Currently, a larger proportion of the national budget is being targeted at the social sectors, and efforts are focusing on the poorest and most vulnerable groups. Greater emphasis is being given to pre-primary and primary education, preventive health and primary health care, a comprehensive approach to the family, and solutions to the housing and sanitation problems of the poorest communities.

These internal efforts have received the technical and financial support of the World Bank and the IMF. We have satisfactorily concluded a stand-

by arrangement with the IMF for 1990-91. To consolidate economic stabilization, we are negotiating a second stand-by program for 1992, which we hope will be approved within a few months.

With the World Bank, we have signed the first structural adjustment loan and the first sectoral loan, designed to rehabilitate the social sectors with an emphasis on improving health and education services, and a technical assistance loan to develop the energy sector.

Also under the auspices of the World Bank, the first Consultative Group for El Salvador took place, providing support for the Economic and Social Program, the Public Investment Plan, and the Post-War Economic and Social Recovery Plan prepared by the Government.

The more recent efforts of the Government include the establishment of the Secretariat of the Environment to tackle the problems of environmental degradation in El Salvador, a situation aggravated by the conflict of the last decade, demographic pressure, and our prevailing poverty.

Three days ago President Cristiani opened the First International Conference on the Environment held in El Salvador under the auspices of multilateral and bilateral organizations and attended by more than 20 international NGOs and all the local environmental NGOs. The conference saw the presentation of El Salvador's environmental program and an action plan to promote sustainable development, which was prepared with input from public agencies and NGOs and with the support of other sectors of national life.

In the political arena, the past year has also seen profound changes in our national life; new constitutional reforms that will strengthen electoral institutions and procedures; the modernization and strengthening of the legal system; and the establishment and strengthening of institutions concerned with human rights and reforms of the armed forces, all of which are certain to help consolidate democracy in El Salvador.

The search for peace and national reconciliation through dialogue has been one of President Cristiani's priority objectives. The agreements reached in September in New York have enabled the dialogue to enter a final phase and a cease-fire agreement is possible by the end of this year.

If the cease-fire does materialize, the Government, with the consensus of all the sectors of national life, will implement a postwar Economic and Social Recovery Plan, containing programs targeted at the demobilized forces, communities uprooted and affected by the war, and those areas of El Salvador that have suffered the effects of the violence.

This gigantic task requires the support and solidarity of the international community. We trust that in the event of a cease-fire, we will receive the support of a Consultative Group for National Reconstruction, brought together by the World Bank.

In conclusion, El Salvador has implemented comprehensive economic, social, and political/legal reforms that have led to substantial progress to-

ward the establishment of a peaceful and democratic society. I quote from the speech of the President of the Republic, Alfredo Cristiani, to the General Assembly of the United Nations a few days ago: "El Salvador has been the object of worldwide attention because of war; now we deserve and request worldwide attention for peace."

FEDERAL REPUBLIC OF GERMANY: THEO WAIGEL

Alternate Governor of the Fund

A New Chapter in International Relations

The worldwide breakthrough of the ideals of freedom and democracy has thrown open the door to a new era of international cooperation. We can now move forward on the path toward a partnership for peace and economic progress between East and West. More than forty years after its establishment, the United Nations can now fulfill its function as a central pillar of an international order based on freedom, peace, and understanding among our nations. Comprehensive arms cuts are now within reach, making peace more secure and releasing funds for economic progress.

The global readiness for new departures is also reflected in the large number of developing countries cooperating with the World Bank and the International Monetary Fund on free-market reforms. More than ever before, this affords these institutions the opportunity to fulfill their task: help in overcoming poverty and in promoting sustainable economic growth. This is also a contribution to ensuring peace and democracy.

However, the threat of unpredictable developments has not been dispelled. Poverty, oppression, and violence—still the daily lot of countless people—are an intolerable offense against the values to which democratic countries are committed. The worldwide consequences of regional conflicts, floods of refugees, and threats to the natural environment are matters concerning us all. No country can withdraw to an island of peace and prosperity.

Support for the Soviet Union

The massive task of reconstruction in the Soviet Union calls for the support of all democratic forces. The Special Association of the Soviet Union with the World Bank and the IMF is now the right step to make available to the Soviet Union without delay the whole spectrum of advisory capacity of both institutions. At the same time, we must push ahead with preparations for full membership so that the Soviet side may have access to the financial resources of these institutions for the difficult path of transition to a market economy.

Important points of focus for technical assistance are to be found in the fields of energy, food supplies, transport, and the safety of nuclear power

stations. In these sectors, too, there are opportunities for the Soviet Union to bring about a decisive improvement in its foreign exchange position.

With its extensive natural resources, the Soviet Union has the potential to become a favored target for foreign investment. It is in the Soviet Union's own best interest to make use of this potential for the reconstruction of its economy. It is of prime importance to maintain the perception of the Soviet Union as a sound debtor. Concrete steps must be taken to ensure that both the Union and the Republics meet old and new debt obligations. This is essential to create the confidence which will provide a basis for further financial assistance from the West.

Shortages in the supply of food and medical products to parts of the Soviet Union may become more acute in the next few months. The people of the Soviet Union ought not to experience their newly found freedom as a time of need. Germany is cooperating within the European Community (EC) and with its partners in the West to ensure that Western aid is provided without delay and that it reaches the places where it is needed.

Central and Eastern Europe

In Germany, we know from our own experience with the reconstruction of the east German economy that exceptional efforts are required to repair the damage caused by decades of socialist mismanagement. We can thus clearly envisage the difficulties that countries in Central and Eastern Europe will have to overcome. But there is no alternative other than carrying on with the reforms now under way. Nor is there any alternative for Western countries other than supporting these reforms to the best of their ability; it is in the interest of us all that they should succeed.

Responsibility Toward Developing Countries

The responsibility of the World Bank and the IMF toward the developing countries that seek to cooperate with them remains undiminished. To ensure that the IMF can remain equipped with the financial resources required to effectively help its members, the quota increase and the amendment to the Articles of Agreement must be put into effect without delay. Germany has consented to both the quota increase and the amendment.

In our host country, Thailand, which we thank for the successful organization of the Meetings and for its warm hospitality, we can experience the economic dynamism of a country that has chosen a strategy of free and open markets, as have other successful Asian economies. This success should offer encouragement to all countries. Significant progress has also been made by Mexico and other Latin American countries in strengthening the foundations for growth. The renewal of investor confidence is shown by the return of former flight capital and by regained access to the capital markets.

Even under the extremely difficult conditions in which the poor countries of sub-Saharan Africa find themselves, stagnation or economic decline need not be their inescapable lot. Studies by the World Bank and the IMF show notable initial success in strengthening growth in those countries which have cooperated with these two institutions.

Additional debt relief measures for the poorest, most indebted countries that go well beyond the Toronto terms are overdue. The Paris Club must quickly come to a clear-cut decision on this issue.

The reforming countries can best be supported by helping them to help themselves. But they will only be able to mobilize their own resources and integrate themselves into the world economy if they have access to open markets in which to sell their products. The commitment to a further opening of our markets, sensitive areas included, should not remain mere lip service. The worldwide dismantling of barriers to trade by the swift completion of the Uruguay Round will be the decisive stimulus to growth that the world economy needs in this difficult phase.

Western Germany: Continued Upward Trend

Over the past year, Germany and Japan were major driving forces for the world economy. In the first half of 1991, the national product of western Germany was 4½ percent above the previous year's figure. Vigorous domestic demand, given additional impetus by German unification, triggered a strong surge in imports, boosting economic activity in our partner countries. Imports into Germany, including the new Federal States, in the first half of 1991 were about 16 percent higher than a year earlier, while imports from other EC countries were up by 24 percent. The present, calmer pace of economic activity is a return to normalization on the way toward a more balanced utilization of Germany's productive potential.

Eastern Germany: Signs of Stabilization and Beginning Recovery

The east German economy is still largely characterized by the inevitable difficulties of transition. But there has been a perceptible increase in the signs that the economy is stabilizing, and there are even some indications of a beginning recovery. A growing number of people are prepared to invest and to set up businesses. Many investment projects are now taking more concrete shape; 150,000 new business establishments have been set up since the beginning of 1991. A growing number of cooperative ventures between western firms and east German partners provide additional stimulus for the modernization of eastern Germany's economy.

Despite all difficulties, the privatization of former state-owned enterprises by the Treuhand agency has proved a success story. This pioneering work is unparalleled. We shall be glad to make available the expertise we have gained to other interested countries. Privatization of the smaller-scale busi-

nesses has now been largely completed. About 13,000 small businesses have been sold, over half of them to owners from the new Federal States. This will considerably strengthen the role of small- and medium-size businesses which are important for the vitality of an economy. In addition, the sale of about 3,400 industrial enterprises has been approved to date. This means that roughly one third of all industrial enterprises in eastern Germany have now been privatized.

We appreciate the growing interest shown by foreign investors who take advantage of the favorable investment condition in the eastern German market.

German Financial Policy: On Course

The completion of German unity presented the greatest challenge for German fiscal policy since Germany's postwar reconstruction. Germany has made considerable efforts in support of the transitional process in Central and Eastern Europe and in the Soviet Union as well as in the context of the Gulf war. The assistance we have provided is not only in our own interest; it is also a contribution to stability in Europe and in the world. The costs have to be borne by our citizens through the necessary budget cuts and inevitable tax increases.

Germany will continue on its course of fiscal stability. As early as 1992, fiscal policy indicators will show a clear improvement. By mid-1995, we should again be close to the fiscal position achieved in the late 1980s.

Economic Growth: A Key to Global Objectives

Sustained economic growth with price stability is one of the keys to mastering the economic and social tasks of our time. It is also the economic base to help bring about at this historic juncture freedom and decent living conditions for all. To succeed, we now need the full commitment and the solidarity of all of us.

FIJI: J.N. KAMIKAMICA

Governor of the Bank

It is a great honor to attend the Forty-Sixth Annual Meetings of the World Bank and the International Monetary Fund in this picturesque city of Bangkok. On behalf of my delegation from the Republic of Fiji, I take this opportunity to thank the Government and the people of the Kingdom of Thailand for their warm reception and the excellent arrangements for the hosting of these Annual Meetings. I would also like to welcome Mongolia as a new member.

I should like to join my fellow Governors in warmly welcoming the new President of the Bank, Mr. Lewis T. Preston, and look forward to seeing

him continue the determination and commitment that his predecessors have all displayed in discharging their important responsibility of addressing the development challenges. In particular, I should like to record my appreciation to Mr. Barber Conable, the past President of the Bank, for his able and effective leadership during the past five years. I should also like to congratulate Mr. Michel Camdessus on his reappointment as Managing Director of the Fund for a second term.

In their annual addresses, the President of the World Bank and the Managing Director of the Fund have set out the roles of the two institutions in the search for solutions to the difficult issues facing the global economy. Both the President and the Managing Director are to be congratulated for their vision and leadership, and we wish them and their staff well in the challenging tasks ahead. Indeed, the successes of the two institutions in meeting the challenges of the past give one hope and confidence for the future.

The events of the past 12 months have clearly indicated that the world economic scene is experiencing a period of rapid and significant change. When we met in Washington a year ago, we were heavily preoccupied by the events in the Gulf and the implications for economic development, particularly for the potential escalation in oil prices. Fortunately, the speedy resolution of the crisis has mitigated the adverse effects that were originally envisaged.

The economic and political reforms in Eastern Europe, including the recent events in the Soviet Union, are indeed remarkable both in scope and pace. The way ahead toward market-based economies and the effective integration of these countries into the world economy will, of course, take time. It will also require close coordination in the mobilization of capital resources and the implementation of appropriate packages of economic and structural adjustment policies.

In my view these developments have clearly brought out two important issues. First, a market-oriented regime, whereby private enterprises are free to make choices in a competitive environment, is the best way to achieve long-term sustainable economic well-being. Second, there are increasing demands on global liquidity to cater to reconstruction in the Gulf and to finance the reforms in Eastern Europe.

These developments have direct implications on the role of the Bank and the Fund. There will be a significant increase in the demands on Bank and Fund resources. It is therefore of concern that the increase in quotas under the Ninth General Review has not yet been implemented. In common with many countries, Fiji has already given its consent, and it is to be hoped that those other countries will follow suit, so that the increase in quotas can be implemented as soon as possible. I would also encourage the Fund to continue its efforts to obtain the necessary support for a third SDR allocation.

These issues have implications for the developing contries, an increasing number of which are undertaking structural and economic reforms. There

have been encouraging signs that these reforms are beginning to show benefits in developing countries, and it is expected that these initiatives will continue to be supported by the Bank and the Fund. Developing countries must be assured that the increased demands on resources would not be met by a squeeze on their requirements. Greater emphasis should also be placed on flexibility and speedy response to the changing and divergent needs of developing countries.

We have noted the increasing calls by member countries on the services of the International Finance Corporation, and the subsequent proposal by the Corporation for a capital increase. We fully support this proposal, as we see IFC's role in enhancing and promoting private sector initiative in developing countries as vital in the overall adjustment process and in the restructuring programs being pursued by these countries.

The suspension of the Uruguay Round negotiations is another concern of developing countries, as it poses a direct threat to our long-term growth and external viability. World trade is expected to grow by about 2 percent in 1991 as against 7 percent in 1990 As part of the overall trend toward market-oriented economies, developing countries are liberalizing their trade policies on the reasonable expectation that the international trading system will be supportive of their efforts. The outcome of the GATT negotiations will be crucial to the future pattern of world trade, the economic prospects of developing countries, and the solutions to their external debt problems. Let us, therefore, be mindful of the comment by the past President of the World Bank, Mr. Conable, to the Development Committee earlier this year that "the potential annual gains to developing countries from the removal of developed countries' trade barriers represent double the interest payments by developing countries on their public debt or double the annual flow of official development assistance." These are striking calculations indeed. While we welcome the reactivation of negotiations, a deliberate commitment should be made and a firm date set to bring the Uruguay Round to a successful conclusion.

World economic growth is expected to slow in 1991 to around 1 percent (compared with 2 percent in 1990), reflecting the slowdown in economic activity of the industrial countries, which has, in turn, adversely affected the economic growth in developing countries. The problems that developing countries continue to face are low rates of domestic savings, lower levels of investment, and high debt-servicing costs. To overcome these problems, the developing nations will need to persevere with comprehensive policies and structural adjustments that are appropriate to their individual situations. However, the onus of adjustment should also be shared by developed countries to the extent that their domestic policies should be realigned to be consistent with the objectives of economic growth and liberalization of international trade.

On the debt problem I am happy to note that some progress has been achieved in this area, with several debtor countries concluding debt restructuring and rescheduling agreements. The Paris Club members must be commended for their initiatives in debt reduction and increased concessions to heavily indebted low-income countries. The World Bank should also be supported in its efforts in finding acceptable solutions to debt problems and should be encouraged to continue this role. However, at the same time adequate assistance should continue to be available to those developing countries that have been able to avoid debt-servicing difficulties.

I would now like to say a few words about my country's economic development in recent years. Fiji is fully committed to an overall policy of promoting an outward-looking strategy, thereby developing a framework conducive to sustained economic growth. In support of this overall strategy, we have begun implementing policy measures and structural reforms that will provide incentives to the private sector, encourage efficiency, enhance competition, and reduce the government's role in the economy. Our efforts are generally in line with the broad international trend toward a market-based economy. We foresee the role of government in future as providing infrastructure and essential services and the necessary supervision and regulatory framework to ensure the efficient operation of markets. I am pleased to report that the results of these reforms have been encouraging, with the country recording an average growth rate of over 5 percent in the last three years. We are confident that the promulgation of our country's new constitution in 1990 and the holding of a parliamentary election early next year will provide further impetus to investment and economic growth. In this regard, I must record my country's appreciation to the Bank and the Fund for their assistance in helping chart our future direction and in providing financial and technical support when needed.

I would like to conclude by again referring to the changes that the world economy is undergoing. In this regard, I am reminded of the words of Henry Morgenthau, Jr., then U.S. Treasury Secretary, at the closing session of the 1944 Bretton Woods Conference:

"We have come to recognize that the wisest and most effective way to protect our national interests is through international cooperation. This is to say, through united effort for the attainment of common goals. This has been the great lesson of contemporary life, that the peoples of the earth are inseparably linked to one another by a deep, underlying community of purpose".

The lessons that emerge very clearly are that we cannot survive in isolation, that domestic policies should be closely attuned to the international market place, and that multilateralism accrues benefits to all of us. I share in the optimism that with international cooperation and firm commitment we can collectively find solutions to the challenges that lie ahead.

FRANCE: JACQUES DE LAROSIERE

Governor of the Bank

We are living in extraordinary times, which are full of opportunity but also full of risks. International economic cooperation is more necessary than ever. Our ability to organize it and strengthen it will determine the world's stability and the prosperity of its peoples in coming years.

Today, as in the past, governments turn first to the Bretton Woods institutions to help them deal with the new challenges: to ensure strong growth together with price stability, support the transition from centrally planned to market-oriented economies in the U.S.S.R. and Eastern Europe, and to fight for development and poverty alleviation. These have been traditional missions for our institutions. They are by no means mutually exclusive. But they must be accomplished in a new world characterized by rapid and complex changes in the political, geographical, and military environment.

In 1991, world economic growth slowed down appreciably. Signs of recovery are perceptible, and the Fund's—perhaps optimistic—outlook foresees a resumption of growth, to approximately 3 percent in 1992, without any increase in inflation.

Inflation may even decline in many industrial countries, as money creation, on the whole, is well under control, wage increases tend to become moderate, and exchange rates and oil prices are stable.

The trend is positive, but the breadth of the recovery is less certain, despite the existence of available productive capacity in many developed countries. The countries where inflation has been brought under lasting control can take action to promote a decline in interest rates. Several have done so in recent months, to the appropriate extent. Depending on market conditions, others now have or will have the opportunity to do so as well. But, above all, those countries which have high public deficits must strengthen their fiscal consolidation efforts. In the short term, this would alleviate the excessive burden presently put on monetary policy and open the way to a noninflationary decrease in real interest rates. In the longer run, the reduction and elimination of unproductive public expenditure would free the savings resources needed for reconstruction in the former centrally planned countries as well as for continued adjustment in developing countries.

Our economies are interdependent. We must preserve and consolidate the multilateral trade system and make the benefits of open and rapidly growing markets available to Eastern European and developing countries alike. Rapid conclusion of the Uruguay Round is a priority. To be fully successful, it must be associated with economic policies that enable strong growth while avoiding the resurgence of destabilizing international imbalances as well as the uncertainties associated with disorderly exchange rate fluctuations.

The international community has responded with remarkable speed to the opening of the centralized economies of Eastern Europe. The bold

reforms initiated by governments were quickly backed by substantial financial flows and significant technical assistance. The "burden sharing" of this financing is probably not optimal today. But we can be legitimately proud of the quickness and courage with which the Fund and then the World Bank reacted to events.

In this regard, I would like to mention how much France is pleased that Lithuania, Estonia, and Latvia have regained their independence and are preparing to join our institutions. These countries should be able to count on our support for their successful integration into the international financial community.

I will turn now to the recent developments in the Soviet Union. Since our last meeting, the forces favorable to democracy and openness have prevailed over their opponents, but this movement has gone together with a significant deterioration of economic conditions. The international community must act quickly and in coordination to consolidate this process and help sustain the unity of the Union's economic space, without prejudging the right of self-determination of its peoples. My country welcomes the recent conclusion of the Special Association agreement between the Fund and the U.S.S.R. This agreement, of course, is not an end in itself, but it does constitute a first and useful step toward full membership in the Bretton Woods institutions. It allows the Union and its Republics to start benefiting immediately from our expertise in economic stabilization and structural reform. Further, I hope that the Fund in particular, but also the World Bank, the EBRD, and other competent institutions, will enable us to better analyze the situation and define the conditions for establishing a zone of monetary stability and freedom conducive to investment growth in this area. This will require strong international coordination, but also a clarification of the allocation of powers and responsibilities among the various Republics which compose the Union as it now stands.

Developing countries do not intend to and must not remain on the sidelines of the great movement toward openness and democratization which is taking place in all regions of the world. Many of them have recently undertaken radical and bold reforms, unilaterally opening their markets and abolishing restrictions and obstacles to foreign investment. They should be encouraged to continue along this path, as well as to pursue macroeconomic stability; indeed, in the worldwide competition for allocation of savings, it is necessary today to create the proper conditions and environment to induce spontaneous inflows of private capital.

As regards the debt of the poorest countries, it is now urgent to reach agreement over substantial improvement of the Toronto terms. France supports debt reduction of 50 percent to 80 percent on a case-by-case basis with a menu of concessional options. All creditors should quickly join the emerging consensus.

As for the lower middle-income countries, solutions have been found in the cases of Poland and Egypt. They neither constitute a general precedent

nor can be considered as absolute exceptions. Paris Club creditors should be allowed to offer on a case-by-case basis debt or debt- service reduction for those countries which are engaged in strong adjustment efforts.

In parallel with bilateral donors, and with their support, international institutions should also contribute to increasing the volume and reducing the cost of financing to the poorest and the most indebted countries. It would both be fair and consistent to extend eligibility for the enhanced structural adjustment facility to all presently IDA-eligible countries. By the same token, we would like the World Bank's shareholders to allocate a larger fraction of its profits to concessional uses. We also urge the Bank, whose multilateral nature must be preserved, to develop its loans and increase its transfers, as it is now able to do by virtue of its highly satisfactory capital and reserves position.

The World Bank and Fund have played—and will continue to play—an essential role in the present juncture. I am happy to welcome the new President of the World Bank, Lewis T. Preston, whose perceptive vision and authority are recognized by all, and I associate myself with his words in praise of Barber Conable. I also wish to pay tribute to Moeen Qureshi, who is retiring from the Bank after a brilliant career devoted to development. I finally want to congratulate Michel Camdessus on his re-election as Managing Director of the Fund, which evidences the unanimous appreciation of the international community.

However, our institutions need resources. It is crucial that the Fund's Ninth Review of Quotas enter into force as envisaged. We also attach the highest importance to the study requested by the Interim Committee at its spring meeting on the opportunity and potential modalities for a future SDR allocation. In fact, we can already perceive in certain regions of the world the negative effects which could stem from a shortage of reserves, particularly for those countries that have recently decided to make their currencies externally convertible.

In conclusion, I would like to stress the democratization and liberalization movement we now witness. This movement brings great hope. But it is clear that the countries that are now moving forward on the democratic path are also faced with the emergence of new tensions. Democracy is a difficult art. This is why we must make every effort required to increase international solidarity and thus to offer humanity the necessary elements of stability and prosperity.

GREECE: EFTHIMIOS CHRISTODOULOU

Governor of the Bank

I would like to join other participants in expressing our gratitude to the Thai government for their hospitality and for all their preparations for the success of these Annual Meetings.

I would also like to join the previous speakers in congratulating the new President of the World Bank on his appointment. I am sure that Mr. Preston, with his wide experience and financial wisdom, will make a creative contribution to the development of the Bank's activities in the challenging new world economic environment.

I also wish to welcome our two new members, Mongolia and our close neighbor, Albania, which participate for the first time in these Meetings.

The major developments in the world economy since our last Meeting have been: *first*, the steep decline in the rate of growth of world output as a result of the recessionary conditions in a number of major industrial countries, the sharp contraction of output in the restructuring economies of Eastern Europe and the U.S.S.R., and the uncertainties created by the Gulf war; and *second*, the reduction in the growth of international trade and the substantial deterioration of the terms of trade of non-oil primary exporting countries.

The outlook for 1992 seems to be improving, particularly with regard to industrial countries, where the recovery of North America, the United Kingdom, and some other countries from the recession, the decline in oil prices, and lower interest rates in a number of major countries can reasonably be expected to lead to a rate of growth in 1992 approximately in line with potential output. Nevertheless, the situation of developing countries, except for oil producers and some dynamic Asian countries, continues to be difficult.

The major policy issues that confront us in the immediate future are clear. Priority must be given to the resumption of sustainable world economic growth. For industrial countries, this underlines the need for macroeconomic and structural policies that can increase investment and potential output, while reducing structural unemployment, which in many countries continues to be worrisomely high.

In this regard, the main risk is that the world supply of savings might prove inadequate to sustain the recovery. The reconstruction of the Middle East, the unification of Germany, and the transformation of Eastern Europe and the U.S.S.R. represent exceptionally high claims on world resources, which are additional to the investment requirements in the industrial countries and in the developing world. These requirements will exercise upward pressure on interest rates in the absence of a commensurate rise in the global supply of savings. The effects of such a development might well offset the gains from the rise in world import demand, with adverse consequences on output in the industrial countries and in heavily indebted developing countries.

A sustained effort to increase global savings is, therefore, of the utmost importance. For the industrial countries, this chiefly implies the resumption of progress toward fiscal consolidation based on a sizable reduction in spending in relation to GDP and tax restructuring. Achievement of these

fiscal objectives is essential in order to make room for private investment and to sustain growth in the industrial world in the medium term against the background of rising demands for savings worldwide. With a rigorous budget policy successfully implemented, domestic monetary policies would become gradually less restrictive, thus lowering nominal and real interest rates and facilitating world capital accumulation.

I note in this context, that the Greek government is determined to pursue the rigorous fiscal consolidation program which began last year.

Furthermore, it is necessary to underline the importance of a drastic reduction, if not outright elimination, of less productive public expenditures that are at the root of major resource misallocations. The recent political developments and changes should facilitate this process. The reallocation of such resources to socially more productive uses or their addition to national savings could be a major contribution to stability and worldwide growth. This is at a time when pressing financial requirements to sustain the necessary level of global investment face the risk of a shortage of available financial resources.

The efficient use of resources and the increase in savings are concerns that must be shared by all countries. The large body of experience with financial flows to developing countries demonstrates that, without a sound macroeconomic and structural adjustment program in the recipient countries, assistance is not as productive as could be wished. Furthermore, sound programs, based on market-oriented principles that lead to stable financial conditions and external current account strength in an open trading system, are fundamental prerequisites for the attraction of private capital flows which can sustain medium-term growth on a sound basis.

These principles are of particular significance in relation to the transformation of the economies of Eastern Europe and the U.S.S.R. The costs of restructuring, however, have proved to be considerably higher than initially envisaged, in terms of output and employment losses as well as widening external imbalances. Almost all countries that have embarked on economic programs supported by the World Bank and the IMF are experiencing difficulties that test the political will to persist in implementing the macroeconomic and structural reforms.

Despite these difficulties, there is no escaping the need for restructuring countries to find the strength to sustain progress toward monetary stability, a sound fiscal position, a rapid opening of domestic markets to international trade and finance, and accelerated action toward the establishment and proper functioning of market-supporting institutions, particularly in the financial sector. If the restructuring countries, however, stay the course, the international community has a duty to provide adequate exceptional balance of payments support together with a significant opening of their markets to these countries' exports. In this context, the European Community and its member countries will continue to provide financial support through the

Group of Twenty-Four process as well as through other means. Furthermore, the European Community, with the achievement of the single market, will be in a position to offer greater opportunities for exports from Central and Eastern European countries. Significant progress is already being made through the association agreements being negotiated with a number of these countries which provide wide opportunities for a dynamic expansion of trade between the EC and Eastern Europe. Thus, both the reform process and the prospects for future growth throughout Europe are being enhanced, and the foundation is provided for adequate financial flows from other sources.

Of crucial importance in the process of structural reform in Eastern Europe and the Soviet Union is the active involvement at an early stage of the World Bank and the IMF as regards both the design of the programs and the provision of adequate financial support through their own resources as well as through their role as catalysts of financial flows from other sources. We welcome the World Bank and the IMF programs that have already been approved for Poland, Hungary, Bulgaria, Czechoslovakia, and Romania. Also, we warmly welcome the Special Association agreement recently concluded with the Soviet Union, which opens the way for the supply of the technical assistance required at the very beginning of the restructuring process. We furthermore firmly support the speediest possible conclusion of the negotiations for full membership of the Soviet Union in the Bretton Woods institutions, which will permit the direct financial involvement of the Fund and the Bank in support of the authorities' efforts in the near future and over the medium term.

Let me now make some remarks regarding recent economic developments in my country. The Greek government is determined to achieve a sustainable fiscal position by the end of 1993 on the basis of a medium-term program now in place. Progress has already been achieved in 1991 as witnessed by the clear reduction of the net public sector borrowing requirement (PSBR).

Furthermore, over the past 18 months, macroeconomic conditions have improved. In addition to the reduction in the PSBR, inflation is projected to fall to around 17 percent by year's end, from 23 percent a year ago. The current account deficit will register a decline from $3.6 billion in 1990 to about $2.0 billion in 1991, which will be entirely financed by private nondebt-creating capital inflows.

In parallel with the stabilization program, the Government has initiated major structural reforms: a privatization program is under way aiming at divesting firms under state control as well as partially transferring to the private sector large state-owned enterprises. Markets are being deregulated so as to promote effective resource allocation and private investment, while the country's infrastructure is being modernized through projects co-financed by the EC. Foreign investment is being attracted by emerging opportunities through acquisitions under the program of privatization or

through participation in projects in telecommunications, power generation, airport development, the provision of financial services, consumer goods industries, and tourism.

Starting from what was an unsustainable initial position, stabilization and restructuring are not easy tasks. The social tensions and burdens involved are already being felt, while the benefits in terms of efficiency, growth, and welfare will emerge at later stages. The first positive results, however, are clear in terms of reducing inflation and the current account deficit. And further improved results are firmly expected next year, especially in reducing budget deficits where progress has been rather slower than expected.

To conclude, I would like to state again that the Greek government remains committed to fully carrying out the program, with any further adjustments if required, always in the context of the multilateral surveillance procedure which is being implemented for the member states of the European Community. Aside from leading to a more efficient economy, achieving the program's targets will also allow the smooth transition of Greece to the next stages of the ongoing process toward the economic and monetary union of the Community.

HUNGARY: MIHALY KUPA

Governor of the Bank

I am honored to have the opportunity to address this distinguished audience. Let me first say a few words about the recent developments in the Hungarian economy and then highlight some important issues.

In general terms, we can depict a positive picture. In spite of several foreseeable and unforeseeable obstacles, the process is working in line with the Government's economic program and the World Bank and the International Monetary Fund agreements. Hungary was affected by four shocks in 1991:

—the effects of the Gulf war;

—the collapse of the markets in Eastern Europe and the Soviet Union in particular (while exports to the Soviet Union represented more than 30 percent in our total trade in 1989, they have dropped to below 15 percent and continue to fall);

—the Yugoslav crisis; and

—the drastic cut in price and production subsidies.

As a result, GDP will decrease by 6-8 percent, while unemployment will rise more rapidly than anticipated, and will reach an expected rate of 6-7 percent by the end of the year.

However, the Hungarian economy has overcome these difficulties. In my view, there are three areas where the positive developments are of particular importance:

First, direct foreign investment;

Second, the balance of payments and the state budget; and

Third, the vitality and drive of Hungarian private business.

As one of the most important features in my country, the changes in the structure of economic institutions have significantly accelerated. Parallel to privatization, the number of corporations in Hungary doubled in 1990, while in the first eight months of 1991, this figure increased again by 50 percent. The nature of this structural change may best be characterized by the fact that the decisive majority of these new businesses—more than 90 percent—are small operations with fewer than 50 staff. Thirty percent of the new companies have some form of foreign capital interest. Privatization has also begun to accelerate, especially from the middle of the year onward. In the months of July and August, 41 former state companies were divested. Up to now, in the course of privatization, $500 million worth of direct foreign investments has come into the country. We now record over 110,000 partnerships and about 375,000 sole proprietors.

As for the balance of payments in 1990, there was significant improvement: the overall balance improved by $1.5 billion to reach a $30 million surplus. This positive trend has continued in 1991, with the balance of payments proven to be very good.

The strong responsiveness of the economy is well reflected in the fast pace of change in foreign trade. This quicker-than-expected development has gone some way to making up for the fall in exports to the former COMECON countries, while exports to Western markets are growing rapidly. It is a favorable sign that an ever-increasing proportion of this export growth may be credited to the newly formed private, small businesses.

In line with our economic program, the monthly rate of inflation has been kept below 2 percent in the past four months. Considering, however, the big rise in prices at the beginning of the year, an inflation rate of 33-36 percent is expected for the year as a whole, and will continue to moderate.

As another positive element, the net increase in personal savings is to be noted, something that will be able to cover the expansion in corporate debts and the slightly greater-than-expected state budget deficit. On this latter point, may I say that we do not wish to compensate for the losses concomitant with the changes in foreign trade by way of tax increases. Consequently, the balance of the state budget will be less favorable despite the fact that expenditure will not increase. The budget deficit is 3 percent of GDP in 1991, and it will be about 2 percent in the next year, which is, in fact, quite a good result.

Let me echo Mr. Preston's report to the Development Committee regarding the debt issue. I fully agree with him when he states that the debt overhang is a severe constraint on growth in many countries. The interests of the heavily indebted countries will be best served with their continued participation in the international financial system. With reference to this, I

would like to say some words about those countries, including, of course, Hungary, which are maintaining the full service of their debt and are performing satisfactorily under World Bank and Fund programs. These economies, with strong determination and, believe me, sacrifices have been able to endure external shocks and avoid rescheduling. For these countries the preservation of market access is of vital importance. No doubt, the Bretton Woods institutions are closely following the developments in these cases. But, I am convinced, this is not enough and will not be enough in the future, when the access to markets is not going to be easier. The World Bank and the Fund should find the ways and means to give strong and, if needed, repeated signals of full support toward the markets. This would back the efforts of these committed governments and people.

I mentioned earlier the devastating difficulties that have emerged as a consequence of a more severe-than-expected disruption of the former so-called COMECON relations. For the Central European countries, the most important problems originate from the almost total disruption in the commercial relations with the Soviet Union. We welcome the Soviet membership application, which will contribute to the Soviets joining the world economy for the benefit of all of us. We agree that the Bretton Woods institutions should help this country to create the necessary economic conditions for membership in our institutions. Having said this, I would like to remind ourselves of a potential danger. Namely, that owing to the high political voltage, the intellectual and material attention paid by us to the developments in the Soviet Union should not overshadow other important issues. This would not serve the interests of our member countries. I am representing a Central European country, which has made substantial progress during the last two years in the transition to democratic society and a market economy. This progress clearly demonstrates not only that the Soviet and the Central European cases differ greatly, but also that these are at two different stages of evolution. But we agree on the need to provide reasonable assistance to the Soviet Union.

In the past few years Hungary has already achieved nearly full liberalization of the price and trade systems. This has led us to significant external adjustment and a de facto convertibility of the Hungarian currency for current transactions. This helped us to have a continuing buoyancy of foreign direct investments and a better-than-expected current account position. We are determined to continue our policy of liberalization. Let me underline a very important obstacle to our export-led adjustment, which is equally important for the other Central European countries. I am talking about market access. In order to reap the full gains of its rapid reorientation of exports, Hungary needs additional support on trade issues. Only greater access to the markets of the industrial world can give Hungary and Central Europe the stimulus needed for the restoration of growth and full integration into the world economy.

Finally, let me thank the Thai Government for the excellent organization of these Meetings and their kind hospitality.

INDIA: MANMOHAN SINGH

Governor of the Bank and the Fund

I join my fellow Governors in welcoming the new members who have joined the Bank-Fund family. I welcome the agreement on the Special Association between the Fund and the Soviet Union. We wish the Soviet Union and its people success in grappling with the formidable challenges they face. I thank the people and Government of Thailand for their generous hospitality. Thailand has set an example to all of us in the matter of excellent organization of the Annual Meetings. I would also like to congratulate Mr. Lewis T. Preston on his appointment as President of the World Bank and Mr. Michel Camdessus on his re-election to a second term as Managing Director. We are most fortunate to have leaders of such outstanding credentials, dedication and commitment to guide our two institutions in these turbulent times.

We meet at a time when momentous changes are taking place in the world. The end of the Cold War, the transformations in Eastern Europe and the Soviet Union, and major reductions in nuclear arsenals are developments of truly historic significance. At long last humankind's long-standing aspiration to convert swords into plowshares does not seem to be a mere utopian dream. All these changes will have a profound and, we believe, ultimately favorable impact on the structure of international relations and the world economy. The end of East-West confrontation provides new opportunities to address ourselves to the chronic problems of world poverty and environmental degradation.

At the same time, we are conscious that the immediate global prospects provide little cheer. The per capita income of the developing countries as a group declined in 1990, and a further decline is expected in 1991. Economic activity in the industrial countries remains depressed, with little evidence as yet of a strong recovery.

The world capital shortage has squeezed developing countries disproportionately, primarily because of continuing macroeconomic imbalances in industrial countries. Volatility of exchange rates of major industrial countries continues to add to instability and uncertainty. The Uruguay Round of trade negotiations remains locked in an impasse. Protectionism is on the increase in industrial countries. The debt burden, particularly in sub-Saharan Africa, remains oppressive.

These adverse external developments are gaining momentum precisely at a time when most developing countries have embarked on bold measures of reform aimed at restructuring their economies and opening up to forces of competition both domestically and externally. The wave of economic re-

forms that is sweeping both the developing world as well as the erstwhile centrally planned economies offers the hope of a sustained economic expansion benefiting four fifths of humanity. But it needs to be supported by an adequate transfer of resources and an expanding access to markets in industrial countries. Unfortunately, the prospects on both counts are as yet disappointing. Net transfers to the developing world are declining sharply and will reach zero or negative levels by 1992. Paradoxically, as the developing world and the centrally planned economies are opening up and reducing levels of protection, the industrial countries appear to be moving in the opposite direction.

Despite these difficulties, we in India have embarked on a historic effort to chart a new course for the 1990s. The Indian economy did very well in the 1980s spurred by a process of liberalization. Growth, long stuck at 3.5-4.0 percent, accelerated to 5.6 percent in the 1980s. By the end of the decade, however, the economy ran into serious difficulties. Fiscal discipline weakened, and the balance of payments came under pressure. Political instability and the Gulf crisis added to our problems in 1990. Confidence was eroded, and access to external commercial borrowing began to dry up. Foreign reserves declined to dangerously low levels. It is in this exceptionally difficult situation that the new Government assumed office in June 1991.

We have dealt with the crisis decisively. Our immediate priority was to restore confidence in our economy and to maintain our unblemished record of not defaulting on our international payments. This, I am proud to say, we have been able to do. The new Government moved rapidly to restore macroeconomic stability. A sharp reduction in the fiscal deficit has been targeted this year, and we plan a further reduction next year. Fiscal restraint is being combined with strict monetary discipline, and the two together will bring the balance of payments as well as inflation under control in a short period of time. Our commitment to fiscal discipline and the control of inflation is firm and irrevocable.

Stabilization is one part of our objective. The other is restructuring our economy to set it on a viable high-growth path. India's development efforts in the past have given us the wherewithal to deal with the challenges before us. Our agricultural economy has grown in strength and resilience. We have a large pool of skilled manpower and ample entrepreneurial resources. But these resources can be used much more efficiently and to greater effect than in the past. We need to restructure our system of economic management. Our systems of control and regulation, developed for good reasons in the past, have outlived their utility and need to be radically overhauled in the light of experience and new realities. To this end, we have taken a number of steps and propose to do more in the months ahead.

In the area of industrial policy, we have announced comprehensive reforms, dismantling an array of licensing and other administrative controls. We have virtually eliminated licensing restrictions governing new invest-

ment. We have reduced the area of industry reserved for the public sector to a handful of strategic industries. We have recognized that Indian industry has come of age and Indian entrepreneurship needs to operate in a competitive environment. We have formulated a new policy toward foreign investment aimed at encouraging a much larger flow of direct foreign investment. Large areas of industry have been opened up for direct foreign investment with majority ownership. At the same time, we shall expand our Government's involvement in human resource development, in promoting primary health care, family planning, and basic education, in poverty reduction programs and control of environmental degradation—areas where market forces by themselves cannot meet the challenge of providing the basic human needs of the poorest sections of our society.

We have also undertaken a major reform of trade policy. Over the years we had evolved a trade policy regime characterized by an excessive degree of quantitative restrictions and very high tariffs. We have taken major steps to reduce the degree of quantitative licensing in trade policy and propose to do away with quantitative restrictions altogether over a period of about three years. We have made a start with reducing tariff levels. This process will be accelerated so that Indian tariff rates become comparable with those in other industrializing developing countries. This is essential to make India's industry internationally competitive.

We recognize that the restructuring of Indian industry would involve some social costs in the transition period. It is necessary to build a social consensus on how to handle this problem and, in particular, how to mitigate the burden of these costs on those least able to bear them. We are trying to develop this consensus through the active involvement of political parties and trade unions.

These forward-looking policies in industry and trade will be complemented by wide-ranging and comprehensive reforms in the financial sector. Modern banking, financial institutions, and capital markets have to be liberated from the dead hand of bureaucratic controls. The State has an important, indeed strategic, role to play. It must establish conditions for prudential supervision. It must also ensure an adequate flow of credit to small farmers and small businesses. But the fundamental basis of reform of the financial sector lies in a freer play of competitive forces.

We are also engaged in a major reform of public sector enterprises. The planned restructuring will improve the efficiency of these enterprises. Units which are patently inviable will need to be closed down. Social safety nets will be developed to ensure that the costs of adjustment are not borne disproportionately by the workers.

The task of bringing about change in a large and pluralistic democracy wedded to democratic traditions of a free press and free speech is not easy. Attitudes and beliefs have a habit of getting frozen, and vested interests masquerade behind the facade of public interest. India is combating these

trends under a leadership determined to open up the country and integrate it more fully into the mainstream of the world economy in the belief that this will enhance our ability to deal more effectively with problems of mass poverty and social inequalities.

The task we have undertaken is enormous. The process of reform has just begun. More needs to be done, and we shall persevere in our efforts. India has and will continue to take strong domestic measures to revitalize its economy. But the effectiveness of our efforts will be greatly enhanced by the availability of international support. I would like to thank the World Bank, the International Monetary Fund, and the donor community for their generous support at a critical juncture in our history. We need this understanding from the international community, and action based on the understanding.

INDONESIA: J.B. SUMARLIN

Governor of the Bank

Let me welcome Mr. Preston as the new President of the World Bank and assure him that we are looking forward to working with him in the coming years.

This is the third consecutive year in which I have felt compelled to open my remarks on a discouraging note. World economic activity has fallen to its lowest growth since 1982, with world trade for 1991 falling even more sharply.

The recovery in the United States is weak, and in the United Kingdom it does not seem to have started. European economies and Japan are seen to be moving into a period of weakening activity. Unemployment remains high or is rising in the industrial countries. And all of this weakness persists against the background of interest rates that are quite low by recent experience, except in Germany.

On these already weak economic fundamentals is superimposed the impact of two major strains: higher than expected costs both to reconstruct the areas affected by the Gulf crisis and to restructure and revive the economies of Eastern Europe and the Soviet Union.

The movement toward political freedom and democracy must be welcomed, as must be the recent announcement of the agreement setting out the Soviet Union's special relationship to the Fund. However, we cannot stress too strongly that it is equally important to a growing world economy and trading system that the programs in Eastern Europe and the Soviet Union not be at the expense of the developing countries. After all, Eastern Europe and the Soviet Union have large natural resources and production facilities of their own. Largely what is needed is effective mobilization and allocation of those resources.

It is necessary to make this point with great urgency, and it is not a hypothetical question. My country has already experienced the reassignment to programs in the Soviet Union of technical assistance experts on whom we set great store.

Let me now turn more specifically to the developing countries. There is some good news in parts of the developing world. For the developing countries, however, the situation generally remains discouraging. To the still burdensome debt situation and the inadequate and declining level of resource transfers is now added an adverse terms of trade impact. While the debt strategy has gained increased flexibility and a more versatile menu of options to deal adequately with the problem for many debtors, further evolution of the strategy is needed.

It seems ironic that the net flow of private finance to the developing countries should fall drastically over precisely the period in which a strong consensus emerged on the importance of a greater reliance on the private sector in the growth process. Ways need to be found to enable and encourage the private international financial markets to provide increasing resources to the developing countries.

The current historically low terms of trade are battering those countries heavily dependent upon the export of primary products. The only sustainable solution to their problem is to diversify their economies. This is a lesson my own country—once highly dependent on primary exports—learned long ago, a lesson that was reconfirmed for us by the decline in oil prices in the 1980s. But this solution requires an adequate flow of resources to finance the process of diversification.

Equally important, it requires an open international trading system. For this and many other reasons all members of the world community must be increasingly concerned with the continued failure to achieve a satisfactory conclusion to the Uruguay Round. Trade policy seems increasingly focused on forging regional trading arrangements. Such arrangements in a context of open trade can be virtuous—creating economies of scale as trade opportunities for all expand. However, in a protectionist world these regional arrangements can soon degenerate into inward looking blocs. That is a danger we must all strive to avoid.

The leading parties to the discussions must show the political will to bring the Uruguay Round to a successful conclusion. If they fail, the credibility of adjustment programs based on outward-looking trade policies is at risk.

We all look to the private sector to play an important role in creating growth. There is a need to strike a proper balance between the public and private sectors. The central point here is that the market is an efficient allocator of resources. Efficiency is important. The demands on available resources of all kinds are ballooning at a time when global supply is not keeping up with demand. The free market's allocative efficiency can ease

this resource squeeze, if we get the price signals right on our markets and then make our economies more market driven.

In closing, let me say that the proposed development priorities that will guide the World Bank Group's activities throughout the 1990s—achieving sustainable growth that will reduce poverty in the context of responsible environmental protection—have our wholehearted endorsement.

ISLAMIC REPUBLIC OF IRAN: MOHSEN NOORBAKHSH

Governor of the Bank

IN THE NAME OF GOD

At the outset, I wish to extend my warm gratitude to the people and authorities of Thailand for their efficient organization of this important gathering and generous hospitality. I am pleased to welcome Mongolia and Albania as new members of the Bretton Woods institutions. I also wish to congratulate Mr. Lewis T. Preston on his new position as the President of the World Bank and Mr. Michel Camdessus for continuing as the Managing Director of the International Monetary Fund for another term. We hope and expect that the endeavors of these prominent figures will contribute to the drive by developing countries toward their development objectives.

The balance in the distribution of economic activity during the 1980s was characterized by a rising share on the part of the industrial countries in the face of a decline on the part of the developing world. Consequently, the present decline in the rate of growth among the industrial countries is more severely affecting other economies in the world. Periodic recessions in the industrial world clearly indicate that it is in the economies of the industrial world where the real and urgent restructuring is needed. The industrial countries seek to cope with this situation by increasing interest rates, which consequently leads to a slowdown in the global economy and deals irrecoverable setbacks to the economies of developing countries, throwing them strongly off balance. On the other hand, structural distortions in the industrial countries result in a decline of global savings that further increases the upward pressure on interest rates. This heavily undermines the access of developing countries to financial resources needed for their economic development objectives. Moreover, lack of a balanced structure and unbalanced current accounts in industrial countries cause a decline in the transfer of resources to developing countries, and this, in turn, aggravates capital flight and brain-drain from developing countries due to lower investment and employment opportunities in these countries and, to some extent are, the results of economic and trade policies in the industrial world.

With regard to trade, developing countries attempted to lift some restrictions during the 1980s; however, such restrictions seem to be increasing in

most industrial countries where nontariff barriers have increased in the forms of quota allocations for exports from developing countries, intensification of payment of subsidies for their domestic production, and increased pressures on developing countries to voluntarily reduce their exports.

In many industrial countries, resources are allocated to inefficient industries; these countries should adhere to the principle of relative advantage if they intend to contribute to the growth in global trade and economy. Data provided by international organizations show that the loss facing developing countries due to trade barriers in industrial countries is equivalent to the official development assistance extended to the former.

Concurrent with the emergence of the debt crisis, the economic and social conditions in developing countries, and particularly in severely indebted countries, have been deteriorating since the beginning of the 1980s. We support the adoption of growth-oriented structural adjustment in countries facing large debt overhangs, but such efforts should be assisted by appropriate measures in industrial countries aimed at increasing access to their markets and relieving the debt burden of severely indebted countries. Industrial countries should enact appropriate laws and regulations inducing commercial banks to extend financial facilities with easier terms to developing countries. No one will gain from the situation of timely debt servicing to the detriment of economic growth and development.

International monetary and financial tensions in recent years clearly indicate that real stability in these areas would only be achieved through the introduction of an international pool of savings. The IMF Articles of Agreement stresses the SDR as the principal international pool; nevertheless, the share of SDRs in international savings has declined. As a component of foreign exchange reserves for some countries, the SDR can play an important role in coping with unexpected events and prevent slowdown of international trade.

It is unfortunate that an agreement was not reached on an SDR allocation in the fifth and sixth sessions. We recommend that such an agreement be reached during the seventh session. This measure will stimulate reserves in various countries and assist them in their economic adjustment efforts.

Permit me now to briefly address recent economic developments in my country. The Islamic Republic of Iran is situated on the northern side of the Persian Gulf in one of the most strategically sensitive geographical regions with abundant resources. We also border the Soviet Union to the south. This country is undergoing far-reaching developments. The region we are situated in enjoys an undeniable position in the global economy. After eight years of successful defense during a war that was imposed on us immediately following the victory of our revolution, we opted to accept the UN resolution for peace and have continuously directed our efforts toward defusing tension and conflicts on the region.

The global economic significance of this region, which holds more than 70 percent of proven oil reserves in the world, was once again demonstrated during the recent war in the Persian Gulf, during which the Islamic Republic of Iran's prudent and responsible position with respect to Iraq and its adversaries, was an important instrument in containing the dimensions of the crisis. Moreover, despite financial constraints, our warm and unreserved acceptance of over a million Kurdish refugees fleeing Iraq prevented substantial human losses.

The Islamic Republic of Iran pursues the objective of security and stability in the region and considers close cooperation among the regional countries as a cornerstone for achieving this security in the Persian Gulf and thus places increasing emphasis on the expansion of its economic relations with countries bordering the Persian Gulf.

The region to our north, in the Soviet Union, is the scene of one of the most unprecedented events in the recent era. More than 70 million people living in the southern republics of the Soviet Union that border Iran share mutual religion, culture, and in some areas, language with the Islamic Republic of Iran. We have similarly sought to foster stability in this region. After the defeat of the coup in the Soviet Union, friendly messages were exchanged between the Presidents of the two countries which set the ground for further improvement in our bilateral relations and subsequent expansion of economic relations with southern republics in the Soviet Union in all areas, in the context of increasing trade and commercial exchanges.

With due regard to its key impact on regional security and stability, the Islamic Republic of Iran has embarked on the implementation of a sound development plan for boosting its economy. Economic adjustment measures that were put into effect immediately following the cessation of the imposed war were more seriously pursued during the past year with further implementation of the provisions of this plan. Reducing the multiplicity of exchange rates, liberalizing prices, transferring public enterprises to the private sector, and re-establishing budgetary equilibrium were some of the main themes that were further advanced.

Adoption of new policies, together with utilization of idle productive capacities, resulted in a 10.5 percent growth in Iran's economy last year. This level of growth was achieved amid adverse implications of the recent war in the Persian Gulf as well as devastating natural disasters, such as the severe earthquake in our northern and northwestern provinces. The war in the Persian Gulf and Iraq's subsequent internal crisis not only resulted in unstable world oil markets but also sent a wave of over a million and a half refugees to the Islamic Republic of Iran already hosting over three and a half million Afghan refugees, heavily burdening our economy. Our extensive commercial relations with Persian Gulf countries, as well as remittances of our manpower working in these countries, suffered a major setback.

Despite these problems, our country was able to proceed with its rapid drive toward achieving relative stability. Economic adjustment measures implemented over the past couple of years have greatly narrowed the fiscal budget deficit to less than 2 percent of GDP at less than half of the projected levels in the plan. Our inflation rate was also reduced from 27.4 percent to 9 percent and non-oil exports increased by about 31 percent in the same period.

Transfer of public enterprises to the private sector in the context of privatization policies has also proceeded rapidly. More than 90 percent of the shares traded in Teheran's stock exchange over the past six months belonged to government-held companies. The lifting of price restrictions left over from the war emergency situation has also resulted in the normalization of prices and proper allocation of economic resources.

My main point in citing this performance is to demonstrate my country's potential in achieving the goals set in the context of the five-year development plan, which may have initially seemed ambitious. Clear advantages, such as abundant natural resources, suitable climatic conditions, strategic geographic location, and adequate resources of skilled manpower—gaining in quality and quantity as more expatriates are returning—along with an extensive volume of existing investment facilities with still exploitable idle industrial capacity, all strengthen my country's ability to achieve a high and sound economic growth and create a suitable ground for attracting foreign investments.

As far as international financial facilities are concerned, we have projected the acquisition of about $27 billion from foreign sources for implementing specific projects in our development plan. Out of this figure, $10 billion will be acquired in the context of buy-back arrangements. Our goal in undertaking such agreements would be to absorb advanced technology and achieve access to new export markets. The balance that constitutes 14 percent of the foreign exchange budget projected for the plan would specifically be used for projects in the areas of industry, agriculture, oil, and petrochemicals. The foreign exchange income that would be generated upon the commissioning of these projects, as a result of import savings or exports earnings, would be partly used to service the related borrowings. As a non-debt-creating financial inflow, we would also welcome foreign investments that could be made in the context of joint ventures between foreign and Iranian companies.

The World Bank and the International Monetary Fund could obviously play a significant role in advancing economic goals of developing countries including mine. We have had very close cooperation with these two institutions in the years following the war and have received their assistance in various areas particularly in technical fields. Both institutions have sent missions to Iran producing very enlightening and useful reports about the

economic situation in Iran, confirming my earlier remarks in this respect. We hope that these cooperations will continue and expand in the future.

IRELAND: MAURICE O'CONNELL

Governor of the Bank and the Fund

This is a time of complex change and new challenges in the world economic order. In a short period we have witnessed the ending of East-West tension, which has dominated the agenda for so long, and momentous changes in the Soviet Union. The growing impetus for economic and monetary union within the European Community, the reunification of Germany, and the movement toward reform of the Central and Eastern European economies are opening great new opportunities in Europe. There are signs of real and sustained progress in a number of developing countries. This is the good news. The continuing failure to complete the GATT negotiations has been a big disappointment. A year ago there was optimism that these negotiations would finally be brought to a satisfactory conclusion quickly, opening the way for a steady and balanced expansion of world trade. I sincerely hope that the general accord on the need for a successful conclusion will lead to an early and positive outcome.

The World Economy

World economic expansion continues to rest on a rather fragile foundation. The crisis in the Middle East created new uncertainties, not just for the region but for the whole world, and we cannot yet assess fully the consequences of recent developments in the Soviet Union. Following a number of years of continuing steady growth, the economic environment deteriorated over the past year, but the decline has stopped short of a world recession. There are now signs of recovery, and the general expectation is that the economic slowdown in the industrial countries will be no more than a temporary phenomenon.

We all accept the principle that expansion of world trade and free movement of capital are the key to success. This in turn requires the curtailing of protectionism and improved access to markets. The good health of the world economy depends on greater international cooperation, sustained opposition to inflation, and greater emphasis on savings. It is particularly important that those developing countries that are undertaking difficult adjustment measures, on the best advice from the international community, are not excluded from industrial markets. The new appreciation which many of these developing nations have of the merits of strict economic discipline and their efforts to promote overdue structural reforms deserve better recognition.

Debt

Our discussions throughout the 1980s were dominated by the debt crisis. The fact that this issue is no longer at the top of the agenda is a reflection of the concerted efforts in recent years to implement an effective debt strategy. Much of the credit for this must go to the international institutions. The problem is still acute, however, and debt and debt servicing continue to impose an enormous burden on the developing countries in particular. The problem is aggravated in some instances by accumulated arrears and poor track records in making adjustments. It is a hard fact of life that a number of countries are caught in a vicious circle and have no prospect of making progress without outside assistance. The international community has an obligation to provide such assistance and to insist in return that certain disciplines are enforced.

Poverty

Earlier this year, the war in the Middle East and its aftermath brought home to us vividly the pain and misery of great human suffering. The world response, initially belated and hesitant, was praiseworthy. The Middle East disaster, however, was high profile. Grinding poverty and destitution continue to be the norm in many parts of the world and, sadly, there is little evidence so far of a breakthrough despite the excellent programs sponsored by the international institutions. There are notable exceptions, of course, not least that of our host country, Thailand. The scale of poverty in a prosperous world is an indictment of our society and imposes an obligation on the world community to find more effective answers on a coordinated basis. We know too well from bitter experience that charity alone and the goodwill of ordinary citizens cannot cope adequately with this enormous problem. Policies for the poorer world cannot achieve their potential in isolation, and ultimately their success depends on a fairer world trading environment. If we cannot narrow the gap between rich and poor appreciably within a reasonable timescale, then it is time to reassess fundamentally the approaches that we have followed up to now.

In the past year Ireland has provided a supplementary contribution for the Ninth Replenishment of the International Development Association. We agreed to this contribution on the principle that the poorer developing countries are the most urgent priority and that it would be entirely wrong to reduce the programs of assistance for these countries because of inadequate funding. The threat of such a reduction was fortunately averted. Negotiations on the Tenth Replenishment of IDA will begin shortly and, as indicated at the preliminary meeting, Ireland will take a positive approach to these negotiations.

I note that the voting procedure for an increase in the capital of the International Finance Corporation has been initiated. IFC is making a valu-

able contribution to development, and I expect that Ireland will respond favorably to the provision of additional resources for its activities.

The Environment

The environment and conservation have been high on the agenda for some time. Care for the environment is so important that we cannot overstate its significance. The modern world makes enormous demands on the environment in several ways, and we have yet to fully realize that economic growth is dependent on the maintenance of a natural balance. Economic development, if it is to be sustainable, has to be consistent and compatible with maintaining the balance of nature. There are still in progress in several countries so-called developments that have official sanction and which are frightening in terms of their potential destructive capacity. While much has been done to correct abuse, we still do not attach sufficient urgency to the problem of reconciling development and environmental protection. There is need for much greater international coordination and a greater focus of public attention on the continuing dangers to the environment.

We look to the United Nations Conference on Environment and Development, which is scheduled for June 1992, to set new ground rules for protection of the environment worldwide. In the meantime, Ireland will make its special contribution by hosting the International Conference on Water and the Environment in January 1992. This will be the first major world conference on water resources in several years.

EC Developments

As a member of the European Community, Ireland welcomes the momentum for greater integration which is gaining expression in the Intergovernmental Conferences on Political and Economic and Monetary Union. Europe is emerging as a much more powerful and cohesive force in the world economy. As a small and open trading nation, Ireland understands the general concern that the Community should be at the forefront in promoting and assisting the orderly growth of the world economy. The Community is very conscious of its obligations in this regard, and I believe that it can be relied upon to make a leading contribution toward fostering growth and employment, and in assisting the developing countries of the world. The Community has rightfully taken the lead in organizing assistance for those countries in Central and Eastern Europe which are making the difficult transition to democracy and a market economy. It is also responding to an effective manner to the new situation in the Soviet Union. The entry of the Soviet Union into the mainstream world economy will require new coordination procedures—both for the transition and in the longer term. I welcome the decision of the Group of Seven, announced on Sunday, to pursue further dialogue in Moscow with the Soviet authorities.

In line with European Community requirements, Ireland has now largely liberalized capital movements. This has been possible because of the growing strength and stability of the Irish economy and our increased ability to attract foreign capital. We are strongly competitive and our inflation rate is among the lowest in the European Community. As with so many other countries represented here, our greatest difficulty is the generation of sufficient employment. It is a priority that does not get sufficient attention from the wealthier nations of the world who dominate the world economy and who have the capacity to deal with unemployment which is not readily available to the less well off.

The World Bank and the International Monetary Fund are central to the efforts of the world community to achieve greater growth and development on a coordinated basis. These two institutions provide a forum in which the concerns of all countries can be voiced. They are a powerful force and a powerful influence, and programs supported by them are an essential element in achieving improvements in the world economy. They have demonstrated repeatedly their ability to respond quickly and effectively to difficult situations. Ultimately, however, they can only be as strong as the commitment of the member nations. I would like to pay tribute to their sense of professionalism in the exercise of their responsibilities. We, as Governors, have a duty to ensure that they have adequate resources and proper authority to continue their good work effectively.

In conclusion, I would like to thank the Thai authorities for hosting this year's Annual Meetings and for the excellent arrangements which they have made.

ISRAEL: YITZHAK MODAI

Governor of the Fund

The year 1991, will, I believe, always be remembered for the most extraordinary sequence of events which has rendered the world a different entity.

The official termination of the Cold War, following the developments in the Soviet Union with respect to Glasnost and Perestroika, and the aftermath of the Gulf war were the most outstanding events of the decade.

The new World Order is characterized by general disarmament and the dismantling of strategic weapons, excess supplies of oil and the consequent stabilization of oil prices, as well as the organizing of peace conferences around the world. The world is undergoing a process of democratization, striving for freedom of the individual, and decentralization of economic forces.

The new world order now emerging, with the United States forging ahead as the major superpower, seeks the establishment of universal long term economic stability.

It is now apparent that economics rather than force will play the major role in the newly structured world.

The general disarmament in most industrialized countries will cause a vast movement of resources from army to civilian industries resulting also in the United States re-establishing its place in the arena of civilian world trade.

America's standing in the Arab oil exporting countries facilitates long-term stability in oil prices and the consequential economic stability after two decades of turmoil which climaxed at the advent of the Iraqi invasion of Kuwait. Stable energy prices will contribute toward increasing the volume of world trade once the current recession in the western hemisphere phases itself out.

These factors will contribute positively toward the economic restructuring of the newcomers, to a market-oriented world.

The immediate implications for the International Monetary Fund are clear, as many new countries will be seeking to gain membership in this prestigious body of nations and to draw on the enormous experience of the World Bank and IMF to help restructure their economies toward market-oriented, free competitive systems with all of the painful ramifications of such changes.

The World Bank and the IMF face an almost impossible task of accommodating the financial needs of the new and existing members such as India, who have been severely affected by the sudden collapse of barter trade between the COMECON ex-members and their traditional trading partners. I strongly believe that this bold effort of economic restructuring should be supported, at least during the transition period, by greater injections from the wealthy industrialized nations, as well as, the oil exporting countries.

The new market-oriented members will have to commit themselves, at the outset, to freeing resources toward export-oriented policies, generating the necessary foreign exchange to service their debts which will inevitably rise as they embark upon new investment based programs. These changes are a long and painful process for those people who were educated and trained for some decades to believe in command-economy systems. In fact, they should rebuild their economies from scratch. The industrial countries are called upon to increase their involvement beyond sending some emergency food shipments to these countries as the coming winter approaches. They should expose their markets to the new market-oriented economies. The western industrial nations will also have to commit themselves to purchasing these countries' exports on a massive scale. Since every nation which "takes off," first produces primary products such as agriculture products and textiles, the "food mountains" in the European Community and "textile quotas" in the United States should both be phased out, allowing these new economies to sell their primary products and accumulate savings for investment in upgraded sectors.

This is a gradual but essential process to be undertaken while, in the final analysis, it should always guarantee stable and tranquil transition. If the new market-oriented product cannot find its way to the industrial countries, the people of yesterday's command economies will export themselves in the form of human capital and settle in the wealthy countries.

In this context of economic restructuring and stability, I believe the Israeli economy, since 1985, can serve as a classic example of extrapolating a distorted and unstable economy which suffered from unstable oil prices, huge defense expenditures, and foreign debt payments. The defense budget has since been cut. The drop in oil prices helped reduce the foreign exchange burden, while hyper-inflation was extinguished.

In order to ensure this success of our economic stabilization program, the first of its kind to succeed since the 1922 stabilization programs in Europe, Israel realized that a lender of last resort was essential, and in our case it was the United States who came forward.

The contribution and determination of the people played a decisive role in ensuring the success of our programs. Nevertheless, we are now faced with the task of financing the process of economic absorption of the new Soviet immigrants to Israel without jeopardizing the economic stability which we have successfully achieved in recent years. For that purpose, Israel will be relying heavily on raising funds abroad. We believe that our unblemished record as a borrower will help us in raising adequate funds for the creation of jobs, investments in infrastructure and housing for the new immigrants who will increase our population by one third. The highly skilled workers operating within an internationalized economy will ensure that Israel can forge ahead successfully, again serving as a model to be emulated by other nations, especially with respect to its timely debt service record.

The Israeli experience clearly illustrates that tacking hyper-inflation should always be the first step toward full integration within the world economy. Since 1985, Israel has consistently and continuously been eliminating most of the restrictions and regulations which seriously hampered fast growth. The Government's intervention in the labor market, foreign exchange, imports, exports, capital market, and prices have all been minimized. The Government has also begun to phase itself out of the business sector, in the belief that free and uncontrolled economic activity serves the best interests of the nation.

Those fundamental changes in the Israeli economy have enabled us to absorb some 360,000 immigrants by now, with a total of one million expected to arrive by 1995.

At the same time, the efforts toward global disarmament and peace are both encouraging and exciting. Israel's interest in these efforts is particularly significant, as they are but a modern paraphrase of the words of the prophet Isaiah: "And they shall beat their swords into plowshares."

Israel hopes to contribute its share to these global efforts; The peace conference for the Middle East is designed to bring to an end all traditional hostilities and belligerency in our part of the world.

ITALY: GUIDO CARLI

Governor of the Fund

The new geopolitical order emerging from the extraordinary events that have taken place since our last meeting opens entirely new grounds for international cooperation. It will show new patterns, and it will reveal new needs, some of an unprecedented scale.

To fully develop these patterns, to accommodate these needs, sustained noninflationary growth in industrial countries remains a most important prerequisite. In the majority of them, economic recovery is visible, yet faint. The high levels of long-term interest rates inherited from the 1980s are an obstacle to economic recovery and stable growth in many countries. An internationally coordinated reduction is needed, and the necessary conditions should be created.

First, the process should be led by countries where the cyclical recovery is uncertain, or the risk of inflation is lower. Second, countries with excessive budget deficits, like Italy, should reduce their deficits in the short run and implement fiscal consolidation in the medium term. Monetary policy should continue to exert firm control on inflationary expectations. Third, all impediments to the growth of private saving and to the efficient functioning of capital markets should be removed.

The slowdown in world demand and trade has had its impact on the Italian economy. The decline in our growth has not yet run its course, but official projections remain moderately favorable for 1992, owing to the expected improvement in world demand and in domestic investment.

The lira is firmly established in the narrow band of the European Monetary System (EMS). The 1990s will witness Italy's participation in the European Monetary Union (EMU). Entry into the second and third stages of the EMU will require a continuing effort to converge with the best performing countries within the union, built on the pillars of price stability, sound public finance, and free and competitive markets.

At the present time, the persistence of inflation and interest rate differentials with respect to other partners of the EMS is impairing the competitiveness of our private sector. It is imperative that the budget deficit reduction and the incomes policy measures contained in the financial bill for 1992 be approved and implemented so as to reduce inflation and promote the stabilization of the debt-to-GDP ratio.

These Annual Meetings have marked the historical beginning of a new dialogue with the U.S.S.R. whose interim associate status we welcome. We

look forward to the U.S.S.R. achieving full membership in the Bretton Woods institutions. The establishment of this new relationship with a country which since the war has been out of the world's international financial organizations and which is undergoing a profound irreversible transformation, is a complex task. The Group of Seven will be accompanying the new U.S.S.R. during its dialogue with the international community and during its travel to the establishment of a market economy. The Group of Seven initiative will complement the action that the international financial institutions are already undertaking. It cannot be a substitute for the role that the individual governments will have on a bilateral basis. During the present extraordinary opening of the Soviet Union, we are fully conscious of our responsibility to provide support and advice in the field of economic policy. Effective economic policy can only follow from the new institutional setting with which only the Soviet people can endow themselves.

In the Eastern European countries, the breakdown of the intraregional trade agreements has added to a fall in output and the spread of unemployment. The expected reward of the courageous reform efforts of some of these countries became elusive at the very moment of its initial appearance. These countries have engaged in trade liberalization reforms in anticipation of an increased access to markets. Western countries should act accordingly.

Failure to successfully conclude the Uruguay Round would seriously challenge the progress made in recent years in the area of international economic relations and could even raise the risk of major setbacks in current commercial agreements or practices.

The primary objective of my country's economic policy is to limit the growth of public expenditure and to reduce the budgetary deficit. Nonetheless, we will continue to make every effort to deploy resources for development aid. In such a contingency, when the trade-offs with domestic uses of resources are stringent, all public expenditure decisions must be highly selective and be based on rigorously defined priorities.

This last year has revealed more clearly than any other time in the past the unprecedented scale of the financial efforts required from the industrial nations for the next decade. It has also revealed, in a world where few countries' current accounts and budgets are in surplus, the difficulty of undertaking these efforts. We believe that the time to think again of an increase in international liquidity through an SDR allocation has come. We also believe that this can be done in a noninflationary fashion, and we suggest that it should be studied anew by the IMF.

At a time when unprecedented forces tend to divide peoples, breaking pre-existing regional orders and creating new extraordinary needs, it is essential to reassure the developing world that this will not bring neglect or lower the commitment of industrial nations. Today, there is even greater scope than in the past for strengthening the leading role of the World Bank and the IMF by increasing their resources; this is in recognition that these

institutions, together with the newborn European Bank for Reconstruction and Development, are the place where all nations can formulate common economic strategies for the pursuit of the world's welfare.

JAPAN: YASUSHI MIENO

Alternate Governor of the Bank and the Fund

Before I begin my remarks today as the Alternate Governor for Japan, I would like to express my sincere gratitude to the government of Thailand for the marvelous job it has done in hosting these meetings.

I would also like to extend my heartfelt welcome to the Mongolian People's Republic as a new member of the World Bank and the IMF, and the Republic of Albania whose membership we have just voted for. At the same time, I would like to congratulate Mr. Preston on his appointment as President of the World Bank, and Mr. Camdessus on his reappointment as Managing Director of the IMF. Under their excellent leadership, I am sure that the World Bank and the IMF will continue to grow.

1. *The U.S.S.R.*

The political and economic transformations that began sweeping Eastern Europe in 1989 have spread further dramatically this year to the U.S.S.R. These changes have put an end to the Cold War and the stand-off between East and West, which is something that we can all welcome. In this time of momentous transition, it is very significant to those of us who are responsible for the management of fiscal and monetary policies all over the world to exchange our views on the new challenges that face the world economy at this meeting.

I find it most gratifying that a series of recent developments in the U.S.S.R. has paved the way for democracy and economic reform. I feel that it is vital for us to assist the U.S.S.R. in becoming integrated with the market economies of the rest of the world. In particular, appropriate emergency assistance is necessary to tide it over the current difficulties in order to maintain the current momentum.

On October 8, we announced that Japan was prepared to provide the U.S.S.R. with humanitarian assistance in the form of a Japan Export-Import Bank loan of up to $500 million to alleviate its shortage of food and medicine. In addition to this, we decided to extend export credits and guarantees amounting to around $2 billion to facilitate troubled trade and economic activities in the U.S.S.R.

Obviously, it will be vital to the U.S.S.R. that the World Bank, the IMF, the EBRD, and other international institutions provide technical assistance and coordinate their activities as the Soviets formulate and implement reforms to establish a market economy. We therefore welcome the Special

Association that was recently established with the IMF and the Trust Fund for the U.S.S.R. set up in the World Bank as these will allow even further provision of such assistance.

Japan on its own is also prepared to provide significant technical assistance to the U.S.S.R. and other countries that are trying to make the transition to market economies.

2. *The World Economy*

I would now like to turn to the world economic outlook and the Japanese economy.

The economies of the major industrial countries are, on the whole, expanding. To solidify this trend, the industrial countries will need to pursue further the economic path of sustained, noninflationary growth in a medium-term context. This means that they will have to adopt fiscal and monetary policies that provide the basis for such a path. For this purpose, we feel it is of the utmost importance that industrial nations continue policy coordination among themselves, reflecting the differing situations in each country.

Also essential for the steady development of the world economy will be the stabilization of the relationship between the currencies of Japan, the United States, and the European Community. It is commendable that close cooperation among the major industrial countries in the exchange markets has made significant contribution to the stabilization of currency movements.

Furthermore, it is vital to the solid foundation of global economic development that we maintain and enhance the multilateral free trade system. Therefore, each and every one of us needs to cooperate more fully to bring about a successful conclusion to the Uruguay Round before the end of 1991.

The growth rate of the Japanese economy is not as high as it was in previous years and is decelerating. However, solid, self-sustained growth continues overall. We expect Japan to sustain the steady expansion led by domestic demand in the future.

Since 1986, the Japanese current account surplus has declined steadily. The large appreciation of the yen after the Plaza Accord was a major factor, though the Government's efforts to pursue policies aimed at growth led by domestic demand also contributed to the process. Nevertheless, Japan, while running a surplus on its current account, is making ongoing efforts to improve access to its markets and is giving its fullest consideration to providing development funds to developing countries.

3. *The Global Capital Shortage*

I would next like to turn to the global capital shortage issue.

Developing countries still need large sums of funds for development purposes, and moreover, there is additional demand for financial resources now

expected from the unification of Germany, economic reforms in former centrally planned economies, and postwar reconstruction in the Gulf. But while the demand for investment is high around the world, global savings growth is stagnant.

The international supply and demand for funds is thus becoming tighter, and we need to enhance savings around the world. First and foremost, we urge that countries with budget deficits, especially some of the major industrial countries, make every effort to cut their deficits, as this is one policy that can be adopted by governments individually.

Furthermore, we need to recognize the importance of providing sufficient funds for tangible investments that will help the real economy to grow in the future. To this end, all countries in the world will need to hold down nonproductive public expenditure, especially excessive military spending, and make more of an effort to spend public money on increasing productivity and welfare.

Due to the global capital shortage, the World Bank and the IMF, which supply member countries with needed funds, will take on an increasingly important role. We should also note that their funds work as a catalyst for other funds from those able to provide it, while inducing the improvement of the economic fundamentals of the recipient countries over the middle and long term. . . .

4. *Future Development Strategies*

I would next like to outline Japan's basic thinking on future development strategies.

(1) Private Sector Development

First and foremost, we believe that the emphasis in future development strategies must be on the role of the private sector. Not only in the U.S.S.R. and Eastern Europe but also in other developing countries, it is essential to create efficient and competitive market economies, and more especially, to develop the private sector, which is at the core of such economies.

In this respect, direct investment from abroad and support from international institutions will play a significant role.

Vigorous efforts should be made to increase the flow of direct investment which will enable the transfer of technology and know-how to developing countries and improve the efficiency of the private sector as a whole through market competition. Developing countries will need to create the kind of environment that is appealing to investors, and industrial countries should try to assist them, for example, by providing financial support for their infrastructure programs.

I would also expect international institutions to continue to play an important role in private sector development. Japan is making a substantial contribution to the World Bank's Policy and Human Resource Development

Fund, which has been set up to provide monetary support for the Bank's technical cooperation programs aimed at improving the investment environment and helping privatization of the public sector in developing countries. We intend to strengthen this support in the future. The International Finance Corporation, which makes loans and investments to private corporations in developing countries, has proposed a capital increase of $1 billion. I would like this proposal to go into effect as early as possible. Japan is also planning to be an active member of the proposed Multilateral Investment Fund that is under discussion as a vehicle for promoting private investment in the Latin American region.

(2) The Debt Issue

My second topic regarding development strategy is the debt issue. In order to reach a fundamental solution to this problem, it is essential that debtor countries reach agreements with the World Bank, the IMF, and other international financial institutions on programs for economic structural adjustment and put all their energies into rebuilding their economies.

On our part, Japan is prepared to continue its strong support for all countries that will act to have confidence in their economic management restored through disciplined economic policies and debt restructuring under the strengthened debt initiative.

We also expect the International Development Association to play a major role in supplying funds to low-income countries that find it difficult to secure money on their own. Japan welcomes the initiation of discussions on IDA's Tenth Replenishment. We do, however, find it hard to be overly optimistic about the outcome of these discussions, given the fiscal difficulties faced by many of the donor countries. On the allocation of IDA resources, Asia should be given as much consideration as sub-Saharan Africa.

Finally, I believe that the issue of official debt reduction should be approached with great caution, since the reduction would discourage debtor countries that are now faithfully repaying their borrowings to continue doing so and prevent developing countries from attracting new money.

(3) Development and the Environment

The third topic I would like to address is the importance of environmental issues in economic development.

First, there is the problem of pollution within developing countries. Environmental problems first came to light in Japan in the 1960s, and, since that time, the government and private sectors have worked together to make significant improvements. Our experience leads us to believe that the most effective way to deal with the problem is not to depend on government expenditure but to enforce strict regulations and the "polluter pays" principle so as to internalize the external diseconomies involved. We also believe it continues to be the responsibility of the international development institutions involved to carefully assess environmental impact before approving new loans for development.

An important element in future development strategies will be the worldwide efforts to solve global environmental issues, such as global warming and ozone depletion. I therefore welcome the establishment in May this year of the Global Environment Facility that will act as a comprehensive funding mechanism for issues relating to the protection of the world's environment.

In this connection, I would like to note that Japan has also been making efforts to expand and enhance its official development and technical assistance in this domain, utilizing its know-how and experience.

5. *The Asian Experience*

Our meeting here in Bangkok marks the first time in six years that the World Bank and IMF Governors have gathered in Asia. I would therefore like to talk for a moment on the Asian experience.

Asia has achieved such remarkable economic development that the past ten years have been called the "decade of the Asian economic miracle." As a dynamo for world economic growth, Asia has now taken on a role of great significance in the development of the world economy as a whole.

As I noted earlier, true economic growth is only achieved by encouraging the private sector in order to cultivate entrepreneurship and improve productivity. But I would like to point out that it is also necessary for the government to complement the market mechanism and create the kind of environment in which free markets can function effectively. The countries of Asia are an example of how this can be accomplished.

To be more specific, the role of the government should be: (1) to set goals for the middle and long term as an indicator for the private sector; (2) to manage economic policy appropriately with particular emphasis being placed on the implementation of disciplined fiscal policies, prudent monetary policies, and responsible foreign exchange policies; (3) to take the initiative in promoting education, human resources development, and scientific and technical research; and (4) to encourage national savings and construct a financial system able to put savings to work in productive investments effectively.

Experience in Asia has shown that although development strategies require a healthy respect for market mechanisms, the role of the government cannot be forgotten. I would like to see the World Bank and the IMF take the lead in a wide-ranging study that would define the theoretical underpinnings of this approach and clarify the areas in which it can be successfully applied to other parts of the globe. I also hope that the fruit of such a study will be applied extensively to development strategies. We are committed to support such a study and its application.

The fact that the Governors are meeting here in Bangkok provides us with an opportunity to rethink the development strategies being adopted by our various countries in light of the Asian experience.

6. *Conclusion*

We have now entered an era when the world sees a free economy unfolding on a truly global scale. But this world needs to pool its wisdom if all its people are to develop economically. It needs a strengthened international economic order led by the World Bank and the IMF.

In this time of historical transition, Japan is committed to play a more important role as a member of the World Bank and the IMF, providing greater human resources and assisting in the formulation, adoption, and implementation of policy.

KOREA: YONG-MAN RHEE

Governor of the Bank and the Fund

I am very pleased and honored to participate in the Forty-Sixth Annual Meetings of the World Bank and the International Monetary Fund. My deepest gratitude goes to our hosts in this charming city of Bangkok for their warm hospitality.

I would like to welcome the delegations representing our two newest members, Mongolia and Albania, as well as the guests from countries which have applied for membership.

I join my fellow Governors in congratulating Mr. Lewis T. Preston on his first Annual Meetings as the President of the World Bank. I am confident that his broad experience and outstanding leadership will further enhance the role and functions of the Bank.

Liberalization and Internationalization Policy

At this time, I would like to briefly touch upon the current state of the Korean economy and its policy direction.

A relatively high growth rate is anticipated again this year for the Korean economy. But adjustments need to be made to sustain stable and balanced growth. Since growth is fueled mostly by soaring domestic demand in private consumption and construction, it is resulting in price instability and greatly widened balance of payments deficits, among others.

To correct these, the Korean government is strengthening aggregate demand management, encouraging savings, and seeking to bolster industrial competitiveness. Despite recent unfavorable economic developments, including balance of payments deficits, in keeping with the world economy's free market order, the Korean government is continuing to pursue trade, foreign exchange, and financial liberalization, such as interest rate deregulation.

At the same time, Korea is making rapid progress in internationalizing and opening up all sectors of its economy. Starting next year, for example, foreigners will be able to invest directly in Korean stocks.

Significantly, Korea has reached a stage where graduation from World Bank lending by the mid-1990s is within reach. A large part of Korea's remarkable growth is attributable to World Bank loans and policy recommendations, and I express my deep gratitude on behalf of the Korean people.

With its accumulated development experience and enhanced economic capacity, Korea will in the coming years strive to carry out its role and responsibility in the international community to the fullest.

In this connection, Korea recently expanded its technical and resource assistance to developing countries through the Economic Development Cooperation Fund and the newly established Korea International Cooperation Agency. Korea is also actively involved in the Uruguay Round negotiations, contributing toward its successful conclusion.

Tasks Facing the World Economy

The world economy has become more interdependent than ever, whether among nations or among regions. It is in the middle of a transition, with the German reunification, ongoing EC integration, and the Soviet and Eastern European shift toward the market economic system.

The international community faces many tasks that need to be overcome before a new world economic order based on free market principles can be consolidated, and balanced and sustained growth secured for the remainder of the decade.

Of the many tasks, I feel that those deserving the most immediate attention include strengthening international cooperation, reversing the trend toward new protectionism and regionalism, eliminating exclusive controls over technology, and supporting the reform efforts of the Soviet Union and Eastern Europe.

No doubt, all countries involved would have to fulfill their due roles and responsibilities in realizing the aforementioned goals. In particular, increased support from developed countries, which collectively lead the world economy, will be needed more than ever before.

For their part, the developed countries should work to achieve closer coordination of their respective policies, eschewing pursuit of narrow national interests, as well as foster pragmatic cooperative relationships with developing countries.

It should not be overlooked that, ever since the 1980s, developing countries have faithfully pursued structural adjustments and market opening with a view to promoting free trade despite the many obstacles they faced.

The cycle of poverty and the debt problem can be eradicated at their roots only when the efforts of developing countries result in sustained, healthy economic growth. Developing countries cannot do this alone—active assistance from developed countries is absolutely necessary to ensure the success of this process.

Cooperation from developed countries is particularly sought in two key areas: the lowering of various protectionist and nontariff barriers, and the promotion of fair trade, whereby the culture and tradition of a developing country is taken into consideration, along with its economic level.

Developed countries must also recognize that developing countries are pursuing liberalization agendas suited to their respective economic capacities. Increased access to and active transfer of new technologies are also central to assisting the economic advancement of developing countries.

In addition, if the Soviet Union and the Eastern European countries are to join the ranks of market economies through orderly and sustained economic reforms, external financial and technical assistance to the region should be increased.

I welcome the applications of the Soviet Union and the three Baltic states of Estonia, Latvia, and Lithuania to the World Bank and the International Monetary Fund.

Korea also welcomes and will support North Korea's participation in these institutions in the future. Korea remains hopeful that North Korea will soon equip itself with the necessary prerequisites for joining the Bank and the Fund, and is willing to assist North Korea in the process.

Policy Direction of the Bank and the Fund

I would like at this time to praise the efforts and achievements of the Bank and the Fund in promoting balanced growth for the world economy. I highly commend ex-President Conable, President Preston, Managing Director Camdessus, and their staffs for their hard work and untiring efforts.

The two institutions are responsible for maintaining order in international financial markets and supporting developing countries that are suffering from chronic poverty and mounting foreign debt, while at the same time stepping up assistance for the Soviet and Eastern European reform efforts.

The task remains for the Bank to promote the efficient allocation of limited resources by cooperating closely with the various development institutions, while the Fund should enhance the effectiveness of its policy recommendations to developed countries by strengthening its surveillance and coordination functions.

Closing Comments

We are witnessing the opening of a new chapter in the history of the Bretton Woods institutions. The growing interdependence and integration of the world economy, in addition to the entry of the Eastern European countries, have presented the Bank and the Fund with new responsibilities.

There exists only one path leading to the enhanced role of the Bank and the Fund in achieving balanced and sustained world economic development. And that is by pursuing closer cooperation among the developed countries

and between the developed and the developing countries within the Bretton Woods institutions. If the outstanding records of the two institutions are any indication, I am confident of their ability to meet the emerging challenges of today and tomorrow.

KUWAIT: SALEM ABDULAZIZ AL-SABAH

Alternate Governor of the Fund

Last year, at this time, Kuwait was under occupation of the brutal Iraqi regime. Now with the help of God Kuwait is free and under its sovereign and legitimate government, no words can express the gratitude of the Kuwaiti people to the international community that stood united against the aggression and to the international coalition forces who risked and sacrificed their lives to see Kuwait free again.

As I speak, over 2,000 Kuwaiti men, women, and children remain in Iraqi jails or are missing. A cloud of smoke from the oil fires hovers over Kuwait, the Gulf, and neighboring countries and poses one of the world's worst environmental disasters. Thousands of families from different parts of the world remain displaced and suffer from the loss of their property. Many parts of Kuwait remain inaccessible because of mines and ammunition left behind by the Iraqi forces. As Kuwaitis begin to face the depth and magnitude of the economic, social, and psychological damage caused by the Iraqi invasion, we join the international community in hoping that the reduction of international and regional tensions would allow us all, the industrial and developing countries, to reduce arms expenditure and devote more of our resources toward the betterment of mankind. Let me assure you of our strong commitment to the international community and the multilateral institutions that we have built together.

The reconstruction of Kuwait is expected to take a few years. Losses to our infrastructure and domestic assets are expected to be in the tens of billions of dollars. In the oil sector, there was severe damage to the infrastructure which has substantially decreased our oil revenues. With respect to the oil well fires, we expect all fires to be put out, at the latest by the first quarter of next year.

Present production of crude is 260,000 barrels a day. This will rise to 400,000 barrels a day by year end and we hope to produce 800,000 barrels a day by June 1992, well below our previous capacity of 2 million barrels a day. Despite the damage, oil exports commenced in July, and we will be working to re-establish our previous position in the international markets. The Kuwait Petroleum Corporation will also continue its investments in emerging markets, which recently include a network of service stations in our host country, Thailand, and in Hungary.

The restoration of oil production, storage, refining, and export capability is critical to the restoration of oil revenues and meeting reconstruction and

development needs. Meantime, in addition to subsistence expenses for Kuwaitis during the occupation and immediate reconstruction requirements, we have so far managed to meet $23 billion of commitments for the international coalition operation costs and for economic aid from investment reserves. Our investment policy remains one of long-term diversification in the major capital markets, and we will continue to hold our core investments. To meet our short-term financial needs, the Kuwait Government will be borrowing foreign currencies in the international financial markets.

The borrowing instruments are expected to include syndicated loans, export credits, and other credit instruments. Over the medium term, the borrowing program will also be supplemented with actions to rationalize expenditure. The objective will remain to restructure the economy toward greater efficiency and a larger role for the private sector.

The role of the Central Bank of Kuwait and our financial institutions has been critical to the start-up of the economy. The banks, which continued during the occupation to honor their foreign obligations, were well prepared to reopen after liberation. Pursuant to an action plan prepared during this period, the notes previously in circulation, a large stock of which was looted by the Iraqi occupation forces, were replaced by a new issue immediately after liberation. Temporary restrictions aimed at fighting an expected surge in inflation and allowing for the banks to reorganize their services were placed on withdrawals from the banks and in transfers into foreign currency, with exceptions for economic activities and humanitarian cases. Toward last August, all restrictions were lifted.

The Central Bank's monetary policy during reconstruction continues to aim at controlling inflation and preparing the environment for stable growth. Toward this goal, the exchange rate for the Kuwaiti dinar after liberation has been based, as before the occupation, on a basket of currencies of our major trade and financial partners. The interest rate on the Kuwaiti dinar is in line with international interest rates.

The Central Bank has also been addressing the problems facing our banking system as a result of the destruction and plunder of private sector assets. The Central Bank of Kuwait is studying a program aimed at cleaning up the balance sheets of the banks' difficult loans. This is also expected to be an opportunity for restructuring and consolidating the banking system. The Government continues to guarantee all depositors' rights with Kuwaiti banks.

The invasion of Kuwait precipitated a severe economic crisis in many countries. The international community responded quickly to President Bush's initiative to form the Gulf Crisis Financial Coordination Group, and the Bank and the Fund provided critical technical support and accelerated their programs of assistance to the countries affected by the crisis. Kuwait committed close to $5 billion to seven countries most immediately affected by the crisis. The multilateral institutions now need to address some longer-

term structural changes in interregional trade and capital flows. As many Arab countries restructure their economies to adjust to the effects of the crisis and a rapidly changing and competitive international environment, there is a unique opportunity for regional cooperation on resource flows, trade, and private sector activity. In this respect, Kuwait has agreed to set up holding companies with a capitalization of $500 million in Egypt and $200 million in the Syrian Arab Republic for commercial investments.

Besides direct government assistance, the Kuwait Fund for Arab Economic Development continued its concessional aid program even during the invasion. Eleven loans and four technical assistance grants totaling the equivalent of $405 million were extended during the period. Despite the difficulties of recreating its books from temporary headquarters, project evaluation, follow-ups, commitments, and disbursements were on schedule. As part of His Highness the Amir's initiative to alleviate the debt burden of the developing countries, $42 million of interest on Kuwait Fund loans was waived to benefit seven Arab countries, 24 African countries, and 12 Asian countries. We will also be looking at ways to alleviate the burden of repayment on the poorest countries on a case-by-case basis. In this respect, we welcome the recent Group of Seven agreement for additional relief to the poorest, most indebted countries beyond the Toronto terms.

The Kuwait Fund was instrumental during the crisis in responding to the needs of the countries most immediately affected with grass-roots oriented projects and quick-disbursing loans. Total Kuwait Fund commitments, since its formation, reached a level of $6 billion, benefiting 65 developing countries.

Kuwait participated in the Sixth Replenishment of the African Development Fund with an amount of $100 million as pledged, which is equivalent to ten times our share. Kuwait also contributed $20 million to the Special Program of Assistance to Africa. We also supported the capital increases in the Bank and IFC and doubled our contribution to IDA-9. In this respect, we support an increase of IDA-10 to reflect the increasing needs of the least developed countries and will continue through the Kuwait Fund to work closely with the multilateral and bilateral development institutions. Additionally, the government of Kuwait is supporting the IMF Ninth General Review of Quotas.

We would like to take this opportunity to convey our special gratitude to the financial authorities in the many countries that protected Kuwaiti investments from falling into the hands of the Iraqi regime and to the financial community that supported Kuwaiti institutions as they began operations from temporary headquarters outside Kuwait.

Our special gratitude also to His Majesty the King, the Government, and the people of Thailand for their gracious hospitality in their beautiful country.

LAO PEOPLE'S DEMOCRATIC REPUBLIC: KHAMPHOUT KEOBOUALAPHA

Governor of the Bank

It is an honor and a great pleasure for me to represent the government of the Lao People's Democratic Republic at these Annual Meetings of the World Bank and the International Monetary Fund in Bangkok. I welcome Mr. Lewis Preston as the President of the World Bank and congratulate him on his taking office. I also wish to congratulate Mr. Michel Camdessus on his extension as Managing Director of the IMF for five more years from January 1992. I extend a warm welcome to the delegations of new member countries.

On behalf of the Lao government, I wish to thank the two institutions and the Thai Government and people, for the excellent arrangements made to ensure the success of these meetings.

Following the creation of the Lao People's Democratic Republic, all the Government and people wanted was peace and security and the development of the economy for the ultimate prosperity of all. Since 1985, we have been implementing our New Economic Mechanism, changing, step by step, from a subsistence economy to one based on goods and services—a market economy, opened up to the outside world, giving encouragement to all sectors of the economy. The new mechanism is clearly successful as witnessed by the progress already achieved in the country. The integrity of the policy is consistent; socioeconomic progress is steady; and living conditions improve continuously.

Our success owes a great deal to assistance from abroad, from international organizations, including the tremendous and efficient support of the World Bank and the IMF. At this time, I should express many special thanks to the World Bank and the IMF, their experts, and their staff who continue to support us.

However, we still face many difficulties owing to our small economic base; the most serious are our lack of capital, of technical know-how, and of management experience. The current state of our development and the present constraints limit our ability to use our rich resources to their fullest.

In the next five years, the Lao People's Democratic Republic will firmly encourage the production of goods for local consumption and for export, enhancing international relations and cooperation. We shall develop agriculture and forestry for further industrial processing and for trade, and we will endeavor to solve the problems of sectoral growth. We wish to promote mining and hydropower generation for the full exploitation of our hidden resources. We will struggle to develop our national economy at a 5 percent annual growth rate from 1992 onward.

In order to achieve this success, we must call upon vast amounts of capital and technology from abroad. We need the strong help and support of

friendly countries and international organizations, including the World Bank and the IMF.

Our Government steadfastly supports the World Bank and IMF strategies toward the developing countries, especially those that give priority to the development of human resources and economic growth corresponding to the needs and conditions of member countries.

I conclude with my sincere good wishes for a fruitful outcome to these Annual Meetings.

MALAYSIA: ANWAR IBRAHIM

Governor of the Bank

We have in recent years witnessed the unfolding of some momentous events that will have far-reaching repercussions on the global economy. However, we must not delude ourselves into thinking that the impetus and pace of these changes alone will lead to a new world order. The major predicament of the past—the scourge of poverty, illiteracy, disease, and social decay—is yet to be resolved.

The strategy of development of the past was founded on using financial flows to stimulate economic growth and development in the less-developed countries. But the results have been variable at best, and at times counter-productive. Real wealth creation continues to defy our stated intent that the flow must be from the rich to the poor. On the contrary, what is happening now is that the net flow of resources is from the poor to the rich.

Developing countries need more substantial inflows of financial resources for development. With limited resources, developing countries will have to compete not only with other developing countries but also with new claims on global financial resources. It is doubtful that the 1990 increase in official development assistance can be sustained to cater to the ever-increasing need for resources.

The political and economic transformation in Eastern Europe and the U.S.S.R., as well as the reconstruction of economies affected by the Gulf war, have brought urgent demands for resources. While supporting these new claims for international resource flows, we must never allow them to be reduced to meet the needs of particularly the poorest of the developing countries.

The debt problem of developing countries continues to be a matter of serious concern. The resolution of the problem has not progressed much since the crisis began in 1982, although the international debt strategy has evolved considerably in recent years. The present debt relief provided by the Paris Club does not offer a satisfactory solution to a number of the poorest countries. Further progress in extending debt relief is necessary, as proposed in the Trinidad and Tobago terms and endorsed in the recent Group of Seven London summit. Malaysia feels strongly that the initiative

provided to Poland and Egypt should be similarly extended to low- and middle-income, severely indebted countries that are undertaking adjustment. A two-tier solution that discriminates against the poorest and hardest hit is not consistent with the pronouncements of the new order.

In recent years, new and fresh obstacles have been laid in the way of the free flow of trade. The immediate priority to sustain an open and a competitive system of trade is to bring the Uruguay Round to a successful conclusion. The developed nations need to seek a pragmatic solution to the issue and allow competition to flourish through market forces and not through subsidization of inefficient industries. Unless the logic of the free market is applied by the powerful, we cannot deflect the dangers of protectionism and inward-looking regionalism.

The development priorities of the Bank, i.e., the achievement of sustainable economic growth and the reduction of poverty as well as the protection of the environment, are most appropriate. Indeed we applaud the Bank's view that development and the alleviation of poverty of the human race is the most important challenge facing the human race. Steady and significant growth in the OECD countries is a prerequisite for global economic expansion. We believe the present stance of cautious but not unduly restrictive monetary policies in the industrial countries is a positive step toward this direction.

Developing countries must, of course, on their own, undertake appropriate adjustments, deregulation, and privatization to facilitate the process of sustainable development. However, it is obvious that, for the developing countries, synergizing local initiative and domestic savings alone is inadequate. Self-help can work only with the right conjunction between local imperatives and the global order. The recent announcement by the United States about unilateral arms reduction, coupled with the end of the Cold War, should rightly bring about a huge peace dividend, which should be translated into the much-needed development assistance that the poorest of the developing countries are seeking.

In assisting developing countries, the Bank should maintain a proper balance between nonlending services and project financing in order to ensure that its traditional activities in project financing are not neglected. It is heartening therefore to note that for the coming fiscal year the Bank is budgeting a lending program increase of 5.9 percent for IBRD and an increase of 14 percent for IDA, with project and sector investment lending expected to remain the dominant lending instruments. It is also noteworthy that, for the first time in fiscal 1990, lending for education topped the $1 billion mark.

The strengthening of the Bank's efforts to encourage private sector development as part of the overall development strategy of the Bank, together with the $1 billion capital increase for IFC, has to be duly applauded.

The establishment of the Global Environment Facility (GEF) is definitely welcomed. However, the GEF is concerned only with four aspects of environmental control, i.e., the protection of the ozone layer, the limiting of emissions of greenhouse gases, the protection of biodiversity, and the protection of international waters. There are also other pressing environmental issues—the supply of adequate freshwater, the development of sewerage and sewerage treatment systems for the urban poor, and the protection of island, coastal, and marine waters that support 70 percent of the world's population—which seem to have taken a back seat, but which are ultimately associated with the international environment. As the Bank is concerned with both development and the environment, it should look into the possibility of financing these other areas of the environment.

It is a matter of concern that we now see the trend toward the imposition of new conditions that are totally unconnected with trade. It would seem that the standard of what constitutes an acceptable and adequate approach to development is now higher for Third World countries compared to presently developed countries when they were at a comparable level of development. We must realize that common rules and aspirations can work only when they are adapted to the dynamics of specific problems and to the realities of the specific countries and their varying needs. The complexity of our interdependent world demands a genuinely democratic global response. We must also take into account the impact of domestic economic policies on development and the social cost of its policies when applied to specific countries.

The decade of the 1990s presents tremendous opportunities for the world and challenges to the Bretton Woods institutions. The increasing appreciation of the positive role of market forces, the pluralistic political structure, and the environment require a new approach in international cooperation. While developing countries must persevere to create an appropriate macroframework, the developed countries must simultaneously cooperate in providing a suitable international environment that will serve the purpose of both the developed and developing countries.

These opportunities and problems will make very strong demands on our tenacity and commitment to implement difficult adjustment policies, translating noble sentiments into tangible actions.

MALI: BASSARY TOURE

Governor of the Fund

Let me first of all express on behalf of the Malian delegation, which I have the honor to lead, my sincere thanks to the authorities and people of Thailand for their hospitality. I would next like to offer my warm

congratulations to you, Mr. Chairman, on the confidence that the entire international financial community has placed in you to conduct our work.

Let me pay tribute to Mr. Conable's wise and farsighted leadership of the World Bank Group; he became president at a time when the international economic situation was both uncertain and difficult. I would also like to wish every success to his successor, Mr. Lewis T. Preston, whose immense experience will be most valuable for the attainment of the noble aims of our institution.

Let me also warmly congratulate Mr. Michel Camdessus on being re-elected Managing Director of the IMF.

Like previous speakers, I too want to take this opportunity to welcome the new members of our institution. I am sure they will help to strengthen the ideal that has always inspired it, namely, international cooperation in a context of solidarity and peace.

I do not intend to discuss the major issues that have preoccupied the international community in recent times and that have already been expounded by more authoritative voices than mine, but rather to inform you of developments in the economic, political, and social situation in Mali since our last meeting and of the new prospects for democratic renewal.

As you know, the Malian people made major sacrifices at the beginning of 1991 to restore freedom, democracy, and economic and social progress to our country. The scope and originality of this triumph gained for Mali the sympathy and esteem of all the nations in the world who are attached to peace and justice.

This is the occasion for me to thank on behalf of the Government of Mali all those friendly countries and humanitarian organizations that provided moral and material support to the people of Mali during their struggle to restore a democratic regime. When basic liberties have been stifled for a long period they are bound to be reasserted with greater force, and sometimes, unfortunately, with violence. The restoration of liberty in Mali was no exception to this rule.

In March 1991, Mali experienced a social eruption as a result of the people's desire for a pluralist democratic system. A Transitional Committee for the Salvation of the People, made up of representatives of all shades of political opinion, is now governing the country until new democratic institutions are established.

The government of Mali that has taken charge since the democratic revolution is faced by an enormous task which it will perform until the end of the transition period; power will be transferred to democratically elected political institutions at the start of next year.

The starting point for this process was the national conference held from July 29 to August 12, 1991. This national conference, considered by many to have been a success, laid the legal foundations for the new republic, specifically by preparing a draft constitution, to be voted in a referendum,

a draft electoral code, and a draft political party charter. The draft constitution already provides a satisfactory framework for the expression of the various political tendencies and the growth of a free, private, and independent press.

The Government is well aware of the scale of the difficulties facing it, which were aggravated by the riots last March. Their immediate consequence was the destruction of a large part of Mali's industrial and commercial base and the ransacking across the country of many offices vital to the management and implementation of the reform program (Treasury, Customs, Civil Service, etc.). The economic losses are provisionally estimated at CFAF 30 billion. At the same time socioprofessional demands have exploded, further weakening a very shaky economy.

Despite the legitimacy of these demands (for higher wages and scholarships, better health services, and housing, etc.), the Government cannot accommodate them without endangering the economic and financial adjustment process launched with the support of the Bretton Woods institutions.

The Government is determined to firmly control the unfortunate consequences of the disturbances, restore the state's authority, and re-establish a climate of confidence before the end of 1991. The Government is also committed to pursuing the reform program supported by the World Bank and a number of partners within a macroeconomic framework agreed with the IMF, in order to help Mali achieve sound and sustained economic growth in an environment of domestic and external financial stability.

Constructing a democratic state in a poor country is a hard task which can only be accomplished with the active support of the international community. Since domestic resources are insufficient, our new difficulties force us to request external financial assistance, both multilateral and bilateral, on a much larger scale than before.

Financial missions from France, the World Bank and the IMF have examined the budgetary consequences of the events already mentioned. An appropriate macroeconomic framework and a range of sector measures were discussed with the ministers involved in the adjustment program during the joint IMF-World Bank mission in May 1991.

With the support of the Bretton Woods institutions and assistance from France, a meeting of the friends of Mali was held in Paris on July 3, 1991. Its purpose was to establish a consistent macroeconomic framework for government actions and to obtain confirmation from these partners of their commitments, as well as additional assistance to cover the expenses of reconstruction and the financing gap in the state's financial operations.

The results of these meetings were very satisfactory, in that the international community, supporting the efforts made by the Government, agreed to mobilize additional resources beyond the identified financial needs, thereby enabling the democratic process to continue.

The provisional data available on September 30, 1991 indicate that the government of Mali is fulfilling all its commitments to its development partners.

In economic terms, program results have been satisfactory. Budget receipts have reached the desired level and all external debt commitments have been honored. Likewise, obligations to the private sector have been fulfilled and the state's debt to the banking system has been kept within reasonable limits to maintain macroeconomic equilibrium.

A range of structural measures has been implemented, involving the enhancement of the regulatory framework, the downsizing and rationalization of the public sector, a voluntary retirement program for civil servants, and the introduction of price deregulation. The government of Mali is convinced that only the establishment of broad economic cooperative arrangements can provide the basis for viable economic development in the medium term.

Mali will continue its policy of vigorous subregional cooperation. My country will work actively with the partners with whom it already shares a number of common institutions for West African integration. Standing at the crossroads of civilizations in sub-Saharan Africa, Mali's African policy is based on acting as a good neighbor and on the geopolitical equilibrium of the entire zone. Our consistent approach on this issue has earned us the esteem and support of the international community.

Meanwhile, the government of Mali, in establishing a democratic regime, is working to maintain the principles of rigor, transparency, and empowerment in the management of public affairs. The rule of law, in which basic human liberties will be guaranteed by the constitution, is now becoming a reality. It is in the name of these same principles, recommended by the national conference and which we reaffirm, that the program with the IMF will be continued by the institutions of the Third Republic.

MALTA: GEORGE BONELLO DU PUIS

Governor of the Bank

It gives me great pleasure to address the Forty-Sixth Annual Meetings of the World Bank and the International Monetary Fund on behalf of my country. Permit me first of all to express my delegation's sincere gratitude to the Government of Thailand as well as the authorities of this beautiful city of Bangkok for their excellent arrangements and their generous hospitality.

I am happy to associate myself with other distinguished speakers in extending a warm welcome to Mr. Lewis T. Preston, the new President of the World Bank. At the same time I would also like to congratulate Mr. Michel Camdessus on his reappointment as Managing Director of the Fund. I am sure that he will continue to provide the Fund with effective leadership at a

time of fundamental change in the world economy. It is also a pleasure to welcome Mongolia and Albania as new members and the U.S.S.R. as an associate member of the Fund. The widening membership of the Bretton Woods institutions bears witness to the increasing solidarity among nations as well as to the determination of many countries to transform their economies and integrate them into the international system.

While prospects for international economic cooperation are indeed brighter as a result of these developments, the current outlook for world economic activity and trade is less encouraging. The world economy is still experiencing a significant slowdown, with the growth rate this year expected to be the lowest since 1982. World trade volume growth is also expected to slow substantially for the second year in succession. There is no doubt that the continuation of recessionary conditions in the industrial countries and uncertainty about the timing of a recovery are having a negative impact on the international economic environment at a time when a large number of developing countries are facing severe structural problems and a sharp contraction in output growth.

Small and open island economies like my own are also very vulnerable to adverse economic developments abroad. A sustained fall in the level of external demand has serious implications for our export sector. We, therefore, cannot but view with concern the uncertain economic outlook for the industrial countries especially where this concerns the European Community states, most of which are our major trading partners. We believe that given the progress achieved so far in controlling inflation, and favorable projections about international price movements, it may now be an appropriate time for industrial countries to review their fiscal and monetary stance with the aim of stimulating global demand.

A more favorable international climate is essential if countries at a less advanced stage of development are to be in a position to introduce the necessary market-oriented reforms. This can only come about if industrial countries enhance the economic policy coordination process in a way that promotes global sustainable growth. In this regard the Fund's role in overseeing macroeconomic policies should be made more effective, possibly by ensuring that Fund analyses of economic policies and performance in Group of Seven countries highlight more forcefully the impact of such policies on the rest of the world. The Fund may then be in a stronger position to exert persuasive pressure on the individual countries concerned to ensure that these implement corrective measures in the interests of the international community.

Global adjustment also implies that developing countries have an important role to play in enhancing the international economic environment. They should strive to create a favorable domestic climate of adopting prudent macroeconomic policies and introducing meaningful structural reforms. There are clear signs that many developing countries have recognized the

benefits of such an approach and have started to implement market-oriented policies that emphasize the important role of the private sector as the main generator of economic development. In this context it is relevant to mention the added emphasis the World Bank is placing on private sector activities in developing countries. There is no doubt that as a result of this strengthened strategy the International Finance Corporation will be able to make a significant contribution to private sector investment in the developing world.

While my country is not yet a member of the IFC, we are pleased to observe a stepping up in IFC activities over the past year. We note with interest the diverse facilities provided by the Corporation, particularly financial assistance to small- and medium-size enterprises, equity funding in connection with the establishment of venture capital companies in developing countries, and advisory services that focus on capital market development.

On its part, the Maltese government is fully committed to the fundamental objective of creating a domestic environment more conducive to private sector participation. Over the past year we have continued to liberalize trade policy and reform our tax system. We have continued to restructure our financial institutions with the aim of encouraging more participation by the public in the share ownership of the commercial banks. A stock exchange has also been established and will commence operations at the beginning of next year.

As has been stated so effectively in this year's excellent World Development Report, the challenge of development is to get the state and the market to work in harness, the basis of their strategy being a "market-friendly" approach to development. The Maltese government firmly believes that the state should focus on areas where it can complement and support the private sector rather than supplant it in areas where it already operates efficiently. The Government in recent years has therefore invested its limited financial resources in the development of the physical infrastructure, the education and training of its human resources, and in health care and other social services.

Here I would like to draw attention to the fact that, relative to its size, Malta contributes substantially to IBRD financial resources, yet does not qualify for financial assistance on per capita income criteria. Unlike the industrial countries and also a number of newly industrializing countries, Malta's capacity to derive indirect benefits from membership by, for example, successfully bidding in international competition for World Bank contracts, is fairly limited given its small size. We therefore believe that small island economies that are net contributors to the Bank's resources should be eligible for some form of financial assistance as well as for technical assistance on more advantageous terms and conditions.

Without doubt a major problem facing developing countries is the scarcity of international financial flows. These have fallen sharply from the levels of

the early 1980s. Given the substantial needs of Eastern Europe and the U.S.S.R. there is a fear that unless resources are boosted substantially there could be a diversion of financial resources from other developing countries to the Eastern region. It is therefore obvious that additional resources will have to be mobilized. In this respect the ending of the Cold War offers an opportunity for both developed and developing countries to release funds previously directed to military expenditure for deployment in programs that contribute to economic development worldwide.

There are a number of other areas where concerted action could be taken to augment the level of capital flows. For instance, a first step would definitely be for OECD countries to increase their contributions of official development assistance so that the UN target of 0.7 percent of GNP is finally met. In the area of debt refinancing we would like to see the introduction of more effective forms of relief to alleviate the debt burden of the heavily indebted countries. The Brady initiative has been successful, but its application so far has been limited. For the low-income countries, the debt relief measures proposed by the United Kingdom at last year's Commonwealth Finance Minister's Meeting certainly improve on the Toronto terms package and should be endorsed by creditor countries.

Within this context it is pertinent to mention the active and constructive role that the Bretton Woods institutions continue to play in the debt strategy and in efforts to direct greater resources to developing countries. We note with satisfaction the Fund's decision late last year to widen the scope for use of the compensatory and contingency financing facility (CCFF) by the inclusion of an oil import element. While the decision was taken in response to the Gulf crisis, there is certainly a case for maintaining coverage of this element into the future, given the destabilizing impact that a sudden surge in oil prices can have on the balance of payments of fuel-importing developing countries.

Since a global shortage of capital implies that the rising demand on world savings will have to be met predominantly by official financing, it is imperative that the resources of the international financial institutions are augmented as soon as possible. Here it is preoccupying to observe that while approval for the IFC capital increase is expected to proceed smoothly, the procedures to make the Fund's Ninth General Review of Quotas effective by the end of this year still have not been completed by the necessary number of member countries. I am glad to say that my country has consented to the increase in its quota and has accepted the Third Amendment of the Articles of Agreement in accordance with its law.

At a time when the liquidity problems of the developing countries have become more acute, my country also feels that a fresh allocation of SDRs is warranted, particularly if it is accompanied by a redistribution linked to development needs. A fresh allocation is sure to contribute to a strengthening of the SDR's role as an international reserve asset.

There are many other important issues that need to be addressed at an international level. Trade policy developments are certainly high on the list. Although much progress has been achieved in recent years in expanding international trade, protectionist tendencies still persist in certain areas. There is, therefore, a pressing need to bring the Uruguay Round negotiations to a successful conclusion since the efforts of the developing countries to maintain growth and diversify their export products can only succeed if access to the markets of the industrial countries is improved.

The need for an open, multilateral trading system is paramount, but at the same time the potential benefits of regional integration cannot be ignored. Such benefits accrue all the more when the small size of an individual country may limit its economic efficiency and bargaining strength. I am pleased to say that the Maltese Government has long recognized the advantages of regional integration and this is evidenced by its decision last year to apply for membership in the European Community.

Global environmental conservation is another area of major concern to the international community, and both developed and developing countries have a duty to take the necessary measures to reverse environmental degradation. However, it should be recognized that the resources of developing countries to meet environmental protection costs are very limited. In this connection the Bank's active role in promoting environmental programs should be acknowledged, particularly its success in establishing, together with the specialized agencies of the UN, the Global Environment Facility. This facility will certainly be instrumental in assisting countries to develop cost-effective programs and projects which take into account the protection of the environment.

I am proud to say that my country is, in a small way, giving its full support to environmental conservation initiatives. During the past year it participated in the Mediterranean Technical Assistance Programme (METAP) launched by the Bank and the European Investment Bank to deal with the Mediterranean region's pressing environmental problems. It was also actively involved in the discussions of the Intergovernmental Panel on Climate Change and successfully initiated a UN resolution that sets in motion negotiations for a framework convention on global climate change.

Finally, on the important subject of women's contribution to economic development, I would briefly like to say that my government continues to encourage the participation of women at all levels of the economic development process. Earlier this year it passed legislation that renders discrimination on the grounds of sex a violation of fundamental rights and freedom of the individual. . . .

. . . I will conclude by reaffirming Malta's full support for the Bank and the Fund in their endeavors to fulfill their commitments and carry out their responsibilities in the interest of the global community.

MONGOLIA: DABAADORJIIN GANBOLD

Adviser to the Governors of the Bank and the Fund

It is a great honor for me to take the floor before the financial community of our world. It is the first time that the voice of my country has been heard at this forum, and, first of all, I would like to thank you on behalf of 2 million Mongols for the trust you have in us and for your support of our reforms.

Life has seen to it that we are making this first statement in Bangkok, and I would like to express our gratitude to the government of the Kingdom of Thailand for the best possible organization of the Annual Meetings.

The documents of last year's Annual Meetings include a statement made by distinguished Governor Vaclav Klaus from Czechoslovakia. On the example of his country he briefly, but very convincingly, described the situations in the countries of the former socialist bloc, the course of their reforms, and the difficulties and hardships they are encountering on the road toward market economies. Everything Mr. Klaus said applies 100 percent to Mongolia, the only difference being that Czechoslovakia was among the founders of the Bretton Woods institutions, whereas in Mongolia the idea of free market development had been strangled by the late 1920s, when there was neither the World Bank nor the IMF.

Alongside this, Mongolia has a host of specific political, economic, and social features that distinguish the country from the rest of the former COMECON members.

First, no COMECON country was so dependent on one market as was Mongolia: the Soviet Union accounted for 85 percent of our foreign economic relations and COMECON as a whole for 97 percent.

Second, it is rare that a country has been as isolated as Mongolia, not only from the seas but also from all major international routes. Our only immediate neighbors are the U.S.S.R. in the north and China in the south—the two powers with the greatest physical parameters in the world.

Third, for 300 years before its transition to socialism in the early 1920s, Mongolia had been one of the most backward countries in the world. Mongolia had an early feudal, natural economy, when a communist regime in its most rigid and most intolerant form installed itself in the country in 1924. This reign of totalitarianism with its economic analogue—central planning—lasted for the lifetimes of three generations, and this could not but leave deep imprints in every sphere of society. Not a single Eastern European country has such a background.

But these extremes of isolation and repression have only heightened the determination of today's generation for change. Already, we have established a multiparty political system, conducted the first democratic elections, formed a parliament in its true meaning, and instituted the Presidency.

In the eight months of our membership in the World Bank and the IMF, we have carried out, as we believe, a broad range of measures as part of our government program for transition to a market economy. We have liberalized almost all prices, the exchange rate, and our foreign trade, which is being diversified with fully tax-exempt exports. We are building a completely new banking system and carrying out privatization on a rather large scale. Our plan is to denationalize about two thirds of all industries and other projects in the next two to three years. New forms of macroeconomic relations are coming into being, with the system of centralized supply and distribution changing and a network of stock and commodity markets taking shape.

A great burden is being borne by our young parliament, since all emerging relations have to be legally consolidated. In a span of only one year we have devised and adopted more than 30 laws that regulate new economic relations.

All this work started merely a year ago and has tested our strength, because we began moving toward a market economy across a broad front. We lack qualified personnel, we lack experience, and, most of all, we lack time. However, we are deeply aware of the impossibility of any other choice for our country, which needs an entirely new system to place it on the road of normal, rational, and sustainable development.

Of course, we are running into a multiplicity of hard-to-tackle problems. But too much resignation and excessive compromising only prolong the agony of the old centralized system and hamper the earliest assertion of new relations. To overcome all the hardship, we, naturally, need bilateral and multilateral cooperation.

Today I can say confidently that Mongolia is completely open to new relationships and new ideas. This is evidenced by the successful Mongolian aid consultation meetings of the international donor community that took place recently in Tokyo and in Ulan Bator, the capital of our country. We gratefully note that the first one was organized by the World Bank and the Japanese government and the latter by the UNDP, both involving pleasingly large numbers of participants.

These meetings drew a common conclusion: that Mongolia is at a critical stage and would now benefit from large-scale aid, for it has every possibility and all the potential to become a productive partner in world economic relations in a short span of time.

Today we witness the birth of a new international order; people and governments are growing increasingly aware that cooperation and mutual assistance are the basis of worldwide progress. A favorable external environment is important for everyone, not the least for Mongolia, with its unique geopolitical location. We hope that our neighbor and traditional partner, the Soviet Union, will soon stand on its feet with the help of the world community. For Mongolia, it has always been like this: if things go

badly with our neighbors, we are also in trouble; if they are okay, we are okay.

All of humanity is moving slowly but assuredly toward a world that cares more about development and less about military and political competition. Here Mongolia gratefully notes the contribution made to this process by the international organizations, among them the World Bank and the IMF. We acknowledge with gratitude, Mr. Preston and Mr. Camdessus, your personal involvement and the dedication of your staff. We are happy to start close cooperation with you and shall be true to our commitments and agreements, as befits a decent partner. Above all, we will do everything to make effective use of the aid coming to us from other nations and international bodies.

Little-known Mongolia, with its vast territory, a small but educated population, and abundant natural resources, is a new frontier, challenging and offering great opportunities to everyone seeking mutually beneficial cooperation. Welcome to Mongolia.

NEPAL: MAHESH ACHARYA

Governor of the Bank

It is a great pleasure and privilege for me to address this Forty-Sixth Annual Meetings of the World Bank and the International Monetary Fund.

My delegation would like to put on record our sincere gratitude to the Honorable Anand Panyarachun, Prime Minister of the Kingdom of Thailand, for giving an inspiring opening address to this Meeting.

I would also like to express our sincere appreciation to the government and the people of Thailand for their warm and generous hospitality extended to me and to the members of my delegation.

We welcome the delegations from the new member countries and from those who have applied for membership to the Bretton Woods institutions.

I congratulate Mr. Lewis T. Preston on his appointment as the President of the World Bank and Mr. Michel Camdessus for his reappointment as Managing Director of the International Monetary Fund. I am fully confident that their experience and dynamic leadership will successfully steer the world economy toward enhancing growth and reducing poverty in developing member countries. I wish them every success in their efforts to meet the future challenges.

The world has witnessed extraordinary political and economic events in recent years, all of which have significant implications for the international economic order. These events have proved that democratic institutions are prerequisites to sustain economic development, to enforce accountability, and, above all, to give a definite direction to the economy, ensuring social justice for the people.

The dawn of democracy in many countries of the world heralded a new era of peace, amity, and universalism. Despite the economies reeling under

the impact of the Gulf war, the world today is a more secure and a safer place in which to live. We are farther away from the potential threat of nuclear holocaust, and there is now a ray of hope in the horizon for the teeming millions suffering from the lack of life's basic necessities. The challenge before us, in the wake of democracy, is how to translate political gains and international reconciliation into tangible benefits for the less-privileged and undernourished masses.

Apparently, just as economic equality could not be sustained at the expense of political liberty, so democracy will not survive without economic and social justice. Helping the poor is, therefore, not necessarily a zero-sum game. This calls for a reorientation of current economic thinking. We should be sensitive to the political content of economic policies and their potential effects on political freedom. There is a desperate need to humanize impersonal economic policies and processes. We should add a "democratic" dimension to our economic thinking in which "people" are in the forefront of economic development. Unless we act in unison, both at national and international levels, with a similar concern and orientation, we can not alleviate poverty and it will be yet another lost opportunity. Still worse, the political pluralism that we are experiencing may be placed in jeopardy.

In my own country, Nepal, developments of far-reaching consequence have occurred in recent years. After 32 years, democracy was restored in April 1990 and the Nepali Congress was elected to office in May of this year. Blessed with a gallant history of relentless struggle and sacrifice for the cause of democracy—a struggle that spanned nearly five decades—the Nepali Congress-led Government is committed to political pluralism, good governance, and human rights. We are indeed proud to be in the mainstream of the democratic movement that has swayed the entire world. We drew strength from successful democratic crusades in other parts of the world. Recent events throughout the world proved beyond doubt that the people are sovereign and that they are the masters of their destiny.

The present level of resource transfer to developing countries has been widely considered to be far below the level required to achieve the objectives of existing programs relating to poverty alleviation, sound economic management, and protection of the environment. In addition, the international community is facing an extended development agenda and the number of countries claiming external resources is increasing. In such an environment, both industrial and developing countries have important responsibilities to shoulder if the objectives of the 1990s are to be realized. We earnestly hope that the donor community will come up with substantially increased funding for IDA-10.

The adoption of market economies in many countries, including the U.S.S.R. and Eastern Europe, has created many opportunities and risks. This change calls for increasing cooperation from developed countries. It has also required the Bretton Woods system to advance more assistance to

emerging democracies in order to minimize the adverse impact of change and make the transition successful. We support initiatives undertaken by the Bank and the Fund to assist these countries move toward market economies. We emphasize, however, that in so doing, the Bretton Woods system should make additional efforts to mobilize and allocate resources and ensure that such assistance is not at the expense of the least-developed countries and low-income member countries.

In the area of trade, protectionism in the industrial countries has continued in spite of the need for its elimination. The world is now moving toward regional trading blocs. This closer regional integration may not lead to discriminatory trading prospects, but if it does, the long-term global prospects can be affected adversely and many developing countries outside these blocs will receive further setbacks. To avoid such an undesirable event, the success of the Uruguay Round is critical.

With regard to the debt problem of developing countries, the recent initiatives taken under the Paris Club and Brady Plan are commendable. In relation to the severely indebted, low-income countries, we feel that there is a heightened need for further concessional debt relief beyond the Toronto terms.

In my own country of Nepal, we are engaged, after a successful transformation to democracy, in a campaign to alleviate poverty. This is indeed a daunting task—a task that cannot be achieved without strong international support.

The economy, which we have inherited from the past, is beset with many structural problems and economic anomalies. The Gulf crisis directly increased the import costs of oil. In response, the Government had to adjust the domestic prices of petroleum products and public utilities. The resulting increase in transport costs had multiplier effects on the economy. In addition, the receipts from tourism and exports of goods and services also declined. All these, in turn, resulted in recessionary trends in trade and industry and added to the miseries of the people. The Nepalese economy, already under heavy strain, had to devalue its currency. This again necessitated further price increases in petroleum products and public supplies including utilities. Consequently, inflation has gained momentum—hurting common people—and, therefore, has become a matter of great public concern.

In the face of economic difficulties, both internal and external, the policy focus of the present Government is to maintain fiscal and current account balances so as to ensure a viable macroeconomic environment for faster economic growth. We have already initiated a number of actions encompassing macroeconomic policies, public expenditure management, administrative reform, and privatization of some of the public enterprises to rectify the distortions and malpractice. The Government has slashed many unproductive expenditures and has set targets to increase revenue and contain

fiscal deficits. The private sector and NGOs now will play the important role in economic and social activities, while the Government will focus its attention on poverty alleviation programs including education, health, safe drinking water, environmental protection, and other areas of national importance.

We have also implemented a reform program for restructuring the financial system to improve and strengthen the performance of commercial banks and restore their viability. The financial sector, including commercial banking, has been opened up to the private sector. Government is also committed to reducing the number of public enterprises through gradual divestment, and to improving the management capability of other public enterprises that are to be retained in the public sector. To attract foreign direct investment, necessary legal and administrative arrangements, with appropriate fiscal and regulatory reforms, are being undertaken.

The goal of protecting and developing the environment is one of the priority programs of the present Government. Our efforts to protect the environment will require massive programs for both poverty reduction and population control. This will add to our needs for external assistance. We, therefore, seek sympathetic and valued cooperation from all donor communities in our development and reform efforts.

Nepal has implemented the structural adjustment program with Bank-Fund support. The encouraging outcome of the program and the present economic situation call for the continuation of the adjustment efforts. *However, it is our experience that the balance of payments support under the structural adjustment loan of the World Bank, and the structural adjustment facility of the International Monetary Fund, need to be tailored to our specific situation and should be more flexible in their conditionalities. We appreciate very much* the management and staff of the World Bank and the International Monetary Fund for assisting us from time to time in our policy reform measures.

Finally, on behalf of the Nepalese delegation and myself, I would once again like to express our sincere appreciation to the Government of Thailand for the excellent arrangements to make these meetings a success.

NETHERLANDS: W. KOK

Governor of the Bank
(on behalf of the Member States of the European Communities)

Since the Netherlands currently holds the Presidency of the Council of the European Communities, I have the honor of addressing this meeting on behalf of the 12 member states. First of all, I would like to thank the Thai government for the excellent organization of this meeting and the cordial welcome we have received here in Bangkok. I welcome Mongolia and Albania to the membership of the Bretton Woods institutions. The new

applications are to be welcomed too. Finally, I wish to congratulate Mr. Camdessus on his second term at the helm of the International Monetary Fund and Mr. Preston on his appointment as President of the World Bank Group.

The European Community is currently engaged in forging stronger bonds between its 12 member states through the present negotiations on Economic and Monetary Union and on Political Union. There will be a corresponding increase in the Community's involvement in the international community. The European Community intends to take an active role in meeting the demands which the world puts before us today. Among these are macroeconomic stability, including price stability, and openness of trade and financial systems. Equal importance has to be attached to continued support for the developing countries in their struggle against poverty and to the alleviation of the debt burden of the developing countries. Moreover, the integration of the Soviet Union and the Republics into the world economy, and the transformation of Eastern Europe, pose vast challenges, as does the protection of the environment. Achieving these aims is a task which involves the entire international community and which can only be met if responsibility is shared widely and equitably.

Last year we were able to welcome the Soviet Union as an observer at the Annual Meetings of the Bretton Woods institutions. Since then, events have underscored how deep-seated the wish of the people of the Soviet Union is for democratic and economic reform.

The Fund and the World Bank are called upon immediately to offer their advice and support for the macroeconomic stabilization and structural, market-oriented reforms which are required in that country. The "special association" should lead to full membership of the Soviet Union in both institutions as soon as possible.

The EC will take its responsibility to contribute to the integration of the Soviet Union in the world economic family. The talks I had today with Mr. Yavlinsky strengthened me in my personal conviction that the processes of economic and political integration are strongly interrelated. The creation of an effective economic union depends on political understanding of that need. We in Europe can contribute to this by intensive and sustained contacts with responsible people at all levels: economic and technical assistance. In addition of course, immediate problems must be dealt with. To that end, the EC will continue to support the Soviet Union and the Republics with technical assistance, medical aid, and food aid, preferably as part of a coordinated international operation.

During this last year the Central and Eastern European countries have begun a tremendous effort to transform their command economies into market-oriented systems. In this process they have benefitted from the invaluable support of multilateral organizations and institutions, such as the Fund, the World Bank, the European Commission, the Ad-hoc Group of

the Twenty-Four OECD countries, the OECD, the EIB, and the Paris Club. All should be commended for their swift and flexible response to this new challenge. Since last April a new institution exclusively devoted to the development of Eastern Europe—the EBRD—has joined the ranks. The smooth coordination of the various contributions and, in particular, the issue of sufficient financial assistance with an equitable burden-sharing between the EC and other donors remain necessary. An enhanced coordination in the provision of official financial support is now crucial to the successful implementation of the comprehensive strategy put forward under the aegis of the Bretton Woods institutions.

Even with all these kinds of support, the transformation process in Central and Eastern Europe has proved to be a daunting task, as witnessed by the decrease in production, the rise in unemployment, and the external financing problems. The situation has been aggravated by the decline in international trade in the region, both among the Central and Eastern European countries themselves and with the Soviet Union.

However, there is no alternative to the present transformation course if growth is to be restored and if the expectations of the people are to be met. The countries of Central and Eastern Europe should persevere in the creation of a stable macroeconomic environment and the implementation of essential structural reforms, among which privatization should receive the highest priority. The international community should stand ready to assist wherever necessary.

The EC will live up to Eastern Europe's needs for increased market access. It aims at concluding the negotiations with Poland, Hungary, and the Czech and Slovak Federal Republic on special and enhanced Association agreements by the end of this month and will initiate discussions on arrangements with Romania, Bulgaria, and the Baltic States. The EC also hopes to be able to conclude a trade and cooperation agreement with Albania.

These fundamental developments should not divert our attention from the problems of the developing countries. The EC supports a market-oriented approach as the cornerstone for a development strategy.

This does not imply a negligible role for the state in promoting development. On the contrary, the state has an important task in providing the economy with a framework of macroeconomic stability and with flexible markets, as well as in alleviating poverty and creating a stimulating environment. A substantial investment in human resources and physical infrastructure is required. The effectiveness of such policies depends on international economic cooperation and support, but mainly on good governance, and could often be enhanced by a cutback of disproportionate military expenditures.

Growth of private enterprise is in many cases hampered by the lack of well-developed capital markets. The strengthening of capital markets in

developing countries should therefore be given a high priority. The International Finance Corporation can play an important role in mobilizing capital for the private sector, and the EC members therefore welcome the agreement on the IFC capital increase.

Many developing countries see their development efforts complicated by an excessive debt burden. The continued validity of the strengthened debt strategy is underscored by the fact that several developing countries, particularly in Latin America, seem to be emerging from their debt problems. Sound and sustained adjustment policies have resulted in a more viable balance of payments situation and a promising return of private capital flows.

However, the strengthened debt strategy can offer only limited relief for the severely indebted lower-income countries, since they owe the bulk of their debt to official creditors. At the time of the last Annual Meetings, a series of initiatives was launched to tackle this problem; these proposals included additional debt-relief measures on a case-by-case basis, going well beyond the relief already granted under Toronto terms. We call upon the Paris Club to round off the discussion on these initiatives successfully.

Arrears to international financial institutions and notably the Bretton Woods institutions still continue to require special attention; they intensify the financing problems of the countries in arrears, both during and after the default period, but they also jeopardize the support of these institutions to other countries with external financing problems.

With the Rights Approach and the Shadow Adjustment Program both the World Bank and the Fund have reached out to their members in arrears. A way out of the problems is mapped out, albeit along an inevitably difficult route. Some members have readily accepted this offer, and we urge others to follow suit with the support of donor countries. Only then can they become eligible again for the vital assistance of the World Bank and the IMF.

The Bretton Woods institutions will only be able to play their invaluable part in helping to redress balance of payments deficits if provided with the necessary means. All members are urged to ensure that both the pending quota increase and the Third Amendment to the Articles of Agreement of the IMF are made effective as early as possible. In doing so, we should avail ourselves of the opportunity to end the Fund's borrowing. In the World Bank Group, the International Development Association will continue to need substantial resources in order to pursue its lending operations in the years ahead.

The EC countries attach great importance to a more stable international monetary system; in a world with highly integrated capital markets, exchange rate stability can only be achieved through stability-oriented domestic policies and further improvement of the economic coordination process. The IMF should continue to support this coordination process actively

and to address this topic in its surveillance of the international monetary system and of the policies of individual members. All countries, large and small, should pay heed to the Fund's recommendations; to do so is also in their own interest.

Within the European Monetary System, stability-oriented policies and intensified policy coordination have indeed resulted in an extended period of stable exchange rates in an environment of free capital movements. Despite economic disturbances, no exchange rate adjustment has taken place since 1987. The European Community considers this an important contribution to global stability and international monetary cooperation.

Building on this experience, all EC members are now discussing amendments to the EC Treaty, which would establish a legal framework for the progressive realization of the Economic and Monetary Union, including a single currency and monetary policy and a European System of Central Banks. With the internal market completed, the final stage of the Economic and Monetary Union will set the seal upon this major European effort.

Besides a more stable monetary system, economic growth should also be enhanced by abolishing trade restrictions. By the opening-up of markets, the developing countries and the Central and Eastern European countries will be helped to help themselves. Even generous financial support is a mere palliative, if these countries are denied access to export markets and export-led growth opportunities. Owing to persistent protectionism propped up by special interest groups, inefficient patterns of production have become more and more ingrained in the world economy and increasingly difficult to uproot. The EC countries intend to overcome such pressures. In this context, it is essential that the Uruguay Round comes to a successful conclusion before the end of this year.

In the field of agriculture, the EC, along with the other participants in the GATT, has stated its willingness to conduct negotiations to achieve specific binding commitments on domestic support, market access, and export competition. Reform of the Common Agricultural Policy is being debated in the Community and should contribute positively to the GATT discussions and help in arriving at a successful conclusion of the Uruguay Round.

However, progress will have to be made in other areas as well, such as services, intellectual property, textiles, tariffs, and other issues of market access. All parties bear a heavy responsibility in these matters. If the Uruguay Round fails, all participants will suffer for years to come.

Finally, I would like to pay tribute to Mr. Conable, former President of the World Bank Group. Mr. Conable has steered the World Bank Group with a firm hand and a clear vision through a difficult period in its history; he has been the driving force behind the renewed stress on the alleviation of poverty and the special interest in the role of women in development and the possible adverse consequences of economic policy for the environment.

His contribution to the World Bank Group will be a lasting one. I would like to wish his successor, Mr. Preston, every success in leading the World Bank Group in this turbulent era.

NEW ZEALAND: DOUGLAS KIDD

Governor of the Fund

It gives me great pleasure to be here today. I would like to thank our Thai hosts for their splendid hospitality in this Royal city.

These times provide great challenges to us all, not least the Bank and the Fund. In meeting those challenges, the institutions will be strengthened by the new members. New Zealand joins other member countries in welcoming Mongolia to our ranks. We are particularly pleased that our constituency offices have been able to assist Mongolia by representing its interests in its dealings with the Bank and the Fund. We join in welcoming the delegations from Albania, Estonia, Latvia, Lithuania, Marshall Islands, the Federated States of Micronesia, Switzerland, and the U.S.S.R. The day cannot be far off when the Bank and the Fund become truly global.

The Bretton Woods institutions and the General Agreement on Tariffs and Trade (GATT) were established as responses to the protectionist policies of the 1930s. The founders recognized that reducing trade barriers and providing freer flows of capital would increase income. Developments in the 1950s and 1960s proved the point. We have similar opportunities today. A successful and comprehensive conclusion to the Uruguay Round will provide a significant noninflationary stimulus to growth. That stimulus will reinforce and be reinforced by the process of economic liberalization taking place within many of our countries.

The increase in efficiency flowing from a successful conclusion to the Uruguay Round, including most critically agricultural trade liberalization, would have three very positive results.

—By lowering protective barriers, we would provide a much needed boost to the economies of all developing countries through trade not aid, thus supporting the ongoing efforts to alleviate the debt problem;

—Reducing the level of subsidies would leave us in a better position to provide the investment capital so badly needed in Central Europe, the U.S.S.R., and the developing countries. This could be done without putting further pressure on fiscal deficits and financial markets;

—Benefit would also accrue to the industrialized countries, with a more efficient use of resources leading to higher incomes and reduced pressures on the environment.

The possible gains are large:

—The Organisation for Economic Cooperation and Development (OECD) has estimated that the cost to taxpayers and consumers of agricultural support in developed countries is $300 billion a year. The

fiscal costs alone are $100 billion, which is substantially more than total flows of development assistance provided by industrial countries;

—The cost to developing countries of industrial country protection greatly exceeds the value of development assistance.

The gains from trade liberalization would make a significant contribution to reducing the shortage in world savings. Those gains could well have a bigger and certainly a more immediate impact than the prospective peace dividend.

All the elements necessary for a successful completion of the Uruguay Round are now available. What we need is the political will to finish a job that has taken far too long. My Government has the will, and indeed, like many other smaller countries has adopted unilaterally a program of trade liberalization. By July 1, 1992, New Zealand, over a four-year period, will have removed all import quotas and have cut its tariffs by around 50 percent. A further 33 percent cut in tariffs covering most sectors of industry has been announced for the period 1993 to 1996.

The alternative to a successful Uruguay Round is daunting. At best we would see the emergence of two or three strong regional trading blocs. Those might well exclude many of the poorest and most vulnerable countries, including most of our Commonwealth sister states and our neighbors, the small island states of the Pacific. While we would not necessarily see ourselves excluded from such regional blocs we are by inclination and necessity determined multilateral traders. A much worse scenario would see individual countries imposing ever increasing trade barriers. Even seemingly stable regional trading arrangements could collapse.

It is easy to overstate the short-term advantages of protection. Lobby groups ensure that they are emphasized. But protectionist policies do not just harm foreign producers. They also harm the export sector, encourage the misallocation of scarce investment funds, and stimulate the growth of uneconomic industries. Dismantling such a structure to achieve better economic performance is a long and difficult process. It becomes *more* difficult the longer it is delayed. In New Zealand, we know the costs only too well.

Our own experience of economic liberalization makes us particularly sympathetic to the people of Europe emerging from Marxist systems. The process of adjustment is a painful one but we now have a much more competitive economy. Our fiscal position has been strengthened, the balance of payments deficit has fallen, and our debt ratios are under control. Our economy is leaner but much more competitive. We are starting to see the benefits of reforms that will stand us in good stead in the 1990s.

Yesterday our consumer price index figure for the third quarter was released. It brings our annual inflation rate down to 2.2 percent—the best figure since 1963. Bill and bank rates are well below 9 percent and continue to fall. We are a model of monetary rectitude with supporting fiscal consolidation well under way. But unless we can have access to markets our

policy efforts will count for nought. Our hard-won efficiency gains will be a mirage.

The adjusting countries of Europe and the developing countries critically require market access if their people are to prosper. We fervently hope that the industrial countries' well-deserved enthusiasm for assistance to Central and Eastern Europe will be matched by equal enthusiasm for substantial progress in trade liberalization. A speedy, satisfactory, and comprehensive conclusion to the Uruguay Round would demonstrate such enthusiasm.

Three years ago we met in divided Berlin. Since then major changes have taken place in Europe. Less than fifteen months ago Kuwait was invaded. In both Europe and the Gulf, there continues to be rapid progress in implementing solutions to long-standing political problems. The solutions to our economic problems are known. We must now implement them.

NORWAY: SIGBJOERN JOHNSEN

Governor of the Bank
(on behalf of the Bank Nordic Countries)

On behalf of the five Nordic countries, Denmark, Finland, Iceland, Norway, and Sweden, I would like to express my appreciation to the people and government of Thailand for their generosity in hosting these Joint Annual Meetings.

I would also like to extend a warm welcome to the newest members of the Bank, Albania and Mongolia, and to our special guests from Estonia, Latvia, Lithuania, and the Soviet Union, as well as Marshall Islands and the Federated States of Micronesia.

A special welcome goes to you, Mr. President, and I congratulate you upon your election to this challenging position.

It is with great expectations that I note that the World Bank is becoming truly universal. With enlarged membership, the Bank will become the global institution its founding fathers meant it to be. In an increasingly interdependent world, where the problems we face are global in character, I see the Bank as one of the important actors on the international scene. The Bank has a central role to play in assisting Eastern Europe and the Soviet Union in their economic and social transformation. It is important that the Bank coordinates with the other actors in this region in order to achieve the best possible result.

"Development is the most important challenge facing the human race." This is the opening sentence in this year's World Development Report. More than 1 billion people live on less than a dollar a day, and therefore it should be with a feeling of urgency that we gather here today to discuss how to improve the quality of life in developing countries. Internationally, we have seen an emerging consensus on the fundamental objective of development, that is, poverty reduction achieved through equitable and sustainable eco-

nomic growth. In my view, the Bank's present development agenda reflects well this main objective.

We have come even further and agreed on a menu of elements in an effective development strategy. This strategy has been worked out through a collaborative process of building consensus, in which the ideological and dogmatic fronts were left behind and the different elements of the strategy were carefully balanced. The challenge of the 1990s is the implementation of this strategy, and I trust that this cooperative spirit will pervade the implementation process as well.

Economic growth is a requirement for development and poverty reduction. To what extent a satisfactory growth rate is achieved in an individual country depends to a large degree on its own policy decisions. Experiences from the 1980s show that consistency and perseverance in adjustment policies carried out by committed governments in general have led to success. Several Latin American countries have restored healthy economic growth, and African countries that have adjusted within the framework of the Special Program of Assistance for Africa have achieved growth rates tangibly higher than those of other countries in the region.

Sustainable economic development must be based on respect for the natural environment. The objectives of development can be achieved only through proper management of the natural resources. The strong links between poverty, population growth, and environment must penetrate all our thinking and doing.

Growth should create economic opportunities for people by encouraging productive use of their labor and the entrepreneurship of individuals. That requires a dynamic and competitive private sector that can generate domestic as well as foreign investments. A condition for this is a public sector that complements the private sector by providing a framework conducive to economic development.

The strengthening of human resources is a critical element in any effective development strategy. Access to basic social services such as primary health care, family planning, and basic education is crucial both for fostering sustainable economic growth and for reducing the number of poor. Special efforts are needed to ensure that women gain equal access to productive assets as well as social services. Investments in human capital have positive effects on equity and economic growth by enabling both men and women to take charge of their own future by participating in the economic and political development of their society.

The management of development is a key element in the concept of governance. Effective and efficient use of scarce resources is necessary to reach our objectives. A particularly difficult issue is military expenditures—an issue I believe we must be willing to discuss openly, while avoiding simplistic application of quantitative indicators. With the end of the Cold War, minds and resources can be freed both in developing and developed countries.

The Bank's individual country assistance strategies constitute a key tool in the execution of its agenda. Even if the fundamental objectives are the same, the emphasis and balance between all the different elements must be tailored to the situation in the individual country. Attempts to make general blueprints for development must be avoided. Linked to this country focus is the need to build up national capacity. It is not enough to strengthen the Bank's own competence. Sustainable development, in which aid dependency is reduced, hinges on the creation and preservation of viable national institutions.

With an encompassing agenda that is broadly shared, the challenge is to find an efficient division of work and coordination among the different actors. The Bank is not responsible for every development issue and cannot take a lead in all aspects of development. A more thorough review of the Bank's role within the multilateral system as a whole is needed, especially concerning free-standing technical assistance.

Representing a group of small countries, I feel very strongly about the multilateral character of the Bank and the need to ensure that all decisions are made in this spirit. It is important that all members respect the Bank's integrity and that the Board of Executive Directors performs—and be allowed to perform—its role in determining and monitoring the implementation of Bank policies.

In the perspective of global partnership, we who represent the developed countries must be willing to look at what role we can play in achieving the objectives of development. Development assistance alone cannot solve the problems. We should look at our relations with the developing countries in the broader context of trade and finance. It is important to secure developing countries' access to our markets. It makes little sense to build up their export capacities if major markets remain closed. A rapid and successful conclusion to the Uruguay Round is the most important single contribution we can make to pave the way for sustainable development. Exceptional efforts are therefore needed from all parties involved.

Responsibilities for good governance also rest with the industrial countries. The supply side of, for instance, corruption and arms exports, must be dealt with at the same time the demand side of the problem is addressed. The Nordic countries support the current efforts to increase transparency in the international conventional armament transfers, including the proposal to establish a register of conventional arms transfers under the auspices of the United Nations. The requirements of transparency and accountability must also apply to the suppliers of external resources—including the private sector and NGOs.

I fear that much of what we do in the poorest countries today will be lost unless substantial debt relief is granted. I therefore regret that the Paris Club discussions on additional debt relief initiated last year have not yet been concluded. I strongly urge all members of the Paris Club to contribute

actively to a prompt agreement. In this context Nordic countries have advocated debt reduction of up to 80 percent on a case-by-case basis.

I also would like to emphasize the need for increased concessional resources to the poorest countries. A continued focus on Africa is needed to prevent this decade from being another lost one for this continent. The development challenges are particularly great in Africa, but with a strong domestic commitment to a sound development strategy and with strong external support, I hope Africa will be able to leave behind the times of crisis management. The problems facing many African and other low-income countries underline the importance of a substantial replenishment of IDA-10. A special effort is warranted by those donors who have taken up a share below their relative economic capacity or who still are transferring far less ODA than 0.7 percent of their GNP. The transformed relations between East and West should make this possible.

We have today a global partnership with a common agenda for development, and we have the Bank as a highly efficient agency together with many other actors. We further have the means to reach our goal of poverty reduction through the promotion of equitable and sustainable growth if we all show the necessary political will. I opened my statement with a quote from this year's World Development Report, and I would like to end by quoting the last sentence in the same report: "There is more agreement today than at any time in recent history about what needs to be done and how to do it. What remains is to put these ideas into practice everywhere."

Let us all join in this effort.

PAKISTAN: SARTAJ AZIZ

Governor of the Bank

It is my privilege to speak today on behalf of Pakistan. It is a special pleasure for my delegation to be in Thailand. The warmth with which we were received and the attention to detail of the arrangements confirmed the tradition of hospitality and friendliness of the government and people of Thailand.

Let me begin by welcoming Mr. Preston as the new President of the World Bank. He brings with him experience attuned to our fast-changing times. We wish him all success in carrying out a most challenging task. I congratulate Mr. Camdessus on being unanimously elected for a second term of office. When he came to the Fund five years ago, he gave himself the complex task of combining the traditional goal of stabilization policy with the objective of sustainable economic growth for developing countries. The creation of the enhanced structural adjustment facility is one measure of his success. We are sure that in his second term, he will strengthen the Fund's role in promoting structural adjustment with growth in many more member countries.

I would like to take this opportunity to welcome Mongolia and Albania to the fold of the Bretton Woods institutions. I would also like to welcome the Soviet Union as an associate member of the IMF.

Let me speak now about the core issues facing developing economies like Pakistan. Since we met last year in Washington, the external economic environment has, if anything, deteriorated: the global economy has slowed; official and multilateral aid flows have declined in real terms; the debt issue remains unresolved; the Uruguay Round of negotiations is without material progress; and world trade growth remains sluggish.

This is a difficult time of transition for the economies of Eastern Europe and the Soviet Union. This creates immense difficulties for a large number of developing countries, which are in the process of adjustment and are taking steps to open up their economies.

None of the problems we are discussing at this meeting are new, but the context in which we are discussing them is different. After three decades of intense debate on alternative development strategies, there is now an emerging consensus about the vital importance of market-friendly policies for the process of development. Many developing countries have already demonstrated their resolve to implement such policies. It would be a tragedy of historic proportions, if adverse international forces were to frustrate these "unprecedented opportunities," as Mr. Camdessus called them, by denying developing countries better access to trade opportunities or capital markets. The imperative of this paradoxical situation lends a new sense of urgency to the suggestions outlined below.

—First and foremost, we must reverse the current trend of negative flow of resources from the Bank. In the past two years, such negative transfers have amounted to over $4 billion. This is unsustainable. We would therefore support the proposal for the Bank to undertake a comprehensive study of the issues involved and present it for consideration to the Development Committee at its next meeting.

—Second, in view of the growing importance of social and environmental objectives, the proportion of soft loans in total World Bank Group lending must be increased. This will require a substantial increase in real terms in the level of the Tenth IDA Replenishment, as Mr. Preston emphasized yesterday in his statement.

—Third, the Ninth General Review must be completed at an early date to increase existing quotas by 50 percent. There is justification for maintaining the enlarged access policy even after this increase, and the case for a large SDR allocation must be reopened, as Mr. Camdessus emphasized yesterday.

—Fourth, the international financial institutions need to review their policies and mechanisms to provide enhanced support to social sectors and to infrastructure activities in the private sector. Simultaneously, the response time of these institutions must be shortened. Demand for

upfront adjustments by countries facing unpredictable exigencies needs to be reviewed so that relief is provided on a timely basis in crisis situations.

—Finally, the debt problem needs to be resolved if the development process is to regain its momentum. The international community must agree to enlarge the financial package in a manner that countries which have maintained their liberal trade and tariff regimes and have discharged their debt obligations faithfully in a difficult situation would also benefit from it. It is important to reward good performance lest we create a moral hazard problem for the global community.

The next issue I would like to highlight today relates to trade liberalization. All member countries have urged completion of the Uruguay Round. We had, until recently, assumed that the Round would be completed before the end of the year and in the process, the Multifiber Arrangement on textiles would be phased out soon. The time has come to recognize the perils of not completing the Uruguay Round. Where will that place us as we approach the end of the twentieth century? We are all aware that a substantial growth in world trade has made a significant contribution to the postwar prosperity of the world community. The recent decline in world trade is a cause of very serious concern to developing countries, particularly to those which are moving toward market-oriented and outward-looking economic systems, increasing their output, and generating exportable surpluses to meet their investment needs, as a welcome shift from previous reliance on aid flows. The cost of current trade restrictions to developing countries amounts roughly to twice the annual interest payments on their public external debt or about twice the annual volume of official development assistance they receive from the industrial countries.

I would now like to make a point relating to the problems of transition in Eastern Europe and the Soviet Union. To facilitate this transition, a major program of economic assistance is in train. I would urge that this assistance not be restricted or tied to certain regions or countries. By providing this assistance generously to Eastern European countries and the Soviet Union and by ensuring that it is used to buy goods from the cheapest available sources, the international donor community should help both the countries in transition and those developing countries which have acquired the capacity to provide the required goods at competitive international prices.

A word about the International Finance Corporation. It has already made an important contribution to the development of the private sector and of capital markets in member countries. In the years to come, we expect it to play an expanded and more significant role. We feel that it is well poised to do this. The role of the Multilateral Investment Guarantee Agency and extended co-financing arrangements also needs to be expanded to provide developing countries with increased access to world capital markets.

Pakistan was one of the countries most severely affected by the Gulf crisis. In November 1990, when the crisis was approaching its climax, the Government of Prime Minister Mohammad Nawaz Sharif assumed office following general elections. The new Government's deep commitment to bringing about a transformation in Pakistan's economic environment within a democratic framework is reflected in the wide-ranging reforms in the areas of foreign exchange regulations, trade liberalization, financial and banking policy, deregulation, and privatization at a very difficult time. I am happy to inform you that, with the crisis now behind us, these reforms have begun to produce results. We propose to take these further to convert Pakistan into a more open and market-oriented country, with higher levels of investment and faster growth in the coming decade. Learning from our own experience of the 1960s and that of some other countries, we are combining this strategy with strong social action programs and an active policy of environmental protection.

I would like to conclude by paying a warm tribute to Mr. Conable, who relinquished his office as President of the World Bank about a month ago. His deep involvement with the concerns and problems of developing countries will be remembered with admiration by all those who worked with him. I would also like to place on record my Government's deep appreciation of the contributions made by Mr. Moeen A. Qureshi, Senior Vice President, as he retires later this year from his long association with the World Bank and IFC. During his period of office, Mr. Qureshi established a unique reputation for objectivity and leadership. The international community owes him its gratitude.

PAPUA NEW GUINEA: THOMAS NIGINTS

Governor of the Bank

I must join in with all of you in extending our heartfelt thanks and appreciation to the government and the people of Thailand for the warm welcome and hospitality extended to all of us and the tremendous amount of effort put into the organization of such a large conference. Thailand is indeed a beautiful country and has great potential for economic growth. It is certainly an eye-opener for those of us who are trying to develop our tourist industry.

Let me also take this opportunity to congratulate Mr. Lewis Preston on his appointment as President of the World Bank Group. I am sure that the Bank will continue the good work it does in member countries and we can expect the best under his able leadership.

I welcome Mongolia and Albania and the delegations of Estonia, Latvia, Lithuania, Marshall Islands, Micronesia, Switzerland, and the Soviet

Union. It is good to extend our membership of the Bank and the Fund, and I am particularly pleased that our neighbors in the South Pacific can join us.

It has been very encouraging and certainly a privilege that, in our lifetime, we have witnessed incredible changes in the world economy today—and I refer here mainly to the revolutionary changes that have taken place in the Soviet Union and in the countries of Eastern Europe. There is one strong message that comes out of these reforms and that is that people want to be free to express their minds and feelings, and people want to be free to enjoy the benefits of their hard work. Let us all encourage this spirit of freedom and lend support to those who are striving to achieve this freedom.

In an effort to improve economic performance, many countries have undertaken significant structural reforms in their bid to encourage more growth and create more employment opportunities for their people. We have joined all of you who have embarked on structural adjustment, and I must say that it is not an easy road to follow. It involves choices, sacrifice, and priorities.

A meaningful structural adjustment program will be one that is significant and far reaching. Experience shows that there are two very important elements to ensure success. The first is that the adjustment program must be carefully designed to ensure that it is appropriate and practical. The second and more critical element is the political will and determination to fully implement the structural adjustment program, and to ensure that the adjustment has resulted in improved efficiency and increased growth opportunities in the economy.

Our structural adjustment program began soon after the closure of our largest copper mine—Bougainville Mine—in 1989 and the continued downturn in our agricultural commodity prices on world markets. The adjustment process became necessary because we wanted to improve the performance of the economy, and we wanted changes that would be permanent.

The structural adjustment program addresses both the private and the public sectors. Reforms in the private sector appear to be fairly straightforward, and in simple terms all one needs is to put in place economic and financial policies that provide the proper environment and incentives and that will allow the private sector to grow. The other important element is to deregulate and leave the private sector alone to develop.

I cannot agree more with the President of the Bank, that each member country must find the appropriate balance between government and market. This balance involves technical, economic, and political considerations. In countries where the private sector is small, the government plays a larger role. In countries where the private sector is large and provides plenty of healthy competition, the government can then concentrate on other issues.

Reforms in the private sector need to be integrated. In addition to sound

economic and financial policies as well as deregulation, governments have a responsibility to ensure that the financial markets are reformed and strengthened. In smaller developing countries, our financial markets are underdeveloped and often dominated by conservative institutions. Reforms in this area must complement the efforts mentioned earlier.

The needs of smaller member nations differ a little from those of our major industrial member countries. When we talk about the private sector, we are talking about small-scale industry, and I find that IFC is not adequately geared to cater to the needs of smaller member nations.

There is nothing wrong with small-scale entrepreneurship, and every effort must be made to encourage it.

We have commenced the process of deregulation, and already we have made significant progress in streamlining our foreign investment regulations and procedures. This task should be addressed by the end of this year. A tremendous amount of effort has been made toward streamlining and simplifying the procedures for obtaining land, and this task is well under way. In line with trade liberalization, we have removed most of our import bans and are replacing them with tariffs, and this move will ensure that domestic production remains competitive and efficient.

Privatization has become a worldwide fashion, and there are good economic and financial benefits that can be derived from this exercise. Some of us are fortunate that we can be guided by the experience of some of our member countries. We are in no hurry to privatize essential functions like telecommunications and electricity supply. These are crucial functions and must be carefully assessed before any divestment occurs.

The reforms in the public sector really revolve around one major question and that is—what is the role of government? It is an important question. The answer to this question is relative and varies in an industrial setting and again in developing countries, where often the private sector is very small and insignificant.

Our adjustment program has enabled us to improve our procurement procedures, and these will enable faster implementation of projects and programs.

When it comes to civil service reform, the exercise becomes more complex. Any reform in the civil service will aim to make it more efficient and effective in delivering goods and services to the people. It is not merely a numbers game. To achieve efficiency will require improving the terms and conditions of civil service and to retain and attract well-educated and trained staff. We must be prepared to pay market rates to civil servants. Efficiency will also be brought about through well-established and well-run institutions with adequate capacity to perform.

We must also be prepared to provide more resources for training and I mean meaningful and practical training to enhance the capacity of the civil

service. It is indeed not a productive exercise just to reduce the size of the civil service alone. All governments have a duty to provide basic services like education, health, law and order, and basic infrastructure. The efficient delivery of these services must be a prime consideration in rationalizing the civil service.

It is comforting to note once again that the Bank is committed to promoting sustainable growth and reducing poverty. Much effort has been made toward promoting sustainable growth, and it would be nice to see some real programs that work directly toward the reduction of poverty. We often assume that greater economic growth will automatically reduce poverty, and this is not often the case. As the saying goes "the rich become richer while the poor become poorer."

Much of what we say about trade liberalization and efficiency rests on the shoulders of industrial nations. Let us be serious and fair in our efforts to improve the world economy. Industrial countries must be serious about liberalizing trade and minimizing subsidies. They owe it to the rest of the world. It would be good if they could free up more resources for development through lower defense expenditure. But we cannot insist on this. It is really up to each individual country to decide. We can, however, insist that they free up their markets and reduce subsidization. I call on the Bank and the Fund staffs to increase efforts in this area.

Let us not forget that any adjustment process requires change. We can develop wonderful programs for change, but let us not forget that change affects people and most do not readily and willingly accept change. It is our joint responsibility—the Bank/Fund and the member country—to skillfully and carefully manage the change. Many adjustment programs will result in some loss of jobs in the short term, and we must ensure that the benefits in the long run far exceed the short-term losses. I call on the Bank and the Fund to provide mature and experienced staff to assist member countries in their adjustment programs. Real life is bigger and more complex than the economic textbook, and important lessons can only be learned and dealt with in the process of developing a country.

This is an exciting period in the world economy, and as we all strive to do our best in terms of economic growth and reduction of poverty through better education and training, I call on the Bank and the Fund not to neglect smaller nations that enjoy relative stability.

As a developing country, we are excited about the prospects we have, and the challenge for us is to properly manage our resources so that our grandchildren and great-grandchildren will enjoy a better world. Let us give up something today for a better tomorrow for our children.

In concluding, let me say that Papua New Guinea remains one of the promising investment opportunities, and it is my pleasure to invite the private sector to come and see for itself.

PARAGUAY: OVIDIO OTAZU GIMENEZ

Alternate Governor of the Fund

It is a great honor to represent the Republic of Paraguay before the joint Annual Meetings of the World Bank and the International Monetary Fund. We wish to extend our greetings and best wishes for success to the Chairman of the meeting, Mr. Pablo R. Better, to the President and Directors of the World Bank and its affiliates, and to the Managing Director and authorities of the IMF, as well as to the delegate Governors and other participants of this meeting.

At a time when the world economy is undergoing a process of profound changes, we come to this important meeting to reaffirm our recognition and support for the World Bank Group and the International Monetary Fund in the hope that they will continue to be main actors in the world economic order.

In the new world environment that is being forged, both an opportunity and challenge arise for the developing countries to join in the virtuous circle of development through more efficient and equitable integration into the competitive international economy. To do so, it often becomes necessary to adopt a series of reforms. Paraguay has started in that direction.

However, we know that the needed stabilization and economic adjustment policies have unwanted social and political effects in the short run, and, consequently, they generate resistance from certain economic groups, making their implementation more difficult. These circumstances tend to delay the successful integration of many small economies into the international economy.

In this context, we are aware that the Bank and the Fund have a prominent role in supporting developing countries, both financially and with technical assistance, to enhance the adjustment programs in order to correct macroeconomic disequilibria and promote sustained growth and development.

According to what has been said so far, we note a general view, also held in Paraguay, that the IMF should be given sufficient resources to meet its basic function of supporting adjustment programs and structural reforms that will improve the economic and social development of our countries. In that sense, the Fund should be strengthened institutionally and financially. Hence, it is with great pleasure that I announce that the government of Paraguay has approved the Third Amendment of the Articles of Agreement and has authorized the increase of our quota according to the Ninth Replenishment of resources.

We live in an increasingly more interdependent world, where isolated efforts generate basically poor results. Therefore, the improvement of the international environment is necessary to complement the internal efforts being undertaken by developing economies.

In that sense, it is worth mentioning the unfavorable international economic conditions, such as the persistence of slow growth of output and world trade and the protectionism of industrial countries, which has weakened trade and lowered the price of raw materials. The latter comprise the larger part of exportable goods of developing countries. As a result, much of the internal effort will be diluted unless protectionism is reversed and agricultural subsidies are discontinued.

Similarly, in an increasingly interrelated world, it is even more important that the countries seek mechanisms to avoid strong fluctuation in exchange rates and in the level of foreign reserves, because this generates uncertainty and affects trade, investments, and the allocation of resources.

A number of developing countries have designed policies to reverse the situation of negative transfers of resources and, simultaneously, normalize their relations with external creditors. We can say that the external debt affected our economies as negatively as would a war. Therefore, it has hindered our access to the fresh external resources so necessary to complement domestic savings. Paraguay has not escaped the pernicious transfers and the direct effects mentioned above. The restrictions that the Government faces constitute a constant obstacle to the process of economic reform that has been carried out with effort and persistence since February 1989.

The Stabilization and Adjustment Effort in Paraguay

Throughout the 1960s and 1970s, the Paraguayan economy was characterized by high rates of growth, price stability and prudent external indebtedness. However, the macroeconomic performance began to deteriorate after 1981 as a result of the absence of adjustment and the economic recession of the early 1980s. These factors led to stagnation and to the acceleration of inflation and external indebtedness.

This situation led to a crisis by the end of 1988, characterized by persistent balance of payments deficits, a fall in international reserves, high fiscal and quasi-fiscal deficits, an increase in the external and internal debt, arrears of external payments, a net transfer of resources, strong inflationary pressures, a drop in investment, and a loss of confidence of the economic agents.

Moreover, the Government that took office in February 1989 applied a series of policies that tended to stabilize the economy through the correction of the internal and external disequilibria.

The new policy design is founded basically in the strength of the individual and in collective freedom, as well as in a market economy, where private initiative is favored within a framework of free competition, more openness to the external economy, and the gradual elimination of the barriers that hinder the development of the productive forces.

Early in 1989, the new Government introduced a system of free-floating exchange rates and started the gradual liberalization of interest rates, which was concluded by October 1990.

The new exchange rate policy contributed to reducing the pressure on international reserves, and the quasi-fiscal losses of the Central Bank were eliminated. The interest rate policy has promoted domestic savings and deeper financial intermediation, leading to higher levels of investment.

The fiscal situation also improved as a result of better administration of resources, including the collection of taxes. We have also passed a new investment law, while another law provides incentives to nontraditional exports.

The National Congress is currently debating three important law proposals for the structural reform of the economy. These are the new tax law, the privatization law, and the investments guarantee law. The next step will be to present the new Central Bank Law, which will provide a modern legal framework. The new law will provide the Central Bank with the necessary tools to implement monetary policies that aim at ensuring the stability of the whole system and appropriate supervision of the financial institutions.

The Government of Paraguay defines stability and economic growth as its main objectives. For this reason, the actions of the Central Bank involve monetary discipline, promoting efficient market intermediation, and prudent supervision.

The Central Bank, searching for better monetary control and trying to avoid rigid monetary policy instruments, has started recently to engage in open market operations.

The country has also canceled its external debt with Brazil, and it is regularly serving its debt to the multilateral financial institutions. At the same time, government officials are in constant meetings with bilateral debtors to find mechanisms that will permit the country to regularize its overdue portion of the debt. In that respect, we are aware that the commitments have to be honored.

Regarding trade policies, it is important to point out that the country has reduced and simplified import and export taxes and has joined other countries in the region in a common market (MERCOSUR). In addition, Paraguay is in the process of becoming a member of GATT.

The stabilization efforts are showing positive results. The nonfinancial public sector had a surplus of more than 3 percent of GNP during 1989 and 1990, and we are expecting a surplus of 2 percent of GNP this year.

The exchange rate has been stable for a considerable time, and net international reserves, which were negative in 1988, have been restored to more appropriate levels. The inflation rate, which was about 44 percent last year, came down to an annual rate of 20.5 percent in August 1991, and we are expecting a rate of 15 percent at the end of this year. Growth has slowed with respect to 1990, but this was due to exogenous weather conditions. We are expecting a 3 percent growth rate for 1991 and an improvement in 1992.

I consider the economic results to be generally positive, given the short-run stability objectives chosen by the Government. We will keep working

to consolidate the stability and will count on external savings to improve the economic development prospects.

We can summarize the main economic policy goals of the Government to be:

—to promote market-based economic policies, so as to enhance the allocation of resources through the price mechanism;

—to modernize and restructure the public sector;

—to keep a policy of free trade, free exchange rates and market-determined interest rates;

—to increase domestic saving; and

—to rebuild the financial position of the country in the international community.

To conclude, on behalf of the Paraguayan delegation, we express our gratitude to the people and the government of Thailand for their hospitality, and we wish that the meetings conclude with valuable lessons for the countries that each of us came here to represent, given that the challenge of globalization of our economies demands, now more than ever, the active participation of the World Bank and the International Monetary Fund.

Last but not least, we express our best wishes to Mr. Preston, President of the World Bank, and to Mr. Camdessus, Managing Director of the International Monetary Fund; and our congratulations to the Thai authorities.

PERU: CARLOS BOLONA BEHR

Governor of the Bank

I am very pleased to address these Meetings of the World Bank and the International Monetary Fund and am particularly delighted to do so as Minister of the Economy and Finance of the current government of Peru, which has recently rejoined the international financial community and decided to stabilize, modernize and deregulate its economy in order to tap its vast economic potential for the benefit of the country's population.

Decades of misguided and unrealistic economic policies, along with ineffective social and national security policies, had led us into the greatest economic crisis in our history, with hyperinflation equivalent to 2 million percent between 1985 and 1990.

Peru now joins the ranks of countries that are convinced that only through sound and realistic economic policy can a promising future be built for their peoples, leaving behind forever popularism and the quick fix. Peru understands today better than ever before the role played by the multilateral agencies and the international community in general, as partners in the process of economic growth of the developing countries.

The renewed credibility enjoyed by Peru's current economic policy both within the country as well as abroad stems from three key aspects. The first of these is substantial progress in the economic stabilization program. The

second is the country's rejoining of the international financial community, and the third the implementation of sweeping structural reforms as a basis for the country's economic modernization.

As regards the stabilization program, inflation has been reduced substantially from its shocking highs in 1989 and the first half of 1990. The decline from March of this year onwards indicates that, by the end of the year, the monthly rate will be 3 percent and in 1992 inflation will not exceed 2 percent monthly. Thus, in line with the principle that a country cannot develop if it spends more than it produces, Peru has put an end to the scourge of hyperinflation that had buffeted the poorest economic segments of the population.

We will therefore continue our efforts in the fiscal arena, drastically cutting public spending, carrying out an across-the-board tax reform that broadens the base of taxpayers and improves the tax system and its administration, and following a policy of real prices determined by market forces.

In this respect, as indicated by President Alberto Fujimori several weeks ago, Peru, continuing along its peace-loving path, seeks to allocate its budgetary funds to increase the well-being of its population and avoid expenditures that do nothing to boost economic development.

As regards Peru's rejoining the international financial system, I would like to mention four achievements that sum up the progress we have made in this area. The first is the formation of the support group composed of friendly industrial countries, which has enabled us to secure the financing required by our economic program. Thus, on December 9 of last year we obtained $1.1 billion.

Second, on September 12 the International Monetary Fund approved our economic program, and its implementation began with the new year.

Third, on September 16 Peru concluded an agreement with the Paris Club for an amount equivalent to $6.6 billion on extremely favorable conditions, enabling us to restructure our bilateral debt.

The fourth achievement is the loan signed with the Inter-American Development Bank on September 16 for $425 million. This is the first loan Peru has received from that institution in more than seven years and the largest granted by it.

In recognizing that this major headway means a commitment to the international community to continue our efforts, I wish to express my gratitude for the support extended to Peru by the President of the Inter-American Development Bank, the Managing Director of the International Monetary Fund, the World Bank, the Chairman of the Latin American Reserve Fund, and all friendly countries of the support group.

Clearly, all these efforts to lead Peru toward growth based on solid foundations will be undermined if a long term structural reform program is not undertaken.

In this connection, Peru has already reformed its external trade to eliminate nontariff barriers and introduce two tariff schedules of 15 and 25 percent.

I join other Governors who spoke before me in calling for a prompt end to the Uruguay Round of multilateral trade negotiations.

Peru has not limited its liberalization to trade, but has also eliminated all restrictions on foreign investment. As a result, foreign investors can invest in Peru on exactly the same conditions as those afforded any national investor, enjoying the guarantees under the agreement recently signed with MIGA. We are now revising all sectoral regulations that might discriminate against direct foreign investment, an effort we expect to be completed in the very near future.

Other reforms aimed at boosting investment, both domestic and foreign, include: (i) reform of the financial system, through a new banking law to liberalize the sector, replace obsolete provisions in force until recently, and promote competition among financial institutions; (ii) reform of "agrarian reform," which is a major step in giving new life to agricultural activity by deregulating the real estate market, which had been frozen by agrarian reform in 1969 by the military regime; and (iii) reform of the labor market, beginning with the elimination of the so-called "industrial community," also established by that same *de facto* regime, causing serious impediments to investment owing to the major distortions it produced in the cost structure. No less important is the long-term reform of the social security system, which we will begin shortly, with a view to channeling the system's resources towards productive activities and having workers enjoy larger yields on their savings.

Any structural reform program for an economy where the State plays an overwhelmingly preponderant role would be incomplete without consideration of substantial privatization. It is neither plausible nor desirable for a country to maintain a vast number of public enterprises characterized by administrative inefficiency, widespread corruption, lack of investment, and technological backwardness, which makes them inviable. With this goal in mind, we very recently promulgated a law instituting an appropriate legal framework for imminently starting the privatization of major enterprises, while at the same time safeguarding the transparency and technical quality required for the success of any privatization process.

The government of Peru thus feels that the private sector must play a key role in the future development of the country and must meet the challenge imposed by domestic and external competition within the context of a market economy. For its part, the State must focus on efficiently carrying out its responsibilities regarding health care, education, and public security, as well as developing and maintaining the infrastructure vital for development and the well-being of its population.

At this point, I would refer to the initiative taken by the ministers of the Group of Twenty-Four to establish a permanent technical assistance service for all member countries on a grant basis, financed through the net earnings and regular budget of the World Bank, as well as bilateral and multilateral

co-financing. This new service could be valuable in the immediate future in areas such as privatization, tax reform and the establishment of capital markets.

Finally, I would like to mention the Soviet Union's joining the multilateral agencies that bring together most of the world's countries. We wish to add our warm welcome to that proffered by the international community to both the Soviet Union as well as the other new members.

Lastly, we wish to congratulate the meeting organizers and express our thanks to Their Majesties the King and Queen and to the people of Thailand for their hospitality and kindness during our stay in the Kingdom of Thailand, whose culture, prosperity, and dynamism have impressed us profoundly.

PHILIPPINES: JESUS P. ESTANISLAO

Governor of the Bank

This is not an opportune time for us to be overwhelmed by shadows, when we can bask in some of the light that is shining through. Problems remain, and they are crying out to heaven for solutions. But new opportunities have arisen, and they are waiting for us to seize them.

The Iron Curtain has been drawn back, and we can go beyond merely scaling down the arms race: Can we now call it off? The threat of physical scarcity has receded, as the global supply of food and energy has surged to meet world demand: Can we now wipe out famine from the face of the earth and mitigate hunger in all the poorest areas of the world? The overhang of debt continues to enfeeble and strain, but the international financial system has moved further away from collapse along with a few countries that have smartly grown out of the debt trap: Can we now take the decisive steps that can put this issue behind us?

Indeed, our agenda is no longer limited to finding solutions to problems. It now extends to seizing the opportunities before us.

The opportunities have arisen out of the narrowing of differences and broadening of consensus. Taught by the experience of several decades, encouraged by the success of several neighbors, made wiser by the sufferings of those who have failed, we are now following the same script of short-term adjustments. We are singing the same tune of medium-term reforms. We are speaking the same language of long-term development.

The imperative of keeping one's fiscal house in order, the necessity of respecting the limits of prudence by an independent monetary authority, and the advisability of allowing exchange markets to clear under a truly competitive environment: these are the directives for a stable, conducive macroeconomic environment. Limiting government to the little it does best, liberalizing the trade regime, and opening markets and removing distortions are some of the most effective prods for our economy to become more

efficient. Local autonomy, privatization, land reform, countryside agro-industrial development, and environmental improvement are at the top of our agenda for progress.

If the list of items in the agenda for adjustment, reform, and development is increasingly becoming similar, why then do problems still multiply by the day? Why do countries appear to drag their feet along the path that leads to much higher welfare for the great majority of their people? Why, indeed, is there so much domestic static around broad prescriptions that have gained wide international currency?

The answer to these questions can vary from one country to another. Duty demands that we sift through the diversity for common strands that can guide us in translating the agreed agendas into completed actions.

We must first recognize a change in decision making. Whereas, before, only a very few were involved, now in more open societies, many more have the mandate to participate.

We must then accept the fact that, among the many who have the voice or vote or both in the process of formulating policy, there is a wide disparity in ideological persuasion and in the willingness and readiness to appreciate the facts, the logic, and the timing behind policy as well as in the ability to harmonize short-term parochial concerns with long-term societal imperatives.

We must also face up to the consequences of institutional arrangements having broken down before new ones have firmed up. The required effort may appear too draining, the process too time-consuming, and the focus too glaring on personalities to make almost everyone despair about getting anything done on time or at all.

Recognition of the problem is a first step toward its solution. Problems are no longer centered on what to do, but on how to get it done; no longer on where to go, but on the means to get there; and no longer on the economic ability to see the right policy, but on the political will to bring the process of its successful implementation to final completion.

We cannot pretend that consensus over broad policy suffices. We have to appreciate the often heroic efforts of individual countries to deliver on agreements. We often have to meet even the slippages of those who do their best with the warm prod of a helping hand, rather than with the cold indifference of an iron heart.

We know that in more open societies, governments must take on the added duty of informing, of educating, of consulting, and of winning support from a broad circle. This takes time and effort, but is well worth the wide base that makes for stability, and is well compensated by the extraordinary common sense of common people everywhere.

We recognize the idea of maximum freedom being exercised with maximum responsibility. But day-to-day reality brings out small groups with their own narrow agendas and hears vocal minorities with their claims on privileges. Leadership must pit against the broad agenda for the common good

and the equal application of rules to all; and it must give unto all the subsidiary units of society the corresponding rights and duties due them.

We are still building up the strength of our societies upon the strength of our institutions. Until new institutions get to function smoothly, personalities prevail, personal vetoes often hold, and personal preferences take center court. We have to move quickly and ensure that the dictatorship of the autocrat already removed is replaced by a working system of institutional rules that effectively delimit individual prerogatives.

Economic education, people empowerment, and institution building: these are the three prongs of a program that can help many countries translate agreed agendas into completed actions. These are the pathways open, democratic societies have to travel to go beyond broad consensus into concrete results.

Let not the bureaucracies of governments stop at railing out of frustration from the difficulties on the way. They have to start with the understanding that though the way is long, it is trodden with effort and vigor.

Let not the multilateral agencies see countries only through the prism of abstract formulas to be applied neatly in every instance. They have to look at concrete situations, with the array of real forces that often make actual results fall below the ideal.

Let not the creditor institutions weigh only the benefits of short-term transactions. They have to continue to count the rewards and responsibilities of long-term partnership with countries that take their obligations seriously.

The spark of freedom that has always flickered in the hearts of men has now become hundreds of millions of points of light across the globe. They now have to be fanned into a worldwide conflagration of development: one that transforms swords into plowshares; one that transports food from bulging warehouses into empty stomachs; and one that transfers resources from frivolous abuse to more productive uses.

The opportunity to substantiate freedom with progress and democracy with development is before us. Let us all seize it, and in seizing it, let us remember: freedom has its price, and democracy its peculiar difficulties. For the sake of progress and for the cause of development, let us reach out farthest to all those putting in the best effort in paying the price and in facing up to difficulties.

POLAND: ANDRZEJ TOPINSKI

Governor of the Bank

Two years ago, Poland formed the first noncommunist government in Central Europe. This was followed by a wave of sweeping political and economic changes in Central Europe and the U.S.S.R. We have witnessed the disappearance of Soviet-style communism; we have also seen new govern-

ments undertake serious economic and political reforms designed to make the transition to free markets and democracy.

The extent of the transformation makes it clear that communist totalitarianism has definitively ended in this part of the world. However, what kind of political and economic system will emerge in its place is still far from clear.

The governments of Central and Eastern Europe do not need to be convinced of the urgency to continue the reforms. They do, however, need strong, unflinching, and innovative support from the developed West and the whole international community. Following the spirit of the Bretton Woods institutions, we have embraced the principles of free trade and opened our markets to foreign competition. We expect all countries, especially the highly industrial ones, to do likewise.

Given the harsh international climate in which the reforms are taking place, it is essential that the support offered by the international community be allocated in a most efficient and effective manner and be tailored to the recipient's needs. We are still in a crucial period in our reform process—one in which international cooperation and solidarity in removing the remaining obstacles continue to be urgently required.

The transition from a centrally planned economy to an economy based on private ownership and a functioning market has no blueprints to follow. However, there are solutions used by other countries that are applicable to our economic reality. We are eager to use these tested models and are ready to offer our technical expertise and assistance to other countries wishing to follow our way down the path of transition.

For the international community, the World Bank, the International Monetary Fund, and other multilateral organizations concerned with world economic development, the recent changes in Central and Eastern Europe pose a great challenge. This "new region," which was previously isolated from the rest of the international community, is now trying to reintegrate with it, bringing new problems as well as new opportunities. The challenges of development must be supplemented with the challenges of transition, including such issues as restructuring and mass privatization.

The transformation process—the passing away of the old and the emergence of the new—brings with it many uncertainties.

The question arises: will this region, so rich in natural and human resources, successfully make the transition to free market democracy and become an area of development and an engine of growth for the world economy? Or will the difficult reforms, now being launched or implemented, fail due to lack of internal and external support, causing the region to slide into a vicious circle of economic regression and political instability, thus becoming a perpetual drain on the international community's resources?

Of course, the answer to this question depends mostly on ourselves and our own patience and resourcefulness. The reforms could not have taken place without the wide popular support for the process in the respective

countries, and it must be recognized that the path to economic improvement exacts a heavy social cost on the population: the risk of destabilization—as a result of popular discontent or from powerful opposing interest groups—becomes much greater. In order to maintain stability in the period of transition, economic reforms must go hand-in-hand with political reforms.

We have enjoyed overwhelming political support from the international community for our reforms. Without this endorsement, proceeding on the path to a market-style economy would be impossible. This support helped tremendously in achieving acceptance for the reforms on the domestic front.

We note with gratitude the assistance and understanding provided to the countries of Central and Eastern Europe by the international community and the most helpful activities of the international financial organizations. But we are very sensitive to the fact that the World Bank and the IMF must not neglect their more traditional borrowing countries. We certainly hope that the Bank and the Fund will do everything in their powers to maintain the level of support to their regular clients and, at the same time, provide adequate support for the adjustment programs of Central and Eastern European states. Moreover, we look to the entire international community of nations for an increase in economic and political contacts, reintegrating the region into the post-Cold War, world order.

We welcome the association of the U.S.S.R. with the International Monetary Fund. We would be glad to see the U.S.S.R. and its former Republics that choose an independent path integrated as full-fledged members of the international financial organizations. The acceptance of this region's countries into the international financial community assures that the changes will not be reversed and solidifies the fragile stability in the region.

I would like to finish with words of special thanks to Mr. Barber Conable, who served the World Bank as its President, and welcomed Poland to the family of the World Bank Group. We also bid a warm welcome to Mr. Lewis T. Preston who will be guiding the Bank through the ever-so-rapidly changing map of the global economy, and congratulate Mr. Michel Camdessus for his re-election as Managing Director of the Fund for another term.

And finally, let me commend and thank our gracious hosts—the Thai Government and the Thai people—who have impressed us with the professionalism and superb organization of this year's proceedings, and conquered our hearts with the stunning beauty of their country and their warm hospitality. To all those who made this meeting possible I give you my most sincere "wai."

PORTUGAL: LUIS MIGUEL COUCEIRO PIZARRO BELEZA

Governor of the Bank

It is an honor and a pleasure for me to address these Annual Meetings of the World Bank and the International Monetary Fund. First, allow me to

thank the Thai authorities and the people of Bangkok for their very warm welcome and magnificent hospitality and to welcome Albania into the Bretton Woods institutions. I also want to congratulate warmly Mr. Lewis T. Preston on his appointment as President of the World Bank Group and to wish him success in his new and demanding position. I am sure that Mr. Preston's proven abilities will provide the necessary leadership which, in cooperation with the Board of Governors and their representatives in the Executive Board, will ensure a most efficient implementation of the World Bank's policy priorities.

Jean Monnet once said on the then-infant European Community, "like our provinces in the past, today our peoples must learn to live together under the freely accepted common rules and institutions if they want to attain the necessary dimensions to their progress, and remain masters of their own destinies."[1] I believe that those prophetic words ought to, and hopefully will, in the near future be appropriate to the world as a whole, and not just to the European Community. And, of course, the Bretton Woods institutions are at the forefront in this respect.

The IBRD's mandate—in particular, the reduction of poverty and the protection of the environment—unfortunately must remain no less a priority than they have been in the recent past. These all important objectives will only be possible with the firm commitment of both the donor community and the borrowing countries.

Poverty reduction means sustainable economic growth. This has to be the benchmark for the evaluation of how efficient is the use of official development assistance resources.

Greater demand for cooperation funds is bound to increase the need to establish clear priorities for the allocation of ever-scarce resources. Special efforts will be needed from all of us, borrowers and lenders, bilateral donors and multilateral institutions, in order to ensure a better, more efficient use of funds.

Portugal, although facing its own challenge of converging toward the better-performing of our European partners, is very much aware of the scarcity of available resources. Our historic relations with sub-Saharan Africa and Latin America aid us to focus on the main development issues and problems. This has been reflected in the special efforts we have been undertaking in the area of official development assistance, increasing our aid and rendering its use more productive.

We have strengthened, and will continue to strengthen, our presence in several multilateral institutions, such as the new UNDP Trust Fund and the Multi-Country Loan Facility.

Regarding the World Bank Group, we will soon be seeking graduation from IBRD borrowing, and we intend to join two of the most relevant

[1]*Jean Monnet, 1975,* Mémoires, *Librairie Artheme Fayard, p. 788.*

multilateral development instruments—IDA, where we plan to fulfill our donor responsibilities during its Tenth Replenishment, and SPA-II (Special Program of Assistance for Africa) to improve the multilateral coordination of our own quick-disbursement aid.

We are also considering new, more flexible, and highly concessional alternatives regarding bilateral debt of poorer, highly indebted countries. Our contribution will, of course, depend on the beneficiaries' own adjustment efforts.

We warmly welcome the thrust of the recent and ongoing fundamental changes in Central and Eastern Europe, including, of course, the Soviet Union and its Republics. We especially welcome the soon-to-be members of the Bretton Woods institutions, Estonia, Latvia, and Lithuania, and the Special Association agreement between the Soviet Union and the IMF.

The Bretton Woods institutions have a fundamental role in aiding the adjustment of those countries, and we wholeheartedly support their role within a framework of a fair and equitable burden sharing and allocation of available resources.

Let me now turn briefly to the European Community. The European Community faces important challenges in the immediate future. Those are, of course, the completion of the single market program and (rapid) progress toward economic and monetary union (EMU), as well as political union.

Portugal's rapid growth, improving monetary stability, and structural reforms aimed at a more open and efficient economy constitute important steps along the path to a successful integration in EMU. Among the latter, I would stress our far-reaching, ongoing privatization program and the fundamental reform of financial markets, which by and large substituted marked mechanisms for often heavy-handed government intervention.

The Portuguese presidency of the European Community in the first half of 1992 will provide an excellent opportunity for us to contribute to the building up of a Europe which is both increasingly united and open. Europe must assume its role as an area of stability and thus contribute to the overall soundness of the international payments system. But we must not let intra-European issues, no matter how important, distract us from our responsibilities toward the developing countries.

Let me remind us of the admirable words of David Ricardo:

> "Under a system of perfectly free commerce, each country naturally devotes its capital and labor to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. While, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world".[1]

[1] *D. Ricardo, 1817,* The Principles of Political Economy and Taxation, *Chap. VII, "On Foreign Trade," p. 81.*

SOUTH AFRICA: BAREND J. DU PLESSIS

Governor of the Fund

On behalf of the government and the people of the Republic of South Africa, I wish to join in the appreciation expressed to our hosts for their warm hospitality and also in welcoming the new member of the World Bank Group and the Fund, as well as recognizing those countries that have applied for membership.

I also wish to extend sincere congratulations to Mr. Michel Camdessus on his unanimous reappointment as Managing Director of the Fund for a second five-year term. Likewise, I would congratulate Mr. Lewis T. Preston on his appointment as President of the World Bank. We look forward to sharing in the benefits of the wise counsel and leadership of these two gentlemen. We acknowledge with gratitude the services rendered by Mr. Barber Conable.

The awareness of and concern about unemployment, poor living conditions, and extreme poverty, with millions of people now living close to the point of starvation, could hardly be greater than now. The gravity of the situation in many developing countries, including former socialist countries, has forcefully underscored the limitations of many of the approaches and remedies pursued in the past. To an increasing extent, it is being realized that, for economic growth to be successful in raising standards of living and reducing poverty over a wide front, a process of far-reaching restructuring is required. Ideally, this process should combine economic and political democratization.

Successful restructuring should, of necessity, include enhancement of the supply and productive use of savings and human skills, strengthening of institutional capacities, and ensuring the more efficient use of existing infrastructure. It should be borne in mind, however, that not all developing countries have the same ability to substantially increase domestic savings, at least not in the initial stages of economic restructuring.

It is clear from the recent experiences of many countries, particularly in Eastern Europe, that a market-oriented approach to economic growth and development, notwithstanding its shortcomings, is rapidly replacing a centrally-planned or command-economy approach as the best way to serve overall economic objectives. This shift in opinion is a rising tide to which every responsible developing country should respond in a positive and timely manner. The solution does not, however, lie in mere emulation of a successful country's strategies or association with a successful regional grouping. On the contrary, the road to success is normally individually tailored, touching the very fabric of the society involved. Indeed, it will be found that "prosperity begins at home," often demanding drastic and unpopular choices. Many developing countries, including ourselves, have already ex-

perienced this in one way or another. The basic requirements for generating the means necessary to improve the quality of life of a society or a nation are universal. There are no easier methods available to some of us, regardless of the often widely differing circumstances prevailing.

To begin with, governments must recognize the need for reducing fiscal deficits and high inflation rates, and for reducing or avoiding excess foreign debt. Greater efficiency in public administration is essential, and a reorientation of public sector spending priorities, often in favor of socioeconomic development programs, must take place. Also, monetary and fiscal policies must be based on medium-term considerations, promoting an environment conducive to saving, investment, and the efficient and productive use of limited resources.

However, sustainable growth and optimum economic development can only be achieved under conditions of macroeconomic financial stability. The South African Government therefore supports the IMF's continued emphasis on good financial housekeeping, involving the universally proven principles of monetary and fiscal discipline.

Structural economic adjustment programs forced on many developing countries by a changed international environment often involve more than the responses of the individual countries themselves. A further global liberalization of international trade and an orderly reduction of prohibitive import tariffs have become imperative ingredients of those drastic changes now demanded of many developing countries.

Finally, and very importantly, countries involved in economic and social restructuring programs of this nature must give prime importance to the development of human resources. Access to appropriate education, training, and full participation by the people of the country form basic elements of such programs. It is also incumbent on governments to provide for maximum affordable social security as well as interim measures to provide some alleviation of poverty until the more positive effects of the restructuring program can be realized.

In the initial phases of implementation, economic restructuring often produces more immediate "pain" than "gain." The ultimate objectives are very difficult to achieve, especially if greater democratization is pursued at the same time. Consequently, in many developing countries a type of social accord—between government, business, and labor—has proven indispensable in this respect.

Taking account of both the complexity and the comprehensive nature of economic restructuring programs, developing countries need the support of the international community and, in particular, of multilateral institutions such as the World Bank Group and the International Monetary Fund in the implementation of such programs. South Africa therefore supports efforts within these institutions to provide maximum assistance to members in this regard.

As has become clear in the case of Eastern Europe (and this has been debated with regard to the Soviet Republics in the past days and applies to many other countries as well), the question is not only what support should be given, but also when the support should be given. It can indeed come about too late. The mere embarkation on a course of economic restructuring leads to rising expectations that may thwart the whole process unless timely external support is forthcoming to facilitate the early achievement of at least some of the goals or fruits of restructuring. Both economic and political democratization could easily be placed in serious jeopardy if premature disillusion with the adjustment process is experienced and translated into political rejection.

Greater access to foreign goods and financial markets and the correct timing of such access are equally important factors. The delay in the Uruguay Round of the GATT talks is therefore a matter of grave concern.

The task now facing a number of sub-Saharan countries in restructuring our economies simultaneous with major social and political reform presents an enormous challenge. To ensure success, appropriate and well-timed external support as well as intraregional cooperation will be essential.

We also see it as part of our responsibility to join other countries in our region in the promotion and implementation of policies which will secure continued international support and participation in the expansion of trade and new investments.

Indeed, both domestic and regional prosperity begins at home.

SPAIN: CARLOS SOLCHAGA

Governor of the Fund

I would like to begin by extending to the U.S.S.R. my warmest welcome to the Bretton Woods institutions. The Special Association agreement recently signed by the U.S.S.R. and the International Monetary Fund marks the beginning of a new era in international economic relations, thereby opening as well a new and exciting period for the multilateral institutions which have made a decisive contribution to the prosperity of their member countries over the past four decades by promoting the stability of the multilateral payments system.

Despite the critical importance of gradually incorporating the countries of Eastern Europe and the U.S.S.R. into the market economy, it is difficult to shed the impression that a substantial proportion of the work of these Meetings, however, will be dominated by the relative discouragement produced by the mediocre economic performance of 1991, and by the anxiety generated by the news that 1992 will constitute the point of departure for a new growth phase in the international economic cycle.

Accordingly, I wish to express my views on the international economic situation before addressing the topic of the role that our multilateral insti-

tutions should play in the gradual process of reincorporating the countries of Eastern and Central Europe and the U.S.S.R. into the international economy.

Indeed, 1991 has not been a good year for the international economy. In the industrial countries, economic growth has slowed significantly, as a consequence of which job creation has suffered, as shown by the 1 percentage point increase in the unemployment rate in the region. Moreover, average inflation in those countries has not changed significantly since last year, and in a good number of countries budget imbalances have worsened as a result of built-in stabilizers. The only unquestionably positive result of the year seems to be the reduction in the asymmetric external position of the leading countries of the region.

As regards the developing countries, suffice it to say that this year their average growth rate will be negative, a result that, although due basically to the exceptional circumstances in the Middle East and Eastern and Central Europe, would not have occurred even in the extremely difficult decade of the external debt crisis.

There are many reasons for this weak economic balance, but two of them stand out. First, the difficulties encountered by the traditional economic policy instruments in making adjustments for the surpluses and distortions generated by the prolonged period of growth experienced by the international economy until 1990 have exacerbated the slowdown. Second, the confidence we all expected after the Gulf war did not materialize, and this clearly had a considerable negative impact on the consumption, savings, and investment decisions made by economic agents.

Although these factors still persist to a greater or less extent—especially the fragility of the expectations of those who are counting on rapid economic recovery—the results for 1991 need merely be compared with those for 1982, when the previous growth cycle began, to justify the recovery projections for the next fiscal year.

As regards the industrial countries, despite the previous downturn, the current cycle is characterized by relatively less slowdown in growth in both GDP and domestic demand, inflation that is virtually half of what it was on average in 1982, an aggregate fiscal deficit that accounts for 1 percentage point less of the GDP in the region, and an unemployment rate more than 1 percentage point lower than that experienced at the start of the decade.

For the developing countries, I need merely recall that many of them were then beginning their forced exclusion from the international capital markets that turned the subsequent years into the "lost decade." However, in 1991 the international financial markets again became accessible to those countries which, having persevered in their structural adjustment processes, managed to restore international credibility in their economies.

Beyond our own hesitations and lack of confidence, there are thus no objective reasons to prevent 1992 from being a year of economic recovery,

provided that we are able to safeguard in all quarters the basic elements of economic policy that made it possible first to spur and then sustain the period of growth that began in 1982. In other words, monetary and fiscal policies must continue to ensure balanced and noninflationary growth in the economy; the behavior of agents must be consistent with the requirements of the competitive environment that has emerged after a decade of liberalization and deregulation; and there must be a willingness to make structural reforms resulting in more efficient allocation of resources and thereby enhancing the growth potential of the economy.

In sum, relative optimism for the future of the international economy is justified if we can avoid the fruitless temptation to speed up growth over the short run at the cost of higher inflation or a worsening of some other basic imbalance.

As we have been doing for nearly a decade, Spain will continue to maintain an economic policy that promotes noninflationary growth because we have seen that this produces satisfactory results in terms of economic efficiency as well as prosperity and well-being. As you know, in 1991 Spain's economy, after enjoying an intense and prolonged period of growth, has continued to expand at nearly 3 percent, and we project that in the coming fiscal year the rate will be even higher. At the same time, inflation and the current account deficit have been reduced and the fiscal deficit stabilized.

If we had the support of the price and cost setters, we would thus be able to fully tap the growth potential of our economy and more rapidly bring our inflation rate into line with that in the most stable countries of the community with which we are going to establish the European Economic and Monetary Union.

In order to strengthen this direction in macroeconomic policy, we have designed a new package of structural reforms. A new round of reforms in the labor market; better vocational training; complete deregulation of capital transactions; autonomy of the Bank of Spain in the design, orchestration, and implementation of the monetary policy; and strengthening of the policy of competitiveness are the foundations of the structural policy we will be developing over the coming months and which cannot but yield very positive results for production and employment, especially if the expected recovery in the international economy occurs.

In concluding, I will return to the topic of re-incorporation into the market economy of the U.S.S.R. and the countries of Eastern and Central Europe. The months that have elapsed since the transcendental political and economic changes began in some of them have convincingly demonstrated the enormous difficulties involved in moving from a planned economy to a market economy and from an authoritarian regime to a democratic and multiparty system.

We have also learned that the transition takes much more time than initially thought. This time factor may be the most important aspect in

shaping the role that our multilateral institutions, and in particular the World Bank and the IMF, are to play.

Indeed, the transition from a planned to a market economy is a matter with which the international economy will have to live for a good number of years, as it copes simultaneously with another series of problems that have been experienced for some time, including the stability of the international monetary system and the definitive solution to the external debt problem.

For the Bretton Woods institutions to be truly effective in each and every area entrusted to them, we, their shareholders, must also be prepared to make the necessary changes dictated by the new international context. In particular, two areas are now no less than urgent: strengthening of the linkages between our institutions and GATT and a significant increase in the IMF's own financial resources.

It would be politically regrettable and economically very costly if we were not to seize the historic opportunity offered by the Uruguay Round for expanding trade liberalization in our economies. The debt crisis has shown us that access to capital markets is not a substitute for access to goods markets and that without a freer trade structure than exists at present, the possibilities for sustained growth in a good number of developing countries are scarce. We therefore feel that the time has come for closer coordination between the World Bank, IMF, and GATT, recreating the three pillars on which the recovery of international prosperity was based after World War II.

Moreover, the Bretton Woods institutions cannot play the role incumbent upon them unless they have sufficient funding. Payments must be made as soon as possible under the IMF's Ninth Quota Review, although it may already be insufficient, and we may have to begin thinking about a tenth review. Let us hope that by then we can once again make the quotas serve their original purpose as a source of all rights and obligations, leading to a rapid closure of the negotiations, the ultimate goal of which should be a marked improvement in the financial soundness of the institutions on which much of the stability of the international economy rests.

TANZANIA: STEVEN A. KIBONA

Governor of the Fund
(on behalf of the African Governors)

We would like to begin by paying tribute to Mr. Barber B. Conable, who presided over the World Bank Group during a period of fundamental changes and challenges in the international economy. We wish him success in his future endeavors. We would also like to extend a warm welcome to Mr. Lewis T. Preston, the new President of the World Bank Group. We are confident that with his wealth of experience, Mr. Preston will provide the

required leadership that will help developing countries meet the challenges of the 1990s.

The need for adjustment is now widely accepted in developing countries. This is certainly the case in Africa, where efforts toward economic reform continue unabated. The vast majority of African countries are undertaking programs supported by both the Bank and the Fund. In spite of the difficulties and sacrifices encountered in implementing the reforms, we are determined to stay the course. It must be unmistakably clear that African governments are committed to doing what is necessary and feasible to rejuvenate their economies and set the stage for improved standards of living.

This is a daunting and formidable task. The number of low-income countries in Africa has increased in recent years, as several countries previously classified as middle-income have lost that status. For sub-Saharan Africa, recent projections by the staff of both the Bank and the Fund suggest that real per capita GDP is unlikely to be more than it was some 20 years ago and that the economic decline that has characterized the region over the past two decades will barely be arrested, if at all. In addition, the United Nations Food and Agriculture Organization only a few months ago drew attention to the increased risk of malnutrition in Africa, with the possibility that conditions could become worse than during the famine of 1984, in which several million Africans lost their lives.

Looking to the future, our hope that the deterioration in living standards will be reversed through the sustained implementation of strong adjustment programs is dampened by the persistence of an adverse external environment. Certainly, progress is threatened, and the cost of adjustment has been increased, by the slowdown in the growth of the world economy for the third consecutive year. The impact of the Gulf crisis has worsened the situation. At the same time, warnings are being sounded about a global capital shortage, which means that African countries, particularly the low-income among them, will have a more difficult time competing for their capital requirements. Moreover, Africa is still burdened by a growing debt overhang, a dwindling share of world trade, and unfavorable prospects for the prices of its major exports.

There is now a heightened risk that Africa will be left on the periphery of the international economy, which seems to be moving along two separate tracks: one toward greater financial and economic integration among industrial countries, the other toward the progressive delinking of the economies of a large number of developing countries from the rest of the international community. With all the emphasis being laid on economic adjustment and structural change, it remains the singular task of the Bretton Woods institutions to find a way to put the world economy onto a path of growth and development that is beneficial to all their constituent members. Only thus can the sacrifices of adjustment and economic reform be turned into opportunities for sustained growth and improved living standards in Africa and

the developing world as a whole. Therefore, the Bretton Woods institutions should take into account the objective of the integration of our economies in the adjustment programs they support.

The priority in Africa's economic agenda is the reduction of poverty through the resumption of strong, sustainable growth. The critical requirement is to increase investment. The ratio of investment to national income in Africa has fallen by some 25 percent since 1980. In some of our countries the process of "decapitalization" is at the point where the current rate of investment cannot even replace worn-out capital. While adjustment, particularly in the public sector, is an essential condition for increasing domestic savings and for growth, it is equally crucial to increase external financial assistance to help raise investment levels for the success of any poverty reduction strategy.

Substantial resource flows from the international community are needed for Africa to break away from the low savings-investment trap. The Bank and the Fund have important roles to play in this regard. We should begin to think now about extending and expanding the Fund's enhanced structural adjustment facility (ESAF), given its compatibility with the economic profile of a large number of member countries. The Fund could also help ease the financial constraint in developing countries by reaching an early decision on SDR allocations and by linking such allocations to the needs of developing countries. The Special Program of Assistance (SPA) in the Bank is an important instrument for mobilizing co-financing for debt-distressed, low-income African countries, and we welcome continued support through SPA-2. We expect to see more countries become eligible in the near future to access this facility, which must not become a substitute for IDA resources. As discussions on IDA-10 commence, we trust that the international community will resolve to assure an increase in real terms over IDA-9. We also hope that more resources under the IDA Debt Reduction Facility will be mobilized to alleviate the debt burden of eligible countries in the region. In sum, we are appealing to the donor community to increase its support of our growth-oriented adjustment efforts. Despite the seemingly intractable problems in Africa, we do have a message of hope: that, more than at any other time, the economic and political changes now under way in Africa put it within our reach to reverse the continent's socioeconomic decline. Currently, however, substantially more assistance will be needed.

We want to stress that sustainable growth requires that all sectors of the economy fully play their part. The public sector continues to have an important role—even as we seek to streamline the direct involvement of the state in economic activities. The specific circumstances vary from country to country, ranging from the provision of infrastructure to investment in the social sectors. The fact should not be obscured that the private sector itself can flourish only where there is a reasonably well-developed physical and social infrastructure.

We see a vital role for IFC and MIGA in helping to promote private investment, and we welcome the recent decision to increase IFC's capital base by $1 billion. IFC should strengthen its efforts to develop African entrepreneurship and promote domestic private investment through the Africa Enterprise Fund and the Africa Project Development Facility, among other instruments. Meanwhile, we should also make it clear that we do not believe that the World Bank itself should drastically change its focus to extending a large volume of its lending directly to the private sector.

It is necessary to raise, once again, the issue of program design. We think that there is still room to bring programs up to the point where they take full account of the diverse circumstances among countries seeking support from the Bank and the Fund. For example, programs continue to assume that policies that are implemented will produce quick, positive results. However, experience shows that, mainly due to structural rigidities embedded in our economies, policy instruments often tend to produce unintended negative effects, such as inflation, unemployment, and low levels of investment and production. The need to be more innovative takes on an added dimension in the light of the current climate of political pluralism. It is therefore imperative that national authorities should play the leading role in designing adjustment programs, thus enabling the authorities to "own," and the public to support, such programs.

We welcome the renewed focus on poverty reduction by the Bank. The next step now is to ensure that this becomes an integral part of the adjustment strategy for Africa in the 1990s. In particular, efforts should be intensified to raise the level of agricultural investment and to promote food security in our region, to increase investment in physical infrastructure and human resources development, and to promote economic diversification in the context of a vibrant private sector. These are essential undertakings for creating employment and for enhancing productivity and are important objectives, considering that some 100 million people were estimated to be unemployed or underemployed in sub-Saharan Africa in 1989. It is also now accepted that access to basic education and health care can improve the productivity of the poor and of the labor force in general.

It is for that reason that we are also firmly committed to increased popular participation in the development process, as set out in the African Charter for Popular Participation and Transformation, which was endorsed by our Heads of State last year. We are also aware that good governance is an indispensable framework for genuine popular participation. However, African governments will not accept conditionalities premised on the prescription of certain political systems for them.

Poverty reduction must, of necessity, be integrated with programs to protect the environment and arrest environmental degradation. There is a serious environmental crisis in Africa that requires renewed efforts by our governments, supported by assistance from the international community.

African Governors are of the view that if poverty reduction and sustainable development are to be meaningful, equal emphasis should be given to arresting and reversing environmental degradation. Concerning the regional and global aspects of the environment, we welcome the establishment and operation of the Global Environment Facility (GEF). We expect to see under its aegis the development of programs that address major global environmental concerns, including pollution, desertification, and preservation of the natural resource base in all countries.

The debt overhang is still an albatross around the neck of many African countries. Reducing this burden is a *sine qua non* for achieving the goal of sustained economic growth and reviving investors' confidence. The Bank and the Fund must be the lead institutions in getting this message across to official creditors and the commercial banks through the inclusion, in adjustment programs, of debt reduction proposals consistent with a country's ability to repay, with adequate margin for growth. The need for the injection of new money in debt reduction packages should also be emphasized. At the same time, we urge the Paris Club to fully implement the United Kingdom's debt and debt-service reduction proposal, made in Trinidad and Tobago in 1990 and endorsed by the major industrial countries at the London Summit of July 1991, and to extend the arrangement concluded with Poland to African countries whose circumstances warrant similar treatment. We also call attention to the successful efforts being made by a number of countries, including some with heavy debt burdens in terms of conventional ratios, to weather external shocks while maintaining full debt-service payments and avoiding rescheduling. We urge industrial countries and multilateral organizations to provide appropriate support to these efforts so as to facilitate the retention of access to international capital markets and the provision of voluntary loans to these countries. It is essential that prompt, adequate, and flexible official assistance be made available to support such efforts.

Africa is more dependent on technical assistance than ever. Indeed, vast sums of money have been spent on foreign experts and too little on building and sustaining local capacities and institutions. We therefore expect better results from the capacity-building initiative that was launched recently and hope that it will lead to greater use of African managerial and technical expertise in both the public and private sectors.

On the Uruguay Round of negotiations, we call on the negotiating parties, and especially the industrial countries, to take due cognizance of the Resolution adopted by the Summit of our African Heads of State and Government in Abuja, Nigeria, in June 1991, to ensure maximum transparency in the negotiations at all levels during the final and decisive phase of the Uruguay Round of negotiations. The Resolution, among others, calls on the industrial countries to take into account African interests in the finalization of the negotiations so that the outcome of these negotiations will result in

improved access for all products of interest to African countries and in more vigorous application of the principles of special and differential treatment for African countries, and so that no additional obligations are imposed on African countries without additional offsetting rights to safeguard the existing balance on GATT rights and obligations.

At the international conference on sub-Saharan Africa in Maastricht, the Netherlands, in July 1990, the Global Coalition for Africa was formed. We would like to take this opportunity to urge the international community to lend its full support to this initiative, which can become a creative forum, not only for the exchange of development ideas and experiences, but also for joint action for the economic development of Africa. We would also like to draw attention to the final report of the South Commission entitled *The Challenge to the South*, which deals with major issues in our development agenda, such as development strategies for the sustainable use of resources, self-reliance, and the promotion of regional cooperation among developing countries.

In conclusion, we remain confident that, with the support of the international community, including both the World Bank Group and the International Monetary Fund, Africa can and will reverse the decline and despair of the past decades and enter a period of peace, security, and sustained growth in the 1990s and beyond.

THAILAND: SUTHEE SINGHASANEH

Governor of the Bank

Allow me to join my Prime Minister and the people of Thailand in welcoming you to the Bangkok Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund. I would like to join fellow governors in welcoming the delegation from Mongolia as the latest member of the Bretton Woods institutions.

On behalf of my delegation, I am most pleased to welcome Mr. Lewis T. Preston, the new President of the World Bank. We are sad to say farewell to Mr. Barber B. Conable, but we are confident that Mr. Preston will show exemplary leadership and steward the Bank to greater achievements in meeting the challenges of accelerating the socioeconomic progress of the developing member countries in their fight against poverty.

World Economic Outlook

As we review the events of the past year, I believe there is a feeling of apprehension among us. Despite a timely conclusion of the Gulf crisis and a quick return to normalcy in the oil market, the world economy has taken some time to get back on the path of sustained growth. In the past year, slow growth and recessionary conditions have characterized the perfor-

mance of the industrial economies. Negative growth is now being projected for North America and the United Kingdom, while Japan, France, Germany, and Italy are expected to post only moderate growth. In addition, this recessionary outcome is expected to be accompanied by only a moderate reduction in inflation. Regrettably, the less favorable external economic environment has adversely affected the performance of many developing countries.

This year, economic growth in developing countries is also expected to be negative, while inflation, though declining, continues to remain high. For many developing countries, such a scenario implies a fall in income and export earnings at a time when some of these countries are already burdened with heavy debt. The worst affected region, I believe, will be Africa, where a vicious combination of lower exports and higher debt-service payments still remains a major problem. Most of the countries in Africa will continue to need substantial inflows of additional resources to overcome the hard economic conditions and to improve the living standard of their people.

As for Asia, the region as a whole is projected to enjoy a rapid growth rate. Nevertheless, the growth performances within the region will differ considerably. The successful performance of the Asian newly industrial countries, and the countries in the ASEAN region should continue, but perhaps on a less enthusiastic note, as we too have been adversely affected by the slowdown in the global economy. This, I believe, has only prompted us to work harder and to act in a more cohesive manner. As for Thailand, we have recorded a satisfactory growth rate in the upper range of 7 percent in the first half of 1991. This, however, is a welcome change from the double-digit growth rates of the past few years, which have evidently put great strains on our capacity and resources.

For the coming year, the outlook for the world economy is for a moderate rebound. This assessment is predicated on the expected recovery in North America, with reduced cyclical divergence among industrial countries. While the projections are relatively optimistic, being a practitioner, I believe we cannot simply wait for these predictions to materialize. The expected recovery in the global economy will hinge importantly upon a greater spirit of international cooperation among all trading nations to reduce a host of downside risks. All of us will have to be more cautious about our own domestic policy implementation. We will have to make concerted efforts to improve the prospects for trade. And last, poverty still remains a daunting concern. The eradication of poverty thus remains an important item for our deliberations in the few days to come.

Agenda for Action

I list the four areas on which Thailand believes this meeting should focus its attention.

First, the development of the monetary and financial system is still an important policy issue. The key task now is how to best coordinate economic policies among the large industrial nations to support a global economic recovery without rekindling inflationary pressures. In the medium term, while price stability should remain an important policy objective, the new demand for saving associated with the reconstruction in the Middle East, German reunification, and reform in Eastern Europe and the U.S.S.R. is likely to have a large impact on the financial resources of industrial countries. To meet this challenge, the policy strategy in the industrial countries needs to put greater priority on fiscal consolidation and reduction in unproductive government expenditures. At the same time, structural adjustments must be stimulated, especially with respect to the labor market, tax structures, and the trading system, in order to reduce unemployment, encourage private savings, and improve production efficiency.

Second, being a major beneficiary of the open trade and payment systems, we in Thailand have observed with concern that the open, multilateral system of world trade has come under increasing strain in recent years. We would like to express our extreme disappointment in the lack of success of the Uruguay Round. It is ironic that many industrial countries, while publicly reaffirming their belief in free market principles and extending timely and strong support to the movement toward the creation and development of free market regimes in Eastern Europe and the U.S.S.R., simultaneously are the very countries putting up obstructions and refusing to lower or dismantle trade barriers vis-a-vis other dynamic developing countries. Moreover, they are using strong-arm tactics in forcing bilateral concessions from smaller and weaker developing economies. A successful and timely conclusion of this important multilateral GATT process is vital to stable world economic progress and revived world trade expansion.

Third, I would like to stress again our firm belief that the reduction of poverty and hunger and the development of human resources remain the major and truly long-term challenges facing all of the developing member countries. It is the duty of the world community to work together to alleviate poverty and ensure true socioeconomic progress. While the less endowed developing member countries must do their part in promoting development, their efforts may be far too meager without generous and timely assistance from the more richly endowed countries of the world.

Fourth, on the issue of environmental preservation, it is very important to bear in mind that the major contributors to the degradation of world environment are the industrial giants of today. This is true in both historical as well as in contemporary perspectives. Because the developing countries, in striving for development, need and rely on economic and financial loans and credits from the multilateral institutions, they are subjected to stringent environmental conditions and standards imposed by developed countries through these institutions. Such conditions are quite costly. However, these

same stringent conditions are not being imposed on many of the industrial polluting countries, as they do not borrow from the World Bank and IMF. It is, therefore, our firm belief that a universal standard on environmental preservation and a global environment fund be set up and enforced by an international agency because it is a universal responsibility. This will not be an easy task, and its success calls for the recognition of mutual responsibilities and an equitable sharing of financial resources and efforts on a worldwide scale.

Developments in Thailand

I would like to take this opportunity to mention briefly Thailand's recent experience. We hope that our experience should perhaps be shared with other developing countries. Beginning in the 1980s, Thailand, like many other countries, was in the midst of a deep economic problem. Growth was low, and the country's economic strength was weakened by major imbalances and increasing inefficiency. In response to these mounting problems, the Government embarked on a comprehensive adjustment program to restore macroeconomic balance and to improve the overall economic efficiencies. I should also like to mention that these efforts were supported by financial assistance from both the Bank and the Fund, for which we are very thankful.

Today, I am happy to report to you that these efforts have been worthwhile. The economy was able to take full advantage of the improved international environment beginning in 1986 and successfully weathered a particularly turbulent period over the past 12 months. Thailand's real GDP growth rate averaged 11.2 percent between 1987 and 1990. The country is enjoying a high degree of economic stability, and efficiencies have greatly improved. These positive results, I believe, have benefitted much from the policies to create a conducive economic and financial environment for sustainable long-term growth, as well as from a less regulated private sector. A more favorable domestic and foreign investment climate has been another significant factor.

Looking into the future, the main economic challenge for Thailand is how to sustain expansion while maintaining stability. I believe the success of the country's future development will depend even more on the economy's overall efficiency, particularly that of the private sector.

In the endeavor to raise Thailand's long-term efficiency, the Government has initiated a number of regulatory reforms aimed at deregulation and market liberalization. Reforms are now under way to improve the allocation of financial resources, enhance the ability of the financial sector to compete in the international market, and boost domestic savings. We have also taken several important steps in tax reform. The foremost is the replacement of the business tax by a value added tax, to be implemented in January 1992.

Progress has also been made in import tariff liberalization to reduce distortions to output and export growth. I believe these reforms, in combination with investment in infrastructure as well as cautious financial policies and measures to encourage exports and domestic savings, will provide the Thai economy with a sound basis for growth in the medium term.

The Role of the Bank and the Fund

During the past year, the Middle East crisis, the economic restructuring of the countries in Eastern Europe, and the lingering effects of the debt crisis of the 1980s have pushed demand for financial assistance from the World Bank and the International Monetary Fund to a record level. And the outlook for the medium term is a continuation of that trend. This, I believe, underscores the importance of bringing the pending increase in quotas under the Ninth General Review into effect as soon as possible, so that the Fund will have the financial resources necessary to meet these urgent demands.

However, we find it most regrettable that the members' quota increases under the review will be effective only after the proposed Third Amendment of the Fund's Articles of Agreement comes into effect. This should not be allowed to become a precedent for future quota increases. We urge the Fund's Executive Board to start work on the Tenth Review early enough to avoid another delay.

Thailand would like to congratulate the Bank and the Fund for their achievements in the past year as presented in their Annual Reports. In regard to their lending operations and advisory functions, it would be most encouraging if the Bank and the Fund would continue to be flexible in dealing with the fast-changing world economic realities. On this occasion we would also like to highlight again the mandate entrusted to the Bank to principally promote economic development and poverty alleviation in eligible member countries before other concerns. It is, therefore, most important that the Bank and the Fund maintain an even-handed approach in their operations. The needs of the member countries in Asia and elsewhere cannot, and must not, be compromised. For the coming years, we hope the Bank will give added emphasis in the areas of human resource development as well as technology and resource transfer, which are the foundation for further economic progress.

It is evident that governance, military spending, and the environment are key policy issues that merit careful debate and consideration by multilateral development institutions as well as among donor and recipient countries. In dealing with the issue of governance, it is imperative that due and careful consideration be given to the historical, cultural, social, and economic background of a country. We do not believe there exists a golden rule that can be applied universally to all countries. On the deliberations on military

spending, we believe overall world security has an important bearing on defense expenditures of all countries. For small countries, however, the regional security environment as well as specific country circumstances should be the overriding determining factors.

On the very difficult issue of balancing the needs of accelerating the supply of basic resources, such as water for irrigation and power to light rural areas, and creating new employment opportunities and their concomitant impact on the environment, Thailand firmly believes that these concerns must be carefully considered to avoid costly environmental rehabilitation measures and to ensure that adequate environmental safeguards are taken. It is because of these concerns that we sought partial Bank financing for the Pak Mun Project to ensure that all adequate measures humanly possible would be taken to meet stringent international environmental standards, while simultaneously satisfying the basic development needs of the Thai people. We studied carefully all aspects, including those that directly affected the human dimension. We are deeply disappointed that after lengthy consideration of all the issues and conclusion of the loan negotiations, the Board of Executive Directors did not properly take action in the normal World Bank manner. There are no legitimate reasons for the inexplicable decision to postpone the issue. It is a most dangerous precedent that the tyranny of a few in other countries prevails over membership rights, as well as logical and sound development objectives. The cost of the project is minimal, but in this delay, its impact on future Bank decision making process and membership legal rights are considerable. Should the Bank Board and management regress by indecision and illegitimate concerns beyond membership criteria, the Bank as a collaborative and effective development institution will be truly endangered. We cannot, and must not, tolerate such an impasse.

During the past year, the Middle East crisis, the economic restructuring of countries in Eastern Europe, and the lingering effects of the debt crisis of the 1980s, have pushed demand for financial assistance from the International Monetary Fund to record levels. And the outlook for the medium term is for a continuation of the same. This underscores, we believe, the importance of bringing into effect, as soon as possible, the pending increase in quotas under the Ninth General Review, so that the Fund will have the financial resources necessary to meet demands. Members receiving assistance must, however, follow appropriate policy actions to position themselves on a viable growth path.

Many countries in Asia, and particularly those in the Southeast Asian group undertaking economic reform, require a high level of technical support and training. The Bank and the Fund are in a unique position to meet such needs. Nonetheless, in order to minimize the costs of our institutions, which are in the final analysis borne by the developing- country borrowers in the form of increased charges and which could be quite substantial, when

assistance to the Soviet Union is calculated, innovative methods and additional contributions from the donor community should be made to finance such additional assistance. Also, in order to prevent unnecessary overlaps in technical assistance, there should be adequate coordination among all the entities involved; in particular, the World Bank and the IMF have no need to compete with the regional development institution, the EBRD.

Finally, we have to record our disappointment about the lack of success in the Uruguay Round. It is ironic that many industrial countries, while upholding their belief in free market principles and extending strong support to the creation of free market economies in Eastern Europe and the U.S.S.R., are simultaneously putting up new obstructions by refusing to lower or dismantle tariff and nontariff barriers and unfairly exerting bilateral pressures on developing countries. A successful and timely conclusion of the Round on a multilateral basis is vital to economic progress for all concerned.

It is our sincere belief that the frank discussion and exchange of views during these Annual Meetings will serve to narrow the differences in philosophies as well as in approaches toward economic development, and will in time ultimately lead to a better world for us all. If we are to begin a new decade, we have hopes that much good will have begun from these Bangkok meetings.

I would like to once again wish you an enjoyable stay in Thailand and hope that you will return to enjoy our hospitality again and again.

TONGA: TUTOATASI FAKAFANUA

Governor of the Bank

It is a pleasure and honor for me to have this opportunity to address the Forty-Sixth Annual Meetings of the World Bank Group and the International Monetary Fund. I join other Governors in expressing thanks to the Chairman, Mr. Better; to President Preston; Managing Director Camdessus; the management and staff of the Bank and the Fund; and to the government of the Kingdom of Thailand for the excellent arrangements under which we meet.

May I take this opportunity to welcome Mongolia as a new member of the World Bank Group and the International Monetary Fund.

Since the previous Annual Meetings, we have seen major changes in many parts of the world, particularly in Europe. As a result of these changes, the Bank and the Fund are expected to play a prominent role in facilitating greater global economic stability. It is also important that greater coordination of economic policies is pursued by member countries in order to ensure overall stability. These changes have brought uncertain times, with

global economic growth slowing considerably during 1991. Tonga, as a small and relatively isolated country, is not immune to those developments.

I should now like to comment on domestic economic policies in Tonga. In the decade of the 1990s Tonga is embarking on a strategy of promoting growth of the private sector to broaden the base of the economy. Our 1991/92 budget continues to build on earlier policies directed toward the liberalization of the private sector. The Government has maintained incentives to farmers and fishermen through income tax exemptions and additional support for the manufacturing sector, as well as ensuring continued lines of credit specifically for development in all sectors in the economy.

Much emphasis is placed on tourism as a sector with potential for providing economic growth, employment, and foreign exchange earnings in the 1990s. The government therefore continues to improve physical infrastructure and provide incentives to tourism to enable this sector to compete effectively in the international arena.

At the same time, the Government continues to strengthen its social development policies. These policies are targeted at alleviating rural and urban poverty through programs designed to improve health facilities and to provide access to education and basic shelter. In recognition of the isolation of some of our island groups, the Government is placing greater emphasis on providing public services to these areas.

Tonga strongly endorses the enhanced roles and responsibilities given to the World Bank and the Fund with respect to the historical changes now occurring at mind-dazzling speed in the economies of Eastern Europe and the U.S.S.R. That the two institutions were chosen to undertake these important tasks pays due tribute to their acknowledged skills and expertise. . . .

. . . Turning to World Bank matters, Tonga fully supports the emerging consensus that key development priorities for the 1990s are: the achievement of sustainable economic growth, the reduction of poverty, and action to protect the environment. It encourages World Bank efforts to pursue these priorities vigorously. As indicated above, Tonga believes the best route to sustainable economic growth is increased reliance on markets, with a market-friendly government focusing on the economy's structural framework, stable operation, and social responsibilities, including environmental matters. Thus the Tongan government actively encourages private sector activity in a free market setting; it has progressively removed price controls and export licensing requirements, improved the institutional structure of its small financial sector by establishing a central bank in mid-1989 and, more recently, freed interest rates in Tonga and set the daily value of the pa'anga in terms of a weighted basket of foreign currencies. Like the World Bank, Tonga knows that maintaining a successful market environment requires a responsive price mechanism that gives clear signals to producers and con-

sumers alike. Only under these circumstances can a stable economic environment, with domestic and external competition, be assured.

Tonga is very conscious of the value of its membership in both the Bank and the Fund. Apart from the obvious benefit of access to Bank resources, the regular consultations and technical missions help us to focus on areas of concern in the economy. We are also grateful for the long-term technical assistance provided by the Fund in the establishment of our central bank. We hope this assistance can be continued until the reorganization of our financial sector has been completed; this will enable the Reserve Bank to play its full role in the development of a more market-oriented economy in Tonga.

In conclusion, I wish the Bank and the Fund every success in the coming year in meeting the difficult challenges that lie ahead.

UNITED KINGDOM: NORMAN LAMONT

Governor of the Fund

IMF and World Bank Issues

I should like first to extend a very warm welcome to Albania and Mongolia as the newest members of the IMF and the World Bank. And I look forward to Estonia, Lithuania, Latvia, Marshall Islands, Micronesia, Switzerland, and, of course, the Soviet Union too, joining before long.

The recent increase in the number of Fund members and the membership applications still under discussion have significantly increased the reach and influence of the Bretton Woods institutions across the world. And they also underline the need for all existing members to ratify soon the Third Amendment to the Fund's Articles and the Ninth Review of Quotas.

The World Background

The past year has been a testing one for the world economy. It is likely that world growth in 1991 as a whole will be slower than in any year since 1982. The downswing began sooner, and was more pronounced, in the Anglo-Saxon countries, as policymakers took the actions necessary to contain the inflationary pressures which had built up in the late 1980s. But France and Italy have also seen falling industrial output, while growth in Germany and Japan has begun to slow.

Although it is still too high, average inflation in the G-7 countries has now fallen to its lowest level for over 2½ years. And this has paved the way for recovery. Next year the industrialized world should once again see the benign combination of rising growth and falling inflation.

Welcome though this is, it is important and timely to recall that the majority of the world's population does not enjoy the prosperity which is

taken for granted, even at times of modest growth, in the industrialized world. Many of the former socialist economies in both Eastern Europe and the developing world have been grappling with acute crises. In particular, it is the problems and challenges facing the Soviet Union that have dominated our meetings here over the last week.

The collapse of the world's oldest centrally planned economy is perhaps the most important economic development of our lifetime. And it has brought into focus one of the key themes of these meetings over the last decade—the failure of central planning and state socialism.

Future generations will struggle to understand the transient intellectual appeal of the planned economy. Its results have been disastrous. Wherever socialism has been applied, it has failed in its primary objectives. It has delivered neither social justice nor economic development. On the contrary, it has bequeathed a legacy of inequality and inefficiency, unsatisfied consumers, and environmental degradation.

The economic crisis in Eastern Europe and the Soviet Union, on the one hand, and the outstanding achievements of the newly industrialized economies of East Asia, on the other, illustrate the crucial role of the private sector in delivering economic success. Where the market has been suppressed, we have seen the devastation wrought by years of central planning. By contrast, in East Asia we can see the benefits of an environment within which the private sector can flourish. Above all, these economies have integrated themselves into the world economy, the international trading system: not for them the retreat into autarchy and barter that became a hallmark of the socialist economies.

We should not be afraid to say that what we are extolling are the virtues of *capitalism*. And the driving force of capitalism is the pursuit of profit. This is not something to shy away from. With free competition, high profits will attract new firms, new capital, new jobs, and new resources. That is the role of profit in a market economy. Profits and competition are the essence of a market economy.

The Lessons of Eastern Europe

The newly emerging democracies of Eastern Europe have put in place reform programs of quite astonishing scope and courage. In cooperation with the IMF they have drastically tightened fiscal and monetary policies. And these measures have been accompanied by the replacement of controls on prices, trade, and enterprises with the clear legal and accounting framework which is the bedrock of the market economy.

These countries are now embarking on the wholesale privatization of services and industry. What is particularly impressive is the ingenuity with which this process has been tackled. No country is privatizing in quite the same way; and nor should it. The sheer variety of schemes for privatization

in Poland, Hungary, and Czechoslovakia gives the lie to the claim that the move to a market economy involves the imposition of a rigid formula in every country. That was the failing of *socialism*.

Soviet Union

And nowhere was this failure more evident than in the Soviet Union itself.

I have sometimes been asked whether we spend too much time thinking about the Soviet Union and discussing the problems the Soviets have. I have heard people say that we must not forget the countries of Eastern Europe or the developing world; that we should ensure that help for the Soviet Union is not at the expense of the other countries of the world.

I have a simple answer to this. Help for the Soviet Union is not at the expense of anyone—the whole world will benefit from the integration of a democratic Soviet Union into the world economy. Successful reform will provide a vast new market for goods, an enormous increase in trading opportunities, a real stimulus to world growth. And, the reduction in military spending now in prospect will not only make the world a safer place to do business in, it will also allow resources, across the world, to be released for more productive use. Reform in the Soviet Union is not a parochial concern of Europe or the West. It is an unmitigated good for the entire world.

In 1944, the Soviet Union sat down with the Western powers around the Bretton Woods Conference table to draft a new world economic order. Now, almost half a century later, the Soviet Union is ready at last to take its proper place in these international institutions. It was a tragedy for the Soviet people that they have had to wait for so long.

And so the attendance of Mr. Yavlinsky and his colleagues at our meetings this year is an event of historic importance. I have met Mr. Yavlinsky on a number of occasions this year in London and Moscow. I pay tribute to his tenacious espousal of economic reform.

What the World Bank, the IMF, and we finance ministers have to say on the Soviet Union should be regarded as the advice of friends. It is, of course, for the Soviets themselves to decide on their economic future. Only they can take the decisions on reform. Only they can carry them through.

The macroeconomic situation in the Soviet Union today is little short of disastrous. Fundamental reforms are needed—and needed now. Budget deficits, financed by money creation, are spiraling out of control at both Union and Republic levels. There is a real risk of hyperinflation. It would be difficult to imagine a more difficult background against which to implement far-reaching structural reform.

None of these problems can be solved by large-scale financial assistance from abroad. Such a "solution" would be unrelated to the problem. A drastic tightening of fiscal and monetary policy is what is necessary: public

expenditure must be cut, taxation raised, and positive real interest rates established. As countries right across the globe have learned, there is no comfortable cure for hyperinflation. But, no matter how painful the cure, it is more comfortable than the disease.

Union and Republics

An essential first step is the settlement of economic policymaking responsibilities within the Soviet Union. But however this turns out, the Soviet Union must have institutional arrangements that can bring inflation under control. This has, of course, led to a vigorous debate about whether there should continue to be a Union-wide currency, or whether separate currencies might be introduced in one or more Republics.

This debate has obvious and powerful echoes with the discussions we in the European Community are having on a future economic and monetary union. But we must also remember the great differences. In Western Europe, the starting point is 12 independent nations, with separate currencies, committed to free trade and the control of inflation.

By contrast, the Soviet Union starts with a single currency, it has no tradition of free trade at market prices, and it is teetering on the verge of hyperinflation.

But in looking at these questions, whether in Western Europe or in the Soviet Union, the basic objectives are the same: to establish arrangements for fiscal and monetary control which ensure progress toward price stability and free trade.

In Western Europe, there are those who believe that both objectives might best be met by establishing a single currency and a strong central bank. There are others who take a more skeptical view.

And in the Soviet Union, too, there are conflicting views and considerations. Maintaining a single currency, it is argued, would allow the existing basis of trade to continue and would avoid the introduction of exchange rate uncertainty into trade between Republics. But against this, some Republics have lost confidence in the ruble, and have started to believe that the best way to avoid inflation is to issue their own currencies and have separate monetary regimes.

These issues are inextricably linked up with nationalism and with peoples' own sense of identity. As in the European Community, this is above all a political issue. And it is for the peoples of the Soviet Union themselves to decide which path to choose.

But good money tends to drive out bad. The dollar already plays a role in the Soviet economy. And some have speculated about a role for the ECU in Eastern Europe and in the Soviet Union, if that were ever to become established as a European currency. In those circumstances, it might enhance the credibility of the reform program and the prospects for foreign

investment if the ECU were to be used either as a parallel means of exchange or a nominal peg for domestic currency.

But that is an issue for another occasion.

Joining the World Economy

The Soviet economy needs to become fully integrated into the world trading system. But just as crucial, it needs to avoid protectionism in its vast internal market. Whatever constitutional arrangements the Soviets decide upon, there are always risks in fragmentation. Yet even now, barriers are being erected within the ruble area, limiting trade between the Republics.

One of the legacies of central planning is that, by Western standards, the individual Republics have been highly interdependent, though in quite the wrong way. The Soviet economy has excessive and uneconomic concentrations of production, sometimes with a single factory in a far away Republic producing one crucial input. This pattern of trade owes nothing to the principle of comparative advantage.

But this artificial structure of trade does not justify the erection of further trade distortions. If the individual Republics continue to retreat into fortress economies, output will collapse, with devastating effects on living standards, reform, and the prospects for future economic growth.

Integrating the Soviet industry into the world economy will require some bold reforms. There must be wholesale dismantling of state controls on trade flows and prices. The modest moves to internal convertibility that have occurred so far must be followed by rapid moves to convertibility for foreign trade.

But a successful move to convertibility cannot be achieved by fiat. It will be essential both to establish very tight domestic monetary conditions and to establish a realistic level for the exchange rate.

Even with these changes, the resulting integration into the world economy will, as with so many reforms, be a painful process. Many existing enterprises depend for their existence upon an absurd system of relative prices: there may well be no future for them. But at the same time, vital industries that could contribute so much to the Soviet economy are stifled by fixed prices that make it impossible for them to compete.

A move to convertibility will also improve the prospect of a substantial increase in direct inward investment from overseas. Foreign companies will not commit themselves to invest on a significant scale until price distortions are removed, and they are free to earn—and remit—foreign currency unencumbered by state controls.

Energy and Agriculture

But amidst the problems and challenges, there are some grounds for hope. There are sectors of the Soviet economy where a few practical reforms could produce quick results. The two most important are energy and agriculture.

The energy sector is an obvious candidate for Western private sector direct investment. It accounted for over 80 percent of Soviet export earnings in 1990. But output and exports have been falling sharply this year. Many oil fields are working well below capacity due to breakdowns or lack of spare parts.

Even a few basic measures to improve energy efficiency would translate directly into increased hard currency earnings. At present there is little incentive to save energy, with oil and gas priced at a fraction of world market prices and metering almost nonexistent. As a result the Soviet Union uses two to three times as much energy to produce a dollar of GDP as the EC. Substantial real price increases are necessary and would lead to a massive improvement in performance.

In agriculture, the current problems stem as much from the progressive deterioration of the distribution system, and from the lack of proper price incentives to farmers, as from any failure of production. This could best be remedied by speedy privatization of the distribution system—road haulage is an obvious candidate—and moves to world market prices for agricultural produce.

The crucial importance of realistic pricing is all too apparent. When I was in the Soviet Union this summer, I was particularly struck by the sight of a Kazakh woman selling watermelons at a market in Kiev. It transpired that she had flown thousands of miles to do so, because internal air transport was so cheap that she only had to sell a dozen watermelons to make a profit on the day.

This story illustrates three important points—first, the strong repressed entrepreneurial instincts of the Soviet people; second, the way in which price distortions lead such instincts to be wrongly channeled into activities with negative value added; and third, the great potential value of the services sector, particularly in assisting the efficient transfer of goods from producer to consumer. This is a case where Marxist ideology with its overemphasis on manufacturing has imposed drastic inefficiencies on the Soviet economy.

The Institutional Framework for a Private Economy

But while a few reforms could make an enormous difference, the establishment of a full-fledged market economy will be a long and daunting task. The Soviet Union lacks even the basic underpinnings of a market system—a legal framework including bankruptcy laws, an efficient system of taxation, property rights, and financial markets. Free markets cannot operate in a vacuum; institutional reform is a necessity.

Creating new firms, privatizing existing enterprises, and setting up joint ventures require investment of time, effort, and resources. These will not be forthcoming unless the new legal system clearly establishes and guaran-

tees property rights. It must also be clearly established which authorities—Union, Republican, or local—have jurisdiction in which areas, and in particular who is responsible for tax collection.

Positive real interest rates are of course essential to ensure that scarce resources are invested in the most profitable and productive way. Financial institutions must have the necessary knowledge to be able to channel resources into productive investment. Banks in the Soviet Union have no experience in risk assessment. The creation of a commercial banking sector is vital.

And in order to evaluate businesses' creditworthiness, a proper accounting framework is necessary. When asked the size of his budget by his U.S. equivalent, one former Soviet Defense Minister admitted that he had no idea: all he knew was the number of tanks he had. Records and statistics have concentrated on physical quantities rather than financial accounts.

These are all areas where Western technical assistance will be invaluable. The United Kingdom's *Know-How Fund* for the Soviet Union, drawing on the experience of similar ventures in Eastern Europe, is already active.

Help from the West

There are other forms of assistance too. In the immediate future, we will be responding to Soviet appeals for food and medical aid. The Group of Seven and the European Community are organizing the provision of necessary food aid this winter. The United Kingdom, as Chairman of the Group of Seven, is working to ensure that those efforts are well directed and targeted on the needy.

As fundamental economic reforms are enacted by the Soviet authorities, we will, as now, help with technical assistance. Possible further measures of financial assistance will depend on developments in the Soviet Union. If comprehensive reforms are enacted and the need for additional finance is clearly demonstrated, we will stand ready to help.

The Way Ahead

This week we have had a series of intensive discussions with the Soviet delegation. The process of dialogue and information gathering is slow and painstaking. It does not produce many dramatic moments; it does not produce enough headlines for the newspapers; there are few discrete milestones along the way. But the process itself is historic. The Soviet team is producing information on its financial affairs and gold holdings that only a short while ago were closely guarded state secrets—information that could not have been given to the West—or indeed to anyone outside a tiny circle in the Soviet Union—without incurring severe penalties.

Slowly but surely we are putting together the necessary information on the Soviet economy, and in particular its external finances and overseas

indebtedness. We will continue to build up our cooperation with the Soviet authorities at all levels as they strive to establish prosperous market economies.

For this will give an immense boost to economic development and prosperity worldwide. And that is why the World Bank and the IMF must continue to play their role. Everyone will benefit if this enterprise succeeds. We cannot let it fail.

UNITED STATES: NICHOLAS F. BRADY

Governor of the Bank and the Fund

Mr. Chairman, President Preston, Managing Director Camdessus, and fellow Governors. I want to express the gratitude of my delegation for the warm hospitality extended by our Thai hosts. Here in Bangkok, we are reminded of Asia's economic dynamism and the region's growing importance in our economic future.

I would like to welcome the newest members of the International Monetary Fund and the World Bank: Albania and Mongolia. And also to welcome the special guests from the Baltics and the Soviet Union.

We meet at a turning point in history. Market-based systems that produce better economic performance and higher living standards are sweeping the globe. Countries in every region of the world, now including the Soviet Union, are shifting course in their direction. We can glimpse possibilities previously beyond our view: global economic integration, cooperation, and prosperity.

These developments confront the international financial institutions with an unprecedented challenge. Inevitably, these institutions will be held accountable in an important way for the success or failure of efforts to integrate former command and state-dominated economies into the global market system. Like it or not, that is the reality.

The difficulty of this kind of transformation should not be underestimated. There are no time-tested blueprints for charting the course from a state-dominated command system to a successful market economy. But what is clear is that this transformation is a fundamental, all-encompassing process. Every area of economic activity and policy is involved.

This reality brings with it an important question. Are we up to the task? To rise to this challenge, the international financial institutions must be willing to adapt. They must change their attitudes, broaden their objectives, and improve their assistance capabilities. And they must begin this process right away.

Recently, the World Bank and the IMF have demonstrated their capacity to diversify in response to emerging needs. During and after the Gulf conflict, they moved quickly to provide resources to those countries most seriously affected. The IMF rapidly disbursed resources through the com-

pensatory and contingency financing facility (CCFF) to help countries adjust to the economic costs of Iraq's aggression. The World Bank expanded lending programs and accelerated disbursements to assist sectoral adjustment and to resettle worker refugees.

In Eastern Europe, the World Bank and the IMF have been at the forefront of efforts to promote free markets and democracy. With IMF and World Bank assistance, these countries are implementing programs or reform and stabilization. IMF financial commitments to Bulgaria, Czechoslovakia, Hungary, Poland, and Romania in 1991 total $8 billion. World Bank commitments to Eastern Europe for fiscal year 1991 reached over $2.6 billion.

The World Bank and the IMF have established a special association with the Soviet Union to help that country address the pressing problems of comprehensive reform. We welcome this special association and urge that no effort be spared to work intensively in the days ahead. Like others, we believe special association will help clear the way for full Soviet membership in both institutions.

In the Soviet Union and Eastern Europe, we are confronted with the most radical economic change in the post-war period. The search for new values has its costs. These countries have made a conscious decision to switch rapidly from one political and economic system to another. They are literally rewriting all the rules. My visit to the Soviet Union last month brought to mind the Colonial American experience of making a fresh start and creating a new form of government. Over two hundred years ago, the United States began its efforts to create stable institutions—a process which took decades to complete. Yet the Soviet Union is trying to accomplish a similar task in only a matter of months.

The international financial institutions will have a special role in assisting this transformation. In defining this role, we must understand what transforming countries need. There is no question that part of what they need is provided by the traditional IMF-World Bank approach: advice on formulating comprehensive economic policy programs and the financial assistance to support those programs. But they also need more fundamental assistance that goes well beyond standard adjustment programs.

Let me list the tasks:

(1) Attitudes toward the creation of wealth need to be changed to release the dynamism of the private sector. Free enterprise and entrepreneurship means that businesses and individuals are free to succeed. State orders are no substitute for individual initiative.

(2) Countries need help in building basic private and government economic institutions, such as the development of capital markets and banking and reserve systems.

(3) They need basic training on how to run profitable private businesses, which involve the special professions of cost accounting, contract negotiations, distribution, and marketing.

(4) They need practical advice on the operation of a sound fiscal system: a tax code and collection system, a public sector budget mechanism, a customs operation for the borders, and a data collection system.
(5) And last but not least, they need assistance on how to establish a workable legal system for private enterprise, including an enforceable contract system.

These are the basic underpinnings of a successful market economy. We will be up to the task only if the World Bank and the IMF build on this institutional framework, as well as instituting macroeconomic policy reform. To do this, the Bretton Woods institutions need to develop a partnership with the private sector to elicit their expertise in helping countries build solid foundations for market economies.

To provide assistance in all of these areas, the World Bank and the IMF will need to develop new modes of operation. Brief mission visits to negotiate adjustment programs with central governments will not be enough.

The World Bank and the IMF will have to pay much greater attention to the human capital component of their programs. They will have to put people in-country for extended periods of time. They will have to draw on experts from national governments, business, banking, law, and universities.

The Bank and the Fund will also have to expand in-country contacts to all levels of government. This assistance cannot be provided by dealing with central governments only. Bank and Fund staff will have to advise and educate individuals in the private sector and in local government.

Some have legitimately raised the question of whether this emphasis on the Eastern European countries and the Soviet Union will result in a diminution of resources to traditional recipients. Both the World Bank and the IMF are well capitalized, and I see no reason why there should be any shortfall in financial flows. Resources will be adequate to the task.

Others have asked whether there will be any reduction of World Bank and IMF technical expertise available to traditional recipients due to a concentration of attention on Soviet and Eastern European problems. Legitimate traditional priorities should not be weakened. In addition, the gains for world stability should be well worth the price for countries large and small.

In other regions of the world, the World Bank and the IMF are addressing their ongoing responsibilities by playing a crucial part in the success of the international debt strategy. Under this strategy, the World Bank and the IMF have encouraged market reforms and supported a wide variety of commercial bank packages in several debtor countries in varied economic circumstances. Mexico, Chile, and Venezuela are once again enjoying voluntary access to the international capital markets, new investment, and returning flight capital. Only a short while ago, they were mired in debt.

To complement the benefits of commercial bank debt reduction packages under the debt strategy for countries which are heavily indebted to commercial banks, President Bush's Enterprise for the Americas Initiative pro-

poses to reduce debts owed to the U.S. government by eligible countries within Latin America and the Caribbean. Chile, Jamaica, and Bolivia have already received initial benefits under this program. The Inter-American Development Bank (IDB) has moved to implement a new investment sector loan program to encourage investment reforms in developing countries. The United States has also proposed a Multilateral Investment Fund to help the economies in the region adapt to today's competitive world. The United States and Japan each propose to contribute $500 million to this Fund. We expect others will be joining us in this effort in the near future.

In the poorest countries, including those of sub-Saharan Africa, the World Bank and the IMF are providing concessional resources to promote sustained growth and the alleviation of poverty. Some of these countries have turned the corner. Their example confirms that market-oriented reform is possible and beneficial at all stages of development. For our part, over the past year the United States has forgiven $2.3 billion in bilateral concessional debt owed by these countries. We also support an expansion of the list of countries eligible for the enhanced structural adjustment facility (ESAF) in order to increase the Fund's capacity to support low-income countries.

The World Bank and the IMF are to be congratulated for their emphasis on the environment. I very much agree with Prime Minister Anand's remarks this morning that we all need a common commitment to the environment for our own sake and for the sake of future generations. In addition, poverty reduction and the role of women in development require stronger emphasis. We must ensure sustained progress on these fronts.

The time has come for the Bank and the Fund to strengthen their support for the private sector. The World Bank is reviewing what changes need to be made in the Articles of Agreement in order to permit direct lending to the private sector. As countries release ownership of enterprises to the private sector, individual companies in the process of privatization will need resource flows from the World Bank. At stake is the relevance of the World Bank in support of economic development. To this end, we are pleased to support the $1 billion IFC capital increase and related private sector policy measures.

The expanding financial needs in debtor countries, Eastern Europe, and the poorest countries necessitate that the international financial institutions have ample resources. To this end, the United States strongly supports the IMF quota increase to meet its global financial responsibilities.

In closing, allow me to again stress that the international financial institutions must now implement programs for economic transformation and for the ultimate achievement of a unified global economic system. World Bank and the IMF activities must adapt and expand as this unprecedented global economic potential comes into view. We must seize the opportunity provided by near universality of membership in these institutions and acceptance of

ceptance of market-oriented principles. Leadership by the World Bank and the IMF can translate shared economic philosophy into shared prosperity.

Seldom in the course of human affairs has the world's community of nations been faced with an opportunity such as we face today. With imagination, with determination, with vision, and with courage, I believe that it is within our ability to seize this moment and to translate that glimpse of prosperity and harmony of which I spoke earlier into a reality. I believe that we are up to that task.

VANUATU: SELA MOLISA

Governor of the Bank and the Fund
(on behalf of Kiribati, Solomon Islands, Vanuatu, and Western Samoa)

On behalf of my own country, Vanuatu, and other countries in our constituency, Kiribati, Solomon Islands, and Western Samoa, I wish to join previous speakers in extending our warmest greetings to the newest member of our constituency, Mongolia, and also in welcoming Albania, the newest member of the Bank and the Fund. A further welcome is extended to countries attending this meeting for the first time, in particular our neighbor, the Federated States of Micronesia. The presence for the first time of a Soviet delegation as associate member to the Annual Meetings is encouraging, and it is hoped that it will not be too long before the Soviet Union becomes a member of the World Bank and the Fund. Our congratulations to the government and the people of Thailand for organizing the Annual Meetings in this beautiful city of Bangkok, with the usual Thai hospitality. . . .

. . . The economies of the small countries of our constituency continue to be dominated by increasing external trade deficits and are likely to remain so for a long time. With limited resource bases, weak infrastructure, and isolation from the major markets, our export commodities are less competitive. The downward trend in international prices of our primary exports and the restrictive trade practices of industrial developed countries, especially relating to trade in agricultural products, produced depressing effects on our efforts to compete in international trade. The successful conclusion of the Uruguay Round of multilateral trade negotiations could thus help to improve the plight of our external trade position.

We firmly believe that our goals toward economic development basically depend on our own efforts. However, because of the specific position of small island countries with poor resource endowment, development of our economies relies heavily on the inflow of external resources through either foreign direct investment or foreign aid, in order to improve both the natural and human resource bases of our economies. Capital injections required for private sector investments in our island economies are relatively small,

but meeting them could produce large catalytic effects on structural economic adjustments. The main constraint to this is the paucity of technical background to identify profitable projects for private investment. The initiatives of the International Finance Corporation (IFC) in giving technical advice and assistance relating to project identification and formulation could go a long way toward meeting the needs of our economies, where the level of evaluation and formulation of project designs is not yet well developed; in addition, we could dispense with government guarantees for projects financed under its auspices. The recent capital increase of the IFC is therefore a welcome development.

In the rapidly changing economic conditions, there is a great need by us to train our nationals, preparing them for the intricate administrative and managerial responsibilities. In this respect, the technical assistance programs of the Bank and the Fund for providing advice and local counterpart training have been most beneficial. The training provided by the institutes of the Bank and the Fund have also proved to be useful for improving our manpower resources. Small island economies would continue to need these facilities in order to improve and maintain their economic performance. It is therefore imperative that the Bank and the Fund continue and accelerate their technical assistance and training programs, now that increasing demands would be forthcoming from new membership, in addition to the continuing needs from old members.

In conclusion, I wish to express our appreciation to you, Mr. Chairman, for the admirable way in which you have conducted the Annual Meetings, and to thank the new President of the World Bank, Mr. Lewis T. Preston, and Mr. Michel Camdessus for their interesting annual addresses. My best wishes to you all for a safe journey home.

VENEZUELA: MIGUEL A. RODRIGUEZ F.

Governor of the Bank
(on behalf of the countries of Latin America and the Caribbean)

On behalf of all the Latin American and Caribbean countries, I have the honor to express our gratitude to the government of Thailand for the magnificent hospitality and attention it is providing to the participants at these Meetings. I would also like to convey our sincere congratulations to Mr. Preston on his recent appointment to the important position of President of the World Bank. We are confident that his extensive experience and professionalism will enable him to run successfully an institution that we consider of critical importance to our economic development. The countries of our region will support him in his efforts, and we declare in advance our intention to participate actively in the work of the Bank, contribute to its efficiency and play a key role in the formulation of its policies. Perhaps as

never before, changes worldwide, in our region, and within the Bank require the countries of Latin America and the Caribbean to take on much greater responsibilities and rights as shareholders of the institution. We are, and will continue to be, its clients. It is for that reason we have a fundamental interest in the soundness and efficiency of the Bank over the long run. As we know, men, ideas—and ideologies—as well as theories, come and go. But institutions remain, independent of the specific interests of any given region or any particular country. We have great confidence in the Bank's experience, capacity, and vision for implementing an agenda that guarantees the long-term strengthening of our institution. The Bank can count on its shareholders in Latin America to carry out initiatives that promote this vision of independence and universality.

The development priorities for the 1990s seem very clear to everybody. We discussed them yesterday at the Development Committee Meeting and we were in full agreement on the basic objectives.

First, we must continue to promote economic growth through the intensification of macroeconomic policies that guarantee external sector and price stability. The structural changes, namely, further progress toward openness, fiscal and financial reforms, restructuring of the public sector and privatization, will help to maintain growth and efficiency in the long term.

But growth is a necessary rather than a sufficient condition for economic development. This growth must have a human face; it must truly promote the development and welfare of the vast majority of the population and it must entail a fair distribution of income and wealth in our nations. It makes no sense to talk about high rates of economic growth if the additional income is concentrated in a few hands and is not reflected in real wages, better public services and improved living standards for the majority. This is easy to say, and easier still to repeat in speeches. It is much more difficult to take specific steps that will transform these principles into systematic efforts to turn growth into true development.

We therefore propose that the Development Committee give priority to two essential areas that will have a decisive impact for the achievement of these goals: strengthening human resources, and social programs to the most vulnerable groups.

First, we are certain that the World Bank can and should expand its activities in support of education and the enhancement of human resources, because this is the basic issue of development and the best way of eradicating poverty and creating a more just society. We are therefore gratified to note that the Bank almost doubled the share of its loans to strengthen human resources between 1989 and 1990. However, the volume of resources is still very small in relation to the size of the needs. We should firmly support a substantial increase in resources for this vital area and for health, which must include strong backing for promoting efficient education and health institutions in the various countries.

Also in support of human resources, it would be desirable for the Bank and the IMF to incorporate in their evaluations of structural adjustment programs, as in the case of project lending, an analysis of social indicators such as nutrition, health, primary and secondary education, use of family planning services, and the like. Social and income distribution indicators should be made an integral part of the daily methodology used by the Bank and the IMF, just as the balance of payments is studied or the environmental impact of projects measured.

Specifically, we would like to propose the adoption of a "Joint Program to Support the Most Vulnerable Sectors," which basically would be aimed at consolidating macroeconomic adjustment programs through the intensification of social development actions on behalf of most vulnerable sectors of the population. The execution of this program would require very specific measures from governments in the area of social policies.

The program should contain three simultaneous elements:

1. The establishment in the World Bank of a "Special Window for Social Projects," with financial conditions in between IDA terms and Bank conditions for middle-income countries, whose purpose would be to co-finance, with the beneficiary government and possibly other bilateral or multilateral sources, projects that will improve living conditions for the most disadvantaged groups.

2. The governments would be required to contribute not less than 25 percent of the total cost of the project. The prerequisite for disbursement of these loans would be the adoption, through the legal instruments required to establish its permanence, of a "National Program to Support the Most Vulnerable Sectors," which would include:

—the definition of policies and of a percentage of the national budget to be earmarked for education, health, and nutrition;

—the restructuring or expansion and upgrading of the institutions responsible for the social sector;

—the training of human resources in the management of education and health institutions;

—the definition of specific priority projects in the social sector in light of each country's needs.

3. In conjunction with this "Special Window" for social projects, a "Permanent Technical Assistance Facility" would be set up, in line with the proposal by the Group of Twenty-Four, which could provide nonreimbursable financing from the Bank, UNDP, and bilateral sources for the implementation of the national programs referred to above.

To achieve the development objectives of the 1990s, our region offers the best political conditions as well as natural and human resources, along with a dynamic and skilled private sector that does not require extensive transformation or lengthy training in order to operate within the world economy. We are confident that the recent increase in the capital of the International

Finance Corporation will be reflected in an even broader range of activities in close support of our private sector. In our region, the development model based on openness can prove its effectiveness very rapidly if we can link the efforts of our governments with the support of the international community and, in particular, entities such as the World Bank and IFC.

Few international institutions can boast the World Bank's experience or expertise in development matters. As such, the Bank has a key role to play in the "post-adjustment" phase in our region during the 1990s, particularly as regards the design and implementation of appropriate sectoral policies and the institution building we need to stimulate the private sector. The Bank's importance transcends our individual project portfolios. Much has been said about governance and good administration, referring to our governments, but proper management of the Bank itself is also important because its responsibilities are fundamental for all developing countries. The Bank can make a valuable contribution but, like all human institutions, it can also err. During this time of change we must therefore review, from a long-term perspective, the way the Bank is run, along with its operational and decision processes. I refer to the decision-making system formed by the Board of Governors, Development Committee, Executive Board, Presidency, and senior management of the Bank and its affiliates.

Good management of the Bank must rest on a dual foundation: sound internal management of the Bank's day-to-day operational and institutional decision-making, and proper management of the Bank in the international context, given its key role in the world economic system deriving from its financial weight and the influence of its ideas.

As regards its internal operations, many procedures, processes, and linkages between Bank officials and governments could be improved to enhance the speed, efficiency, and transparency of decisions.

For example, the Bank should make many of its procedures more flexible and less cumbersome, in order to improve its responsiveness to the needs of member countries. In general, it takes a minimum of one and a half years, from the time an idea is born to when it is considered by the Board, for a project to become reality. Even though the formulation, appraisal, and negotiation of projects present serious difficulties in many cases, the process could be made less cumbersome without affecting the technical quality of the project or the prerequisites for sound financial implementation. The recent decisions on behalf of the U.S.S.R., which we support and regard as particularly opportune for facilitating its future membership of the Bank, and the Bank's demonstrated ability to act rapidly and innovatively indicate that political resolve can determine the pace of certain decisions.

In this respect, we feel that the operations of the Executive Board are particularly important. The ad hoc committee that is reviewing its operations should make innovative changes to facilitate the Board's work, introduce transparency, focus the attention of the Executive Directors on those

decisions that have a direct impact on the management of the Bank, and enhance the role of the Executive Directors as the link between shareholder governments and the institution. Without any question, Bank management must maintain control of operations, but the shareholders should have an incentive to participate in those decisions that involve shared responsibility. We can all gain much from an intelligent and comprehensive review of the way in which the shareholders and their representatives—the Executive Directors—and senior management interact, analyze, and decide. We are very confident that your efforts and those of your Board will in the near future yield concrete results in that respect.

In the same vein, many projects run into difficulties or are simply delayed by a lack of technical support to the national executing agencies—not to mention all those sectors that, in our countries, require technical assistance in addition to financial support.

Furthermore, it must be emphasized that the role the Bank is playing in the international economic system still falls short of its potential and should be expanded. Just as the Bank acts as an agent for change in national economic policies, it can also act as an agent for change in international economic relations. In this sense, the Development Committee—a high-level body that closely reflects the Bank's position vis-à-vis world economic problems—should be the leading spokesman for the institution. The operations of the Committee should be revised to turn it into a policy-making entity, as regards both the strategy of the institution and the international development situation. So that the Development Committee can fully carry out this role as World Bank spokesman, we propose that its Chairman be invited to submit the results of the Committee's discussions to the meeting of the Group of Seven most industrialized countries, which precedes the Group's annual summit.

In suggesting a wider role for the Bank on the world economic scene, I would focus on development financing and the inefficient management of the scarce resources available internationally.

We fully agree with Messrs. Camdessus and Preston in their recent description of the management of global resources as being inefficient, unfair, and irrational. Agricultural subsidies and military expenditures are among the most flagrant instances. The issue of military expenditure must be treated realistically and fairly for the benefit of all members of the international community. As for the Uruguay Round, not much can be added to all that has already been said about how much hope and frustration is associated with this process.

The successful completion of the Uruguay Round is essential not only in order to enhance international flows of goods and services, with the obvious repercussions for the well-being of all that this entails. The success of this process has already acquired a very important symbolic value in relation to such issues as international cooperation, the moral authority to ask others

to do what one cannot do oneself, credibility, sustainability of reforms, and so on.

We can only hope that these obvious implications will also be apparent to those who have the historic opportunity and responsibility to put permanent change above short-term political interests. May frustration and rhetoric soon be replaced by hope and deeds.

VIET NAM: CAO SI KIEM

Governor of the Bank and the Fund

On behalf of the government of the Socialist Republic of Viet Nam, I would like to express our sincere thanks for the excellent arrangements for these Annual Meetings and the warm hospitality extended to all of us by the government and people of the Kingdom of Thailand.

One year ago, during the 1990 Annual Meetings held in Washington, we expressed our great concern for the prospect of the world economy which was then being adversely affected by the Gulf war. It is fortunate that the Gulf crisis is over. The world economy, however, is now facing a number of acute problems: declining growth, an increasing external debt burden, persistent poverty, and the worsening of environmental pollution in developing countries. This situation underscores the need for all countries to set in place and implement sound macroeconomic and structural adjustment policies, the success of which depends greatly on the provision of assistance to the developing countries by the industrial countries. We express our great appreciation for the Bank's effort to alleviate poverty in low-income countries during the last year. However, it is clear that concessional resources available for this purpose remained below this requirement. We also greatly appreciate the Bank's and the Fund's initiatives in solving the debt problems. Yet, it is our view that improvement of the debt-servicing capacity of the highly indebted countries greatly depends on assistance by creditors to debtors to foster sustained economic growth and increase their export earnings. Debt relief, debt restructuring, and removal of the trade barriers by the industrial countries would help achieve these two objectives. This also calls for a closer coordination of policies among member countries and a more active role for the Bretton Woods institutions. The Vietnamese economy has been undergoing new difficulties: the substantial decline in trade and financial assistance with traditional markets and sources, including with the Middle East countries; and increasing domestic import demand for growth in a situation of sharp reductions of export earnings while new markets have to be established. Our economic reform and adjustment process has been adversely affected by the continuous economic embargo.

Facing this critical situation, our Government has introduced various emergency actions while continuing its economic reform in line with the market economy. Our efforts during the past 12 months primarily focused

on macromanagement and on establishing a proper legal framework, including the implementation of the banking decree laws, promulgation of the commercial and company laws, amendment of a number of tax laws, and preparation of the property and bankruptcy laws. These, in turn, will facilitate activities in all economic sectors.

During the past 12 months, we have introduced a number of policies and measures to stabilize the economy and reduce inflation. In particular, the Vietnamese government is now implementing and will introduce strong macroeconomic management measures to restructure the state enterprises to improve their efficiency, to liquidate or close the loss-making enterprises, while extending the scope of the nonpublic sector.

Parallel with these policies, monetary policy must also be geared to expand credit to the nonpublic sectors, in particular to household farmers. Interest rates will be increased to positive real levels and universally applied to various economic sectors, so that the last indirect subsidies through negative interest rates may be removed.

The exchange rate of the Vietnamese dong against foreign currencies is established according to the market level. A foreign exchange trading center has been opened in Ho Chi Minh City as a prelude to a future exchange market in the country.

On the principle of mutual respect and benefit, the Vietnamese government has made great efforts to broaden and improve relations with all countries over the world, especially with those in the region. This policy has enjoyed support from many countries. What needs to be stressed here is that, despite limited export earnings and ever-increasing import needs, we have made efforts to earmark part of our small foreign exchange for servicing our debt to external creditors. In particular, to multilateral institutions, such as the Bank and the Fund.

For the Fund, we have fulfilled our financial obligations falling due, totaling SDR 24.2 million during the past 12 months; these payments represent a considerable proportion of our debt servicing to the external creditors, while the relationship between Viet Nam and the Fund has not yet been normalized as envisaged by the intensified collaborative approach initiated by the Fund itself. This, in turn, has put a heavy burden on our limited foreign exchange resources. We are grateful for the technical assistance given by the Bank and the Fund; discussions on a policy framework paper are well advanced with the Fund and the Bank staffs, and Bank staff have already prepared a number of project and sector reviews in Viet Nam. Once again, we call on both the Bank and the Fund to re-establish full financial relations with Viet Nam to help Viet Nam overcome its economic difficulties and facilitate the economic reform and enable Viet Nam to re-enter the world economic community. In this context, we express our great appreciation to all countries, especially France, Australia, and Sweden in supporting the normalization of the relations between Viet Nam and the Fund as

well as their active participation in the formulation of a support group for Viet Nam. I would like to welcome any cooperative relations between Viet Nam and other countries, as well as with international institutions, on the principle of mutual benefit and for the prosperity of each country and mankind as a whole.

YUGOSLAVIA: DUSAN VLATKOVIC

Governor of the Fund

Let me first extend our congratulations to our hosts on the excellent organization of this magnificent gathering, and our warm appreciation for the hospitality we have been enjoying since arriving in this beautiful country. I also wish to welcome Mongolia, as the new member of the Bank and the Fund, and the U.S.S.R. as special associate member.

Our congratulations and best wishes are also directed to Mr. Lewis T. Preston, the new Bank President, and Mr. Michel Camdessus, the re-elected Fund Managing Director, and wish them all the success in their challenging tasks ahead.

My fellow Governors, I believe, share my view that both the Bank and the Fund made enormous efforts in 1990 and 1991 to respond to the challenges posed by the dramatic and dynamic events taking place in this period: the Gulf crisis and the impressive changes in the political and economic systems in the Central and Eastern European countries and in the U.S.S.R.

The most recent developments have, naturally, not diverted our attention from the long-standing problems present internationally: the difficult position of the poorest countries, deterioration of the environment, protectionism, bilateralization of world trade, enormous capital outflow from developing countries, and so on. The external environment is such that unfortunately it does not favor a faster resolution of these problems. A drastic fall in capital inflow— particularly from private sources, which has fallen to symbolic levels—is our greatest concern.

The Bank and the Fund undertook numerous actions, in line with their statutory obligations, to alleviate the existing difficulties, while simultaneously respecting jointly accepted principles in designing, applying, and supporting stabilization programs through structural adjustment. However, when a large number of countries are discarding dogmatic ideologies and starting the fundamental reconstruction of their economies without the chance to thoroughly prepare for such a task, the support modalities of the Bank and the Fund are to be enriched and adapted to these efforts. Allow me to underline in this connection that in 1989 and early 1990 Yugoslavia successfully began to implement its own economic reform program, which was fully supported by the two institutions. The program required enormous investments and sacrifices, but, nonetheless, it did produce positive results. Inflation was drastically curbed; internal convertibility of the domestic cur-

rency was achieved, as were remarkable results in the external sector; and the restructuring and transformation of real economy ownership was initiated.

The implementation of the program slowed down and was halted after the introduction of the multiparty system in all Yugoslav republics. It was thus necessary to intensify the transformation process in the economic structure and search for the most appropriate forms of cooperation for Yugoslavia's nations and republics.

The multiparty system gave birth to largely diversified views and interests that not only halted implementation of the economic program but also resulted in a dramatic political situation that included unilateral decisions by Slovenia and Croatia to secede from Yugoslavia and finally climaxed in armed clashes. Economic and financial flows in the country were thus disrupted, while the functioning of the economic and financial-monetary system was largely blocked. All these difficulties probably could have been alleviated had implementation of the economic program been promptly backed by sufficient external resources, particularly because the fundamental approach to the economic reforms was accepted nationwide and because the territory of Yugoslavia—irrespective of its future internal structure—will, for many objective reasons, remain in many respects a joint economic area.

Yugoslavia, as one of the founding member countries of the Bank and the Fund, has had a continuous, mutually useful, and successfully cooperative relationship with these institutions. The relationship evolved and was enriched over almost two decades through arrangements agreed upon with the Federation as a legitimate member of these institutions, as well as through direct contact with the republics. It is with pleasure that we can acknowledge that both the Bank and the Fund intend to resume the thus far fruitful relationship with Yugoslavia and its republics along the same lines.

I hope you understand the reasons I focused so extensively on my country. The dramatic situation Yugoslavia is currently facing fully justifies this approach. It is also my view that current developments in my country have broader implications. Therefore, I believe that, at this time of turbulent economic and political changes, the international community—the Bank and the Fund in the first place—will have to earmark the available funds with utmost selectivity, but do so faster and more determinedly and thus ensure that the initiated reform process is not slowed down or halted. This will perhaps mean a deviation from the prevailing policies and practices of the two institutions and may even entail certain higher risks, but this seems to be inevitable in the present circumstances.

You all know Yugoslavia as a country which, since the establishment of the United Nations and the Bretton Woods institutions, has been an active member, contributing to the development and promotion of their work, and

at the same time using their services and resources to develop its own economy and improve its standard of living. The developments in Yugoslavia have now taken a direction that nobody expected, and the country is currently the object of concern of the institutions and its friends worldwide. There is, nevertheless, still hope for Yugoslavia. With adequate institutionalized international support and the help of these institutions, we will overcome our own difficulties. It is clear that a formula must be sought for Yugoslavia that corresponds to both legitimate national interests and the present integrational flows and world cooperation on new foundations.

It is known that the Hague Conference on Yugoslavia is, in particular, dealing with this aspect. Solutions are being sought in a package, not partially, for all of Yugoslavia's problems. There are good prospects and expectations that future relations in Yugoslavia will be characterized by major participation of the republics. It will be essential, however, for the economic system to function successfully on open market principles, and for regulation of other issues and activities of joint interest. This will require optimal redefinition of the implementation of economic reforms and transformation previously initiated and some redesigning to accommodate for likely changes.

I would like, finally, to underline once again that Yugoslavia, irrespective of its future structure, will need strong cooperation with the Bank and the Fund. It is therefore necessary to maintain a permanent dialogue so that the strategy of cooperation can be defined in a timely way to best suit the new circumstances. In the meantime it will be of the utmost importance to design models of technical and financial support, while reaching agreement on the definite structure of the country, which would further reaffirm the importance of cooperation with these institutions.

This is the only way in which the Bank and the Fund will be able to respond quickly to the dynamic and fast political and economic changes in their member countries and offer help that best suits the real needs of the countries concerned.

ALEXENYEVICH YAVLINSKY

Head of the Delegation of the U.S.S.R

Mr. Chairman, President Preston, Managing Director Camdessus, respective Governors, I can hardly express the extent of the gratitude of my country, my people, my Government, for the opportunity to be here before you as the leader of the Delegation of the new Special Associate of the Fund which will, I believe, have a similar relationship with the Bank in the very near future. I also want to express the gratitude of my Delegation for the warm hospitality extended by our Thai hosts.

Changes in the U.S.S.R. and Eastern Europe in the last 3-4 years really opened a new era in the development of the world. The mere fact of my

presence here is very significant. We are opening for the whole world new possibilities for constructing an absolutely new world in the next century, a more peaceful world in which we are more clear about the common problems we have to solve.

First of all, I want to tell you briefly what is going on at this time in the Soviet Union. The creation of new democratic institutions and elements of market relations is accompanied by a profound economic crisis. The future of the country's peoples to a large extent depends on how we manage to overcome the economic problems. The decline in production has affected all sectors of the national economy. In 1991, the GNP will have declined by roughly 15 percent, industrial output by 9 percent, and agricultural production by 10-11 percent. Investment activities are on the decline, too: the overall volume of investment in 1991 will decline by at least 20 percent, and the volume of capital assets being put into operation by 25 percent. The volume of investment financed by the budget is declining especially rapidly.

The situation with the state finances remains very difficult. State budget revenues at all levels are on the decline due to the drop in production and the reduction in foreign trade profits. At the same time, social security expenditure continues to grow. Decentralization has resulted in a lack of coordination of budget policies among the republics. As a result, the deficit of the union budget in 1991 will amount to more than 120 billion rubles, the aggregate deficit of the republican budgets will be about the same size, and the estimated deficit of extrabudgetary funds will be no less than 80 billion rubles.

For the time being, the country has no reliable system for determining price indexes and rates of inflation. Officials data do not fully reflect the scale of price increases. According to those official data, in 1991 the aggregate index of retail prices of consumer goods and services was 96 percent above the 1990 level. The majority of experts predict a dramatic acceleration of the inflation rate in the last quarter of this year.

Elements of market relations have developed vigorously in the economy. Due to a lack of adequate information, both Soviet and Western experts do not usually take into account the qualitative changes taking place in the Soviet economy. However, there are remarkable indicators of the rapid pace of development of individual elements of market relations, for instance, the establishment of over 400 exchanges during one year virtually without any state support, and a six-fold increase in the number of foreign companies in Russia during the first half of the year alone.

The number of commercial banks, shareholder companies and other private sector structures in growing at the same rapid pace. However, of much greater importance are the factors changing economic behavior of the state sector, taking into account the fact that the state still remains the main property owner in the economy. The motivation of decisions in such enter-

prises is changing and commercialization is taking place as state paternalism weakens.

Do we know what to do in this situation? Do we have a plan? The answer is yes. We do know; we do have a plan.

The most immediate thing we have to do, and, we have to do it ourselves, is to make the economic treaty between the republics in order to bring about the desired transformation to a market economy in a coordinated way. The draft of the treaty which we have just prepared was initialled by the prime ministers and representatives of the 12 republics and signed by the heads of state of 3 of them. The treaty, together with the package of agreements, establishes the institutional basis for interrepublican economic relations and sets forth the purpose of and mechanisms for carrying out economic reforms. The sovereign states have already recognized as their common goals, radical economic reform, the overcoming of the crisis and integration into the world economy. They have confirmed their desire to preserve the benefits of economic integration.

Under the treaty, the full members of the community shall jointly apply macroeconomic control on their territories. To this end, they shall maintain a single monetary system and the ruble as their common currency at least for three years; establish along the lines of a reserve system an independent bank union, bringing together the central banks of the members states of the community and pursuing common monetary and credit policies; pursue coordinated budgetary policies aimed primarily at limiting the state budget deficits and coordinating taxation policies; conclude a customs union, establish a uniform external customs tariff, and eliminate internal restrictions on the flow of goods; unify and harmonize the economic laws of the member states of the community; recognize that the treaty, the agreements of the treaty and the community's legislative acts take precedence over republican laws within the limits of the community's terms of reference.

The member states of the economic community shall agree on their joint membership in the World Bank, the IMF, and other international economic institutions, Republics not wishing to accede to the treaty as full members may acquire the status of associated membership by joining the customs union, recognizing free enterprise, and protecting property rights on their territories. An associated member of the community shall coordinate its own monetary, credit and budgetary policies with the full participants in the treaty throughout special arrangements. All republics shall ensure the fulfillment of the U.S.S.R.'s domestic and foreign obligations and have agreed on a common mechanism for foreign debt servicing. The full members of the community will pursue a common policy of transition to an internally convertible ruble.

The treaty is intended to start to real economic reform and not to leave the situation as it is today. I want to explain in the main steps of the economic

reform that we can and must realize just now. First of all, macroeconomic stabilization. The system for controlling budget deficits defined in the treaty and the agreements will allow the stabilization of state finances. Expenditures will be cut by nominal freezing and decreasing defense spending in real terms, streamlining managerial staff, eliminating subsidies, and freezing social programs. A tax reform should also be carried out with an increase in the indirect taxation share as well as with stiffer responsibilities for tax evasion.

It is necessary to reorganize the banking sphere by: merging central banks or republics to carry out a single monetary policy, means bank union; dividing the accounts and capital of commercial banks; and reorganizing the central bank's activities to permit the indirect control of money circulation and credit through discount rates, reserve requirements, and operations in securities markets. This will permit the establishment of a system which will implement a stringent policy aimed at limiting borrowing and the amount of money in circulation. The next step is to put an end to the financing of state expenditures by the central banks of the republics and the successor of the State Bank of the U.S.S.R.

The next point is the liberalization of economic relations. It is necessary to legalize immediately actual existing relations and place them on a sound legislative footing. Next we should carry out an extensive liberalization of all kinds of prices. It is also necessary to carry out a wage reform to liberalize the labor market. The introduction of convertibility of the ruble for current operations, the liberalization of foreign trade and the abolition of most quotas are extremely important. To this end, it is necessary to devalue the ruble and conduct currency intervention by the state in the foreign exchange market. Taking into consideration the low competitiveness of Soviet products and the need to stabilize the balance of payments, it is necessary to elaborate and put into effect a program of step-by-step reduction of customs tariffs.

Last but not least is privatization. Privatization will be largely influenced in accordance with the republics' legislation. Considering that privatization laws have already been passed in a significant number of republics, and the fact that privatization is profitable for authorities, one can expect that the republican and local authorities will speedily launch the process of small-scale privatization.

Work is already under way to corporatize large-scale, state-owned enterprises, that is, to transform them into shareholder companies with a subsequent selling of state-owned share. Also needed is a more active demonopolization policy as well as the conversion of military production. The scope of and participation in land reform will expand and a market infrastructure for agriculture will be developed.

In the next stage the long-term institutional and structural transformation of the economy, related particularly to the increasing scale of deepening of

privatization activities and of the private sector of the economy, and the formation of labor, housing, and financial markets, will take place.

The potential of the country, and the courage and determination of its people will be crucial during the transition to a market economy. The peoples of the country will carry out reforms in any event. The republics that have joined the economic community can and indeed should mobilize their tremendous potential of natural and human resources.

What is the role in all this transformation for such institution as the World Bank, the IMF, and others? First I want to express our personal gratitude to Mr. Camdessus for his personal impact on this process. In general making available the great expertise of these institutions is crucial, at this moment when we are preparing these elements of our economic transformation.

My statement today is based on the assumption that the efforts aimed at creating an economic community will be crowned with success. The consequences of a different turn of events are unpredictable. In such a case, it will be virtually impossible to work out real scenarios of a successful economic transformation of the country.

Thank you very much for your attention.

CONCLUDING REMARKS BY LEWIS T. PRESTON PRESIDENT OF THE WORLD BANK GROUP

Governors, ladies, and gentlemen, in his eloquent address to us, the Prime Minister of the Kingdom of Thailand said that we needed a new vision for the 1990s, a vision befitting the new development era we are entering. Our meetings have taken us a good way toward such a vision. In my annual address, I mentioned my optimism about the future. These meetings have reinforced that optimism.

I have been impressed by the strength of agreement on our broad priorities—sustainable development and poverty reduction. Strong efforts to protect the environment are essential to meeting these objectives.

Naturally, the lively discussion inside and outside this hall has revealed many shades of opinion. But the debate has been infused by pragmatism, rather than sterile ideological dispute. Equally impressive is the breadth of agreement on how to reach our goals.

There is wide support for striking a new balance between government and the private sector. There is a growing recognition of the need to shift budget priorities away from unproductive outlays, such as excessive military spending. There is broad endorsement of the Bank's work on human resource development, intended to help society realize the full benefit of the potential of individuals.

The Governors' commitment to pursue adjustment wherever and whenever necessary has been an outstanding feature of our meetings. Their reports of progress have been encouraging.

Our meetings have been remarkable in other ways. We have welcomed Albania as a new member. Delegates from a number of other countries which are potential members, including the Soviet Union, have brought an historic dimension to our deliberations. We are already actively supporting the transformation of economies in Eastern and Central Europe. The Bank's technical cooperation with the Soviet Union is starting. I emphasize again that we have the capacity to meet these fresh demands, while continuing to support sound programs and investments in the Bank's traditional borrowing countries.

The vital necessity of a speedy and satisfactory conclusion to the Uruguay Round has been forcibly expressed by virtually every speaker. There is widespread agreement on the case for greater debt relief for some low-income and middle-income countries, and on support for other countries which have continued to service their debt. It is broadly accepted that resource flows must be adequate to sustain adjustment and development. In this connection, my view is that a sizable real increase in the Tenth Replenishment of IDA is a pressing priority in the year ahead.

Mr. Chairman, I have learned a great deal from these discussions. I have met old friends here and made many new ones. I have greatly appreciated

hearing the aspirations of our members and receiving your advice on how to turn these hopes into realities.

Few people have worked harder to this end than Moeen Qureshi who has served the Bretton Woods institutions with great distinction for more than 30 years. His personal dedication and contribution to development have been incomparable. I join his many friends and admirers in wishing him all the best in the future.

Again, I thank the government and people of Thailand for their generous hospitality. Thank you, Mr. Chairman, for your skillful conduct of our meetings. My congratulations to the Governor for Morocco on his election to preside over our deliberations next year.

I wish you all a safe journey, and look forward to seeing you again in 1992.

CONCLUDING REMARKS BY THE CHAIRMAN THE HONORABLE PABLO BETTER

It is now my duty as Chairman of the Boards of Governors to bring to a close these Forty-Sixth Annual Meetings of the Bank and the Fund. It has been a privilege for my country and for me, as Minister of Finance of Ecuador, to chair these Meetings which, I am sure, constitute a turning point for the world's economy. I would like to thank my fellow Governors for their cooperation in making the chairmanship of these Meetings such a smooth and effortless task.

I welcome the admission during the course of these Meetings of the Republic of Albania as the newest member of the Fund and the World Bank Group. It was a pleasure to have Mongolia participate in the Meetings for the first time. And the signing of the Special Association between the U.S.S.R. and the Fund is a welcome step toward that country's full membership in the Bretton Woods institutions. For the first time, a representative of the U.S.S.R. addressed the Joint Annual Meetings.

We are now on the threshold of universal membership in our two institutions. While this bodes well for the future of the world economy—for cooperation is to the advantage of all—it also means that we will have to add new responsibilities to old.

There appears to be a consensus among our members that the priority objectives for economic policies in the 1990s are sustainable growth, the reduction of poverty, the generation of savings to finance higher and more efficient investment, and protection of the environment. More importantly, we are leaving with a clear mandate to translate these lofty objectives into concrete programs of action that will benefit both the poor and the more advantaged of our world.

To be successful in these endeavors, we must make significant progress in a number of critical areas. First, more developed and less developed countries alike must pursue sound economic policies. Second, they must ensure that sufficient resources are available to finance growth and development. And third, they must strive to strengthen their human resources.

Over the past few days, I have heard Governors underscore the potential benefit for the entire international community of the remarkable, albeit difficult, transformation of the economies of Eastern Europe and the U.S.S.R. They made it clear that the global community must provide adequate support for strong adjustment efforts by these countries without, however, diverting resources from other developing countries.

I have heard Governors agree on the need for additional debt relief for the poorest, most-indebted countries on a case-by-case basis, going well beyond the relief already granted under the Toronto terms. For the middle-income countries, Governors welcomed the recent steps taken by several major debtors to regularize their relations with commercial banks.

I have heard Governors call on nations to reduce military expenditure and redirect those resources toward productive uses, including development.

And I have heard Governors stress the urgency of a successful resolution to the Uruguay Round, pointing out that without international trade liberalization, domestic reforms could be largely ineffective.

Governors, recognizing that the World Bank Group must have adequate resources to carry out its roles in the pursuit of development priorities, urged early subscription of the agreed $1 billion IFC capital increase. They recommended that as negotiations begin for the Tenth Replenishment of IDA, donors give serious consideration to increasing their contributions in real terms. Governors also noted that many Fund members have already consented to the Fund quota increase and the Third Amendment of the Articles of Agreement. They urged those countries that have not yet done so to act before the end of 1991, so that the Fund, too, will have sufficient resources to meet its responsibilities.

These are truly historical times—for the Bretton Woods institutions, for the international community, and for the peoples of the world. The IMF and the World Bank, each within its own field, take up a new role. They have become truly global institutions and, as such, all their missions strengthened both in scope and in depth.

These Annual Meetings have also done away with the myth of the "just technical" and "nonpolitical" work of the Bretton Woods institutions. In fact, there has been a recognition that democracy is as much an economic and social process as it is political. I congratulate the Bank and the Fund which, under the experienced and able leadership of Lewis T. Preston and Michel Camdessus, respectively, face the great task of supporting, perhaps even leading, the initiatives of the peoples of the world in the road to economic growth, social welfare, and the deepening of democracy.

In closing, I would like to reiterate my deep gratitude to His Majesty, the King, and to the government and people of Thailand for their gracious hospitality. A large part of the success of these Meetings can be attributed to the extraordinary organizational and logistical support provided by the Thai National Committee. I want to thank the government and people of Thailand in particular for the use of this most magnificent conference center which has been put at our disposal for the 1991 Annual Meetings.

Finally, to my successor as Chairman of the Boards of Governors, the Governor for Morocco, I extend my best wishes for a successful year.

MOROCCO: ABDELATIF LOUDYI

Temporary Alternate Governor of the Fund

On behalf of the Minister of Finance of the Kingdom of Morocco and Governor of the Bank, I have the honor to accept the chairmanship of the Forty-Seventh Annual Meetings of the International Monetary Fund and the World Bank Group for the coming year, especially at this crucial moment in the history of our Bretton Woods institutions.

Over the past few days, we have reflected upon the formidable challenges and exciting opportunities facing our institutions. I am confident that the membership will give the Bank and the Fund its full support as they seek to mobilize the resources required to meet the financing requirements in a period of profound change and exceptional demand for global resources; as they continue to respond to the pressing needs of developing countries; as they assist the countries of Eastern Europe and the Soviet Union in their daunting task of transforming their economies and integrating them into the global economy; and as they help member countries to devise, and coordinate, policies to strengthen the world economy, achieve adequate growth, alleviate poverty, and protect the environment. I am hopeful, and optimistic, that next year we will look back with satisfaction on the progress we have achieved in this period of profound challenge and change.

The Minister of Finance of the Kingdom of Morocco shall endeavor to carry out the duties of the Chairman with the same dignity, graciousness, and efficiency that have characterized our Meetings under the chairmanship of Mr. Pablo Better, Governor for Ecuador. We look forward to working with Mr. Camdessus and Mr. Preston, the Executive Directors, and the staff of both institutions in the coming year, and to welcoming all of you at the 1992 Annual Meetings in Washington.

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS[1]

Tuesday October 15	10:00 a.m.	Opening Ceremonies Address from the Chair Annual Address by President, The World Bank Group[2] Annual Address by Managing Director, International Monetary Fund
Following conclusion of Opening Ceremonies		Joint Procedures Committee MIGA Procedures Committee
	3:00 p.m.	Annual Discussion
Wednesday October 16	9:30 a.m.	Annual Discussion
	3:00 p.m.	Annual Discussion
	6:15 p.m.	Joint Procedures Committee
	6:30 p.m.	MIGA Procedures Committee
Thursday October 17	9:30 a.m.	Annual Discussion
Following the conclusion of Annual Discussion (approximately 11:30 a.m.)		Procedures Committees' Reports Comments by Heads of Organizations Adjournment

[1]*All sessions were joint sessions with the Board of Governors of the International Monetary Fund.*

[2]*The World Bank Group consists of the following:*
International Bank for Reconstruction and Development (IBRD)
International Finance Corporation (IFC)
International Development Association (IDA)
International Centre for Settlement of Investment Disputes (ICSID)
Multilateral Investment Guarantee Agency (MIGA)

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS[1]

ADMISSION

1. Sessions of the Boards of Governors of the World Bank Group Organizations and the International Monetary Fund will be joint and shall be open to accredited press, guests and staff.

2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

PROCEDURE AND RECORDS

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they ask to speak.

4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.

5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the President of the World Bank Group, the Managing Director of the International Monetary Fund, and the Secretaries.

6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Members.

PUBLIC INFORMATION

7. The Chairman of the Boards of Governors, the President of the World Bank Group and the Managing Director of the International Monetary Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

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[1]*Approved on May 8, 1991 pursuant to the By-Laws, IBRD Section 5(d), IFC Section 4(d) and IDA Section 1(a).*

BANK AGENDA[1]

1. 1990/91 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of Net Income
4. Administrative Budget
5. Joint Development Committee
6. Membership of the Republic of Albania
7. Officers and Procedures Committee for 1991/92

IFC AGENDA[1]

1. 1990/91 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget
4. Membership of the Republic of Albania

IDA AGENDA[1]

1. 1990/91 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget
4. Membership of the Republic of Albania

MIGA AGENDA[2]

1. 1990/91 Annual Report
2. Membership of the Republic of Albania
3. Selection of Officers and Procedures Committee for 1991/92

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[1]*Approved on May 2, 1991 pursuant to the By-Laws, IBRD Section 5(a), IFC Section 4(a) and IDA Section 1(a).*
[2]*Approved on May 2, 1991 pursuant to Section 4(a) of the MIGA By-Laws.*

JOINT PROCEDURES COMMITTEE

Chairman ..... Ecuador
Vice Chairmen ..... Lesotho
Netherlands
Reporting Member ..... Bangladesh

Members

Bangladesh
Bolivia
Cameroon
Canada
Ecuador
France
Germany
Ghana
Grenada
Iceland
Japan
Lesotho
Netherlands
Poland
Saudi Arabia
Syrian Arab Republic
Thailand
Togo
Tunisia
United Kingdom
United States
Vanuatu

REPORTS OF THE JOINT PROCEDURES COMMITTEE

REPORT II[1]

October 15, 1991

At the meeting of the Joint Procedures Committee held on October 15, 1991, the items of business on the agendas of the Boards of Governors of the Bank, IFC, and IDA was considered.

The Committee submits the following report and recommendation:

Membership of the Republic of Albania

The Committee considered the Report by the Executive Directors of the Bank and IDA and the Board of Directors of IFC dated October 4, 1991 concerning Albania's membership in the Bank, IFC and IDA.

The Committee recommends that the Boards of Governors of the Bank, IFC, and IDA adopt the draft resolutions. . . .[2]

In addition, under *Other Business* the Committee considered a request that the head of the Soviet delegation be invited to address the Plenary Session. The Committee agrees with the Chairman that, in view of the importance of the changes taking place in the Soviet economy for the members of the Bank and the Fund, it would be appropriate for the head of the Soviet delegation to be invited to address the Plenary Session.

Approved:

/s/ Pablo Better	/s/ Saifur Rahman
Ecuador—*Chairman*	Bangladesh—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on October 15, 1991.

[1]*Report I related to the business of the Fund.*
[2]*See pages 228, 243 and 252.*

REPORT III

October 17, 1991

At the meeting of the Joint Procedures Committee held on October 16, 1991, items of business on the agendas of the Boards of Governors of the Bank, IFC, and IDA were considered.

The Committee submits the following report and recommendations on Bank and IDA business:

1. *1991 Annual Report*

The Committee noted that the 1991 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audits, and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 1991 Bank and IDA Annual Report, together with the Report dated August 8, 1991.

The Committee recommends that the Board of Governors of the Bank and IDA adopt the draft resolutions. . . .[1]

3. *Allocation of Net Income of the Bank*

The Committee considered the Report of the Executive Directors dated July 23, 1991, on the Allocation of FY91 Net Income. . . .[2]

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution. . . .[3]

The Committee submits the following report and recommendations on IFC business:

1. *1991 Annual Report*

The Committee noted that the 1991 Annual Report and the activities of IFC had been discussed at these Annual Meetings.

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[1]*See pages 231 and 254.*
[2]*See page 264.*
[3]*See page 231.*

2. *Financial Statements, Annual Audit, and Administrative Budget*

The Committee considered the Financial Statements and the Accountants' Report contained in the 1991 Annual Report, and the Administrative Budget attached to the Report dated August 26, 1991.

The Committee recommends that the Board of Governors of IFC adopt the draft resolution. . . .[1]

Approved:

/s/ Pablo Better	/s/ Saifur Rahman
Ecuador—*Chairman*	Bangladesh—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on October 16, 1991.

[1]*See page 244.*

REPORT V[1]

October 17, 1991

The Joint Procedures Committee met on October 16, 1991 and submits the following report and recommendations:

1. *Development Committee*

The Committee noted that the Annual Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) has been presented to the Boards of Governors of the Bank and the Fund pursuant to paragraph 5 of Resolutions Nos. 29-9 and 294 of the Fund and Bank, respectively.

The Committee recommends that the Boards of Governors of the Bank and the Fund note the report and thank the Development Committee for its work.

2. *Officers and Joint Procedures Committee for 1991/92*

The Committee recommends that the Governor for Morocco be Chairman, and that the Governors for Malawi and Venezuela be Vice Chairmen of the Boards of Governors of the World Bank Group and of the Fund, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: Antigua & Barbuda, Australia, Belgium, Comoros, Islamic Republic of Iran, Malaysia, Tonga, Uganda, United Kingdom, United States and Venezuela.

[1]*Report IV related to the business of the Fund.*

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Morocco, and the Vice Chairmen shall be the Governors for Malawi and Venezuela, and that the Governor for Hungary shall serve as Reporting Member.

Approved:

/s/ Pablo Better
Ecuador—*Chairman*

/s/ Saifur Rahman
Bangladesh—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on October 17, 1991.

MIGA PROCEDURES COMMITTEE

Chairman ..... Ecuador
Vice Chairmen ..... Lesotho
Netherlands
Reporting Member ..... Bangladesh

Members

Bangladesh
Cameroon
Canada
Ecuador
France
Germany
Ghana
Grenada
Japan
Lesotho
Netherlands
Poland
Saudi Arabia
Togo
Tunisia
United Kingdom
United States
Vanuatu

REPORTS OF THE MIGA PROCEDURES COMMITTEE

REPORT I

October 15, 1991

The MIGA Procedures Committee met on October 15, 1991 and submits the following report:

Application for Membership—Republic of Albania

The Committee considered the Report of the Board of Directors of MIGA concerning Albania's membership in MIGA.

The Committee recommends that the Council of Governors adopt the draft resolution. . . .[1]

Approved:

/s/ Pablo Better	/s/ M. Saifur Rahma
Ecuador—*Chairman*	Bangladesh—*Reporting Member*

This report was approved and its recommendations were adopted by the Council of Governors on October 15, 1991.

[1]*See page 258.*

REPORT II

October 16, 1991

At the meeting of the MIGA Procedures Committee held on October 16, 1991, the items of business on the agenda of the Council of Governors of MIGA were considered:

The Committee submits the following report and recommendations on MIGA business:

1. *1991 Annual Report*

The Committee noted that the 1991 Annual Report and the activities of MIGA had been discussed at these Annual Meetings.

2. *Officers and Procedures Committee for 1991/92*

The Committee recommends that the Governor for Morocco be Chairman and Governors for El Salvador and Malawi be Vice Chairmen of the Council of Governors of MIGA to hold office until the close of the next Annual Meetings.

It is further recommended that a Procedures Committee be established to be available, after the termination of these Annual Meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: China, Côte d'Ivoire, France, Germany, Ireland, Japan, Korea, Norway, Portugal, Saudi Arabia, Sri Lanka, Switzerland, United Kingdom and United States.

It is recommended that the Chairman of the Procedures Committee shall be the Governor for Morocco and the Vice Chairmen shall be the Governors for El Salvador and Malawi, and that the Governor for Hungary shall serve as Reporting Member.

Approved:

/s/ Pablo Better	/s/ M. Saifur Rahman
Ecuador—*Chairman*	Bangladesh—*Reporting Member*

This report was approved and its recommendations were adopted by the Council of Governors on October 16, 1991.

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK BETWEEN THE 1990 AND 1991 ANNUAL MEETINGS

Resolution No. 446

Membership of the Mongolian People's Republic

WHEREAS the Government of the Mongolian People's Republic (hereinafter called Mongolia) has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank;

WHEREAS, pursuant to Section 19 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of Mongolia, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Mongolia shall be admitted to membership in the Bank shall be as follows:

1. *Definitions*: As used in this resolution:
   (a) "Bank" means International Bank for Reconstruction and Development.
   (b) "Articles of Agreement" means the Articles of Agreement of the Bank.
   (c) "Subscription" means the capital stock of the Bank subscribed to by a member.
   (d) "Member" means member of the Bank.
   (e) "1988 General Capital Increase Resolution" means Board of Governors' Resolution No. 425 entitled "1988 General Capital Increase" adopted on April 27, 1988.
   (f) "1979 Additional Capital Increase Resolution" means Board of Governors' Resolution No. 347 entitled "1979 Additional Increase in Authorized Capital Stock and Subscriptions Thereto" adopted on January 4, 1980, as amended by Resolution No. 419, adopted on August 17, 1987.

2. *Membership in the Fund*: Before accepting membership in the Bank, Mongolia shall accept membership in and become a member of the International Monetary Fund.

3. *Subscription*: By accepting membership in the Bank, Mongolia shall subscribe to 216 shares of the capital stock of the Bank at par on the terms and conditions set forth or referred to in paragraph 4 hereof.

4. *Payments on Subscription*:

(a) Upon accepting membership in the Bank, Mongolia shall pay to the Bank under Article II, Section 7(i) of the Articles of Agreement on account of the subscription price of each of the shares subscribed pursuant to paragraph 3 of this resolution:

(i) Gold or United States dollars equal to 0.875% of the said subscription price; and

(ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 7.875% thereof.

(b) The Bank shall call the amounts of subscription under paragraph 3 of this resolution payable under the said Article II, Section 7(i) which are not required to be paid under paragraph 4(a) above only when required to meet obligations of the Bank for funds borrowed or on loans guaranteed by it and not for use by the Bank in its lending activities or for administrative expenses.

5. *Acceptance of Subscription*: Before the Bank shall accept Mongolia's subscription to the shares set out in paragraph 3 of this resolution, the following action shall have been taken:

(a) Mongolia shall have taken all action necessary to authorize such subscription and shall furnish to the Bank all such information thereon as the Bank may request; and

(b) With respect to and on account of the subscription price of the said shares, Mongolia shall pay to the Bank the amounts set forth in paragraph 4(a) above.

6. *Representation and Information*: Before accepting membership in the Bank, Mongolia shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraphs 7(d) and (e) of this resolution and Mongolia shall furnish to the Bank such information in respect of such action as the Bank may request.

7. *Effective Date of Membership*: Mongolia shall become a member of the Bank with a subscription as set forth in paragraph 3 of this resolution as of the date when Mongolia shall have complied with the following requirements:

(a) become a member of the International Monetary Fund;

(b) made the payments called for by paragraph 4 of this resolution;

(c) furnished the representation, and such information as may have been requested, pursuant to paragraph 6 of this resolution;
(d) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(e) signed the original Articles held in the archives of the Government of the United States of America.

8. *Limitation on Period for Fulfillment of Requirements of Membership*: Mongolia may fulfill the requirements for membership in the Bank pursuant to this resolution until June 28, 1991, or such later date as the Executive Directors may determine.

9. *Additional Subscription on Terms and Conditions of the 1979 Additional Capital Increase Resolution*: Mongolia may subscribe 250 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 2 and 3 of the 1979 Additional Capital Increase Resolution, provided, however, that notwithstanding the provision of paragraph 2(b) of the said Resolution, Mongolia may subscribe such shares up to the date on which Mongolia may subscribe additional shares under paragraph 10 below.

10. *Additional Subscription on Terms and Conditions of the 1988 General Capital Increase Resolution*: Mongolia may subscribe up to 364 shares of the capital stock of the Bank on the terms and conditions specified in paragraph 3(a) through 3(e) and 5 of the said Resolution, provided, however, that Mongolia may subscribe 195 of the said shares only after Mongolia shall have subscribed the shares referred to in paragraph 9 above.

(Adopted February 13, 1991)

Resolution No. 447

Allocation of FY90 Net Income Retained as Surplus

RESOLVED:

THAT the Bank transfer from surplus, by way of grant, the equivalent of up to SDR 200 million as of the effective date of this resolution to the International Development Association (the Association) and any balance of the surplus to the Global Environment Trust Fund (the Trust Fund),

administered by the Bank, such transfers to be made at times and in manners decided by the Executive Directors; provided, however, that the amount of such grants may at any time be changed by agreement between the Bank and the Association and the Bank and the Trustee of the Trust Fund into an equivalent amount in other currencies.

(Adopted May 13, 1991)

Resolution No. 448

1991 Increase in Authorized Capital

WHEREAS in their report dated April 25, 1991 the Executive Directors recommend that the Board of Governors adopt a resolution (hereinafter called the Switzerland membership resolution) providing for the admission of Switzerland as a member subject to the conditions therein set forth or referred to, including the subscription by Switzerland to 14,682 shares of the capital stock of the Bank comprising its initial obligatory subscription and the option to subscribe an additional 250 shares on the terms of Resolution No. 347 and 11,674 shares on the terms of Resolution No. 426, a total of 26,606 shares;

WHEREAS the 14,000 shares of capital stock authorized under Resolution No. 426 of the Board of Governors to provide for the admission of new members have been allocated to such members, and the Executive Directors recommend that the authorized capital stock of the Bank be further increased to provide for the membership of Switzerland and of other new members;

WHEREAS in order to achieve the purpose of such an increase in the authorized capital, it is necessary that members waive their right under Article II, Section 3 (c) of the Articles of Agreement to subscribe their proportional share in the increase in the authorized capital stock provided for in this resolution;

NOW THEREFORE the Board of Governors hereby resolves as follows:

1. The authorized capital stock of the Bank shall be increased by 28,000 shares of capital stock having a par value of $100,000 in terms of United States dollars of the weight and fineness in effect on July 1, 1944 provided however that, (i) in the event that Switzerland fails to become a member of the Bank by the date set forth in the Switzerland membership resolution,

or such later date as may be established pursuant to the said resolution, the authorized capital of the Bank shall, at the close of business on the said date, be reduced by 26,606 shares; and (ii) in the event that Switzerland, having become a member, fails to subscribe to one or the other of the optional groups of shares it is authorized to subscribe pursuant to the said resolution by the date referred to in the said resolution, or such later date as may be established for the purpose, at the close of business on the said date, the authorized capital of the Bank shall be reduced by the number of shares Switzerland shall have failed to subscribe.

2. In the absence of notice received by the Bank from any member on or before May 17, 1991 that it intends to exercise its right to subscribe a share of the increase in capital equal to the proportion of its subscribed shares in the total capital of the Bank heretofore authorized as provided in Article II, Section 3 (c) of the Articles of Agreement, such member shall be deemed to have waived such right.

3. This resolution shall become effective upon its approval by the required majority and no exercise of preemptive rights.

(Adopted June 10, 1991)

Resolution No. 449

Membership of Switzerland

WHEREAS the Government of Switzerland has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank;

WHEREAS in their report dated April 25, 1991, the Executive Directors have recommended that the Board of Governors adopt a resolution to increase the authorized capital of the Bank to provide, *inter alia*, for the membership of Switzerland;

WHEREAS pursuant to Section 19 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of Switzerland, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Switzerland shall be admitted to membership in the Bank shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Bank" means International Bank for Reconstruction and Development.
   (b) "Articles of Agreement" means the Articles of Agreement of the Bank.
   (c) "Subscription" means the capital stock of the Bank subscribed to by a member.
   (d) "Member" means member of the Bank.
   (e) "1988 General Capital Increase Resolution" means Board of Governors' Resolution No. 425 entitled "1988 General Capital Increase" adopted on April 27, 1988.
   (f) "1979 Additional Capital Increase Resolution" means Board of Governors' Resolution No. 347 entitled "1979 Additional Increase in Authorized Capital Stock and Subscriptions Thereto" adopted on January 4, 1980, as amended by Resolution No. 419, adopted on August 17, 1987.
   (g) "1991 Capital Increase Resolution" means the resolution entitled "1991 Increase in Authorized Capital" submitted to the Board of Governors for a vote without a meeting on April 26, 1991.

2. *Membership in the Fund:* Before accepting membership in the Bank, Switzerland shall accept membership in and become a member of the International Monetary Fund.

3. *Subscription:* By accepting membership in the Bank, Switzerland shall subscribe to 14,682 shares of the capital stock of the Bank at par on the terms and conditions set forth or referred to in paragraph 4 hereof.

4. *Payment on Subscription:*
   (a) Upon accepting membership in the Bank, Switzerland shall pay to the Bank under Article II, Section 7(i) of the Articles of Agreement on account of the subscription price of each of the shares subscribed pursuant to paragraph 3 of this resolution:
      (i) Gold or United States dollars equal to 0.875% of the said subscription price; and
      (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 7.875% thereof.
   (b) The Bank shall call the amounts of subscription under paragraph 3 of this resolution payable under the said Article II, Section 7(i) which

are not required to be paid under paragraph 4(a) above only when required to meet obligations of the Bank for funds borrowed or on loans guaranteed by it and not for use by the Bank in its lending activities or for administrative expenses.

5. *Acceptance of Subscription:* Before the Bank shall accept Switzerland's subscription to the shares set out in paragraph 3 of this resolution, the following action shall have been taken:

(a) the 1991 Capital Increase Resolution shall have become effective;
(b) Switzerland shall have taken all action necessary to authorize such subscription and shall furnish to the Bank all such information thereon as the Bank may request; and
(c) with respect to and on account of the subscription price of the said shares, Switzerland shall pay to the Bank the amounts set forth in paragraph 4(a) above.

6. *Representation and Information:* Before accepting membership in the Bank, Switzerland shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraphs 7(d) and (e) of this resolution and Switzerland shall furnish to the Bank such information in respect of such action as the Bank may request.

7. *Effective Date of Membership:* Switzerland shall become a member of the Bank with a subscription as set forth in paragraph 3 of this resolution as of the date when Switzerland shall have complied with the following requirements:

(a) become a member of the International Monetary Fund;
(b) made the payments called for by paragraph 4 of this resolution;
(c) furnished the representation, and such information as may have been requested, pursuant to paragraph 6 of this resolution;
(d) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(e) signed the original Articles held in the archives of the Government of the United States of America.

8. *Limitation on Period for Fulfillment of Requirements of Membership:* Switzerland may fulfill the requirements for membership in the Bank pursuant to this resolution until June 30, 1992, or such later date as the Executive Directors may determine.

9. *Additional Subscription on Terms and Conditions of the 1979 Additional Capital Increase Resolution:* Switzerland may subscribe 250 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 2 and 3 of the 1979 Additional Capital Increase Resolution, provided, however, that notwithstanding the provision of paragraph 2(b) of the said Resolution, Switzerland may subscribe such shares up to the date on which Switzerland may subscribe additional shares under paragraph 10 below.

10. *Additional Subscription on Terms and Conditions of the 1988 General Capital Increase Resolution:* Switzerland may subscribe up to 11,674 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 3(a) through 3(e) and 5 of the 1988 General Capital Increase Resolution, provided, however, that Switzerland may subscribe 195 of the said shares only after Switzerland shall have subscribed the shares referred to in paragraph 9 above.

11. *Shares from Increase in Authorized Capital:* The number of shares to be subscribed by Switzerland pursuant to paragraphs 3, 9 and 10 of this resolution shall be subtracted from the number of shares authorized under the 1991 Capital Increase Resolution and, to the extent any such shares are not subscribed by Switzerland by the dates set forth or referred to in this resolution, they shall be canceled pursuant to the said Resolution.

(Adopted June 10, 1991)

Resolution No. 450

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1991, the annual rates of remuneration of the Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be as follows:

(i) As salary, $114,520 per year for Executive Directors and $95,670 per year for their Alternates;

(ii) As supplemental allowance (for expenses, including housing and entertainment expenses, except those specified in Section 13(f) of the By-Laws), $9,000 per year for Executive Directors and $7,200 per year for their Alternates.

(Adopted August 6, 1991)

Resolution No. 451

Salary of the President

RESOLVED:

THAT, effective July 1, 1991, the annual salary of the President of the Bank shall be $190,000.

(Adopted September 9, 1991)

Resolution No. 452

Transfer from Surplus to Fund Technical Assistance for the Union of Soviet Socialist Republics

RESOLVED:

THAT the Bank transfer from surplus, by way of grant, United States $30 million as of the effective date of this resolution to the Technical Assistance Trust Fund for the Union of Soviet Socialist Republics (TAF), administered by the Bank, such transfer to be drawn down as needed for the purposes of the TAF; provided, however, that the amount of such grant may at any time be changed by the Bank into an equivalent amount in other currencies.

(Adopted September 18, 1991)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK AT THE 1991 ANNUAL MEETINGS

Resolution No. 453

Membership of the Republic of Albania

WHEREAS the Government of the Republic of Albania has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank;

WHEREAS, by Resolution No. 448, adopted on June 10, 1991, the Board of Governors has increased the authorized capital of the Bank by 28,000 additional shares to provide for the admission of new members; and

WHEREAS, pursuant to Section 19 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of the Republic of Albania, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Albania shall be admitted to membership in the Bank shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Bank" means International Bank for Reconstruction and Development.
   (b) "Articles of Agreement" means the Articles of Agreement of the Bank.
   (c) "Subscription" means the capital stock of the Bank subscribed to by a member.
   (d) "Member" means member of the Bank.
   (e) "1988 General Capital Increase Resolution" means Board of Governors' Resolution No. 425 entitled "1988 General Capital Increase" adopted on April 27, 1988.
   (f) "1991 Increase in Authorized Capital Resolution" means Board of Governors' Resolution No. 448 entitled "1991 Increase in Authorized Capital" adopted on June 10, 1991.

(g) "1979 Additional Capital Increase Resolution" means Board of Governors' Resolution No. 347 entitled "1979 Additional Increase in Authorized Capital Stock and Subscriptions Thereto" adopted on January 4, 1980, as amended by Resolution No. 419, adopted on August 17, 1987.

2. *Membership in the Fund:* Before accepting membership in the Bank, the Republic of Albania shall accept membership in and become a member of the International Monetary Fund.

3. *Subscription:* By accepting membership in the Bank, the Republic of Albania shall subscribe to 216 shares of the capital stock of the Bank at par on the terms and conditions set forth or referred to in paragraph 4 hereof.

4. *Payments on Subscription:*

(a) Upon accepting membership in the Bank, the Republic of Albania shall pay to the Bank under Article II, Section 7(i) of the Articles of Agreement on account of the subscription price of each of the shares subscribed pursuant to paragraph 3 of this resolution:
   (i) Gold or United States dollars equal to 0.875% of the said subscription price; and
   (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 7.875% thereof.

(b) The Bank shall call the amounts of subscription under paragraph 3 of this resolution payable under the said Article II, Section 7(i) which are not required to be paid under paragraph 4(a) above only when required to meet obligations of the Bank for funds borrowed or on loans guaranteed by it and not for use by the Bank in its lending activities or for administrative expenses.

5. *Acceptance of Subscription:* Before the Bank shall accept the Republic of Albania's subscription to the shares set out in paragraph 3 of this resolution, the following action shall have been taken:

(a) The Republic of Albania shall have taken all action necessary to authorize such subscription and shall furnish to the Bank all such information thereon as the Bank may request; and

(b) With respect to and on account of the subscription price of the said shares, the Republic of Albania shall pay to the Bank the amounts set forth in paragraph 4(a) above.

6. *Representation and Information:* Before accepting membership in the Bank, the Republic of Albania shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraphs 7(d) and (e) of this reso-

lution and the Republic of Albania shall furnish to the Bank such information in respect of such action as the Bank may request.

7. *Effective Date of Membership:* The Republic of Albania shall become a member of the Bank with a subscription as set forth in paragraph 3 of this resolution as of the date when the Republic of Albania shall have complied with the following requirements:

(a) become a member of the International Monetary Fund;
(b) made the payments called for by paragraph 4 of this resolution;
(c) furnished the representation, and such information as may have been requested, pursuant to paragraph 6 of this resolution;
(d) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(e) signed the original Articles held in the archives of the Government of the United States of America.

8. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of Albania may fulfill the requirements for membership in the Bank pursuant to this resolution until December 31, 1991, or such later date as the Executive Directors may determine.

9. *Additional Subscription on Terms and Conditions of the 1979 Additional Capital Increase Resolution:* The Republic of Albania may subscribe 250 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 2 and 3 of the 1979 Additional Capital Increase Resolution, provided, however, that notwithstanding the provision of paragraph 2(b) of the said Resolution, the Republic of Albania may subscribe such shares up to the date on which the Republic of Albania may subscribe additional shares under paragraph 10 below.

10. *Additional Subscription on Terms and Conditions of the 1988 General Capital Increase Resolution:* The Republic of Albania may subscribe up to 364 shares of the capital stock of the Bank on the terms and conditions specified in paragraph 3(a) through 3(e) and 5 of the 1988 General Capital Increase Resolution, provided, however, that the Republic of Albania may subscribe 195 of the said shares only after the Republic of Albania shall have subscribed the shares referred to in paragraph 9 above.

11. *Shares from Additional Shares Authorized under Resolution No. 448:* The number of shares to be subscribed by the Republic of Albania pursuant to paragraphs 3, 9 and 10 of this resolution shall be subtracted from the

number of shares authorized under the 1991 Increase in Authorized Capital Resolution and available to provide for the admission of further new members, and, to the extent any such shares are not subscribed by the Republic of Albania by the dates set forth or referred to in this resolution, they shall be added back to the said number of shares.

(Adopted October 15, 1991)

Resolution No. 454

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Bank consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1990/91 Annual Report, as fulfilling the requirements of Article V, Section 13, of the Articles of Agreement and of Section 18 of the By-Laws of the Bank.

(Adopted October 17, 1991)

Resolution No. 455

Allocation of FY91 Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated July 23, 1991 on "Allocation of FY91 Net Income" is hereby noted with approval;

2. THAT the additions to the General Reserve of the Bank for the fiscal year ended June 30, 1991 of:

(a) $250 million to achieve the Bank's reserves target, which will remain 11% for the Bank's reserves-to-loans ratio; and

(b) $200 million to allow for a waiver for all payment periods commencing in the fiscal year ending June 30, 1992 of 25 basis points on the interest rate charged to borrowers which have serviced all their loans from the Bank in a timely manner;

are hereby noted with approval;

3. THAT the Bank transfer, by way of grant, out of the net income of the Bank for the fiscal year ended June 30, 1991, $350 million to the International Development Association, such transfer to be made at such time and manner as decided by the Executive Directors; provided, however, that the amount of such grant may be changed by agreement between the Bank and the Association into an equivalent amount in other currencies; and

4. THAT any excess of net income over $800 million be retained as surplus.

(Adopted October 17, 1991)

Resolution No. 456

Resolution of Appreciation

RESOLVED:

THAT the Governors of the World Bank Group and of the International Monetary Fund express their deep appreciation to their Majesties, the King and Queen of the Kingdom of Thailand, to Prime Minister Anand, and to the government and people of the Kingdom of Thailand, and to the city of Bangkok, for their gracious and warm hospitality;

THAT they express their gratitude for the excellent facilities of the Queen Sirikit National Convention Center made available for the meetings in Bangkok; and

THAT they express particular appreciation to the Governors and Alternate Governors for the Kingdom of Thailand and to their associates for the many contributions which they made toward ensuring the success of the 1991 Annual Meetings.

(Adopted October 17, 1991)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE IFC BETWEEN THE 1990 AND 1991 ANNUAL MEETINGS

Resolution No. 170

Membership of the Mongolian People's Republic

WHEREAS the Government of the Mongolian People's Republic (hereinafter called Mongolia) has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of Mongolia has made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors, hereby

RESOLVES:

THAT the terms and conditions upon which Mongolia shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Corporation" means International Finance Corporation.
   (b) "Articles" means the Articles of Agreement of the Corporation.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.
   (d) "Subscription" means the capital stock of the Corporation subscribed by a member.
   (e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, Mongolia shall subscribe to 144 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, Mongolia shall pay $144,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Mongolia shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* Mongolia shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when Mongolia shall have complied with the following requirements:

(a) become a member of the International Bank for Reconstruction and Development;
(b) made the payment called for by paragraph 3 of this resolution;
(c) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
(d) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(e) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* Mongolia may fulfill the requirements for membership in the Corporation pursuant to this resolution until June 28, 1991, or such later date as the Board of Directors may determine.

7. *Additional Subscription:* Mongolia may subscribe up to 176 additional shares of the Corporation on the following terms and conditions:

(a) The subscription price shall be $1,000 in terms of United States Dollars, and such subscription price shall be paid in United States Dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States Dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States Dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States Dollars.
(b) Mongolia may at any time on or before August 1, 1991 (or such later date as the Directors may determine) subscribe up to the number of additional shares of capital stock of the Corporation mentioned above (the Additional Shares) by depositing an Instrument of Subscription with the Corporation, in a form acceptable to the Corporation, in which it commits itself to pay for such total number of shares in a manner consistent with paragraph (c) (2) of this section.
(c) Payment of the subscription price for the Additional Shares subscribed shall be made in cash in full, either:

(1) for all such shares at any time or for some such shares from time to time, provided that such payment shall not be made in amounts and at times less favorable to the Corporation than those specified in the following sub-paragraph (2); or

(2) (i) for eighty per cent (80%) of the total number of Additional Shares subscribed at the time an Instrument of Subscription, in a form acceptable to the Corporation, is received by the Corporation; and

(ii) for the remainder, twenty per cent (20%) of the total number of Additional Shares subscribed, in cash in full on August 1, 1991 or, at the election of Mongolia, within a period of six months after such date;

provided, however, that if an Instrument of Subscription is received by the Corporation on or (if the Directors have determined to extend the subscription period) after August 1, 1991 then payment shall be made in cash in full in respect of all the Additional Shares subscribed pursuant to such Instrument of Subscription.

(d) At the request of Mongolia, in respect of the Additional Shares to be subscribed by it, the Directors may extend the date for subscription or any period of payment under paragraph (c) (2) above by up to six months.

(e) To the extent that any Additional Shares, which have been subscribed pursuant to this Resolution, shall not have been paid for in cash in full on or before the last date prescribed for payment for such shares in accordance with this Resolution, the subscription of such shares shall become void.

(f) Any shares of capital stock remaining unsubscribed after the date prescribed under paragraph (b) hereof shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted February 13, 1991)

Resolution No. 171

Membership of the Republic of Bulgaria

WHEREAS the Government of the Republic of Bulgaria (hereinafter called Bulgaria) has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of Bulgaria has made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors, hereby

RESOLVES:

THAT the terms and conditions upon which Bulgaria shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Corporation" means International Finance Corporation.
   (b) "Articles" means the Articles of Agreement of the Corporation.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.
   (d) "Subscription" means the capital stock of the Corporation subscribed by a member.
   (e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, Bulgaria shall subscribe to 1,789 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, Bulgaria shall pay $1,789,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Bulgaria shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* Bulgaria shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when Bulgaria shall have complied with the following requirements:
   (a) made the payment called for by paragraph 3 of this resolution;
   (b) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
   (c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps

necessary to enable it to carry out all its obligations under the Articles and this resolution; and

(d) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* Bulgaria may fulfill the requirements for membership in the Corporation pursuant to this resolution until June 28, 1991, or such later date as the Board of Directors may determine.

7. *Additional Subscription:* Bulgaria may subscribe up to 2,213 additional shares of the Corporation on the following terms and conditions:

(a) The subscription price shall be $1,000 in terms of United States Dollars, and such subscription price shall be paid in United States Dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States Dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States Dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States Dollars.

(b) Bulgaria may at any time on or before August 1, 1991 (or such later date as the Directors may determine) subscribe up to the number of additional shares of capital stock of the Corporation mentioned above (the Additional Shares) by depositing an Instrument of Subscription with the Corporation, in a form acceptable to the Corporation, in which it commits itself to pay for such total number of shares in a manner consistent with paragraph (c) (2) of this section.

(c) Payment of the subscription price for the Additional Shares subscribed shall be made in cash in full, either:

(1) for all such shares at any time or for some such shares from time to time, provided that such payment shall not be made in amounts and at times less favorable to the Corporation than those specified in the following sub-paragraph (2); or

(2) (i) for eighty per cent (80%) of the total number of Additional Shares subscribed at the time an Instrument of Subscription, in a form acceptable to the Corporation, is received by the Corporation; and

(ii) for the remainder, twenty per cent (20%) of the total number of Additional Shares subscribed, in cash in full on August 1, 1991 or, at the election of Bulgaria, within a period of six months after such date;

provided, however, that if an Instrument of Subscription is received by the Corporation on or (if the Directors have determined to extend

the subscription period) after August 1, 1991 then payment shall be made in cash in full in respect of all the Additional Shares subscribed pursuant to such Instrument of Subscription.

(d) At the request of Bulgaria, in respect of the Additional Shares to be subscribed by it, the Directors may extend the date for subscription or any period of payment under paragraph (c)(2) above by up to six months.

(e) To the extent that any Additional Shares, which have been subscribed pursuant to this Resolution, shall not have been paid for in cash in full on or before the last date prescribed for payment for such shares in accordance with this Resolution, the subscription of such shares shall become void.

(f) Any shares of capital stock remaining unsubscribed after the date prescribed under paragraph (b) hereof shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted March 5, 1991)

Resolution No. 172

Increase of Subscription by Colombia and Czechoslovakia to the Capital of the Corporation

WHEREAS the following countries have indicated their desire to subscribe for additional authorized and unissued shares of the Corporation: Colombia 2,554 shares; and Czechoslovakia 4,153 shares; and

WHEREAS the Directors of the Corporation have concluded that it is desirable that said countries should be permitted to increase their shareholding and have made recommendations to the Board of Governors regarding this matter;

NOW, THEREFORE, THE BOARD OF GOVERNORS RESOLVES THAT:

A. Colombia is hereby authorized to subscribe up to 2,554 shares of the Corporation on the terms and conditions provided for in this Resolution.

B. Czechoslovakia is hereby authorized to subscribe up to 4,153 shares of the Corporation on the terms and conditions provided for in this Resolution.

C. The subscription price per share shall be $1,000 in terms of United States dollars, and such subscription price shall be paid in United

States dollars or other freely convertible currency or currencies; provided that, if payment is made in such a currency or currencies other than United States dollars, the Corporation shall exercise its best efforts to cause such currency or currencies to be promptly converted into United States dollars and the same shall constitute payment of, or towards, the subscription price only to the extent that the Corporation shall have received effective payment of United States dollars.

D. Colombia or Czechoslovakia may at any time on or before August 1, 1991, (or such later date as the Directors may determine) subscribe up to the number of shares of capital stock of the Corporation listed above by depositing an Instrument of Subscription with the Corporation, in a form acceptable to the Corporation, and by paying in cash in full for such shares.

E. At the request of Colombia or of Czechoslovakia in respect of the shares to be subscribed by them respectively, the Directors may extend the date for subscription under paragraph D by up to six months.

F. To the extent that any shares of capital stock, which have been subscribed pursuant to this Resolution, shall not have been paid for in cash in full on or before the last date prescribed for payment for such shares in accordance with this Resolution, the subscription of such shares shall become void.

G. Any shares of capital stock remaining unsubscribed after the date prescribed under paragraph D hereof, or as extended pursuant to paragraph E hereof, shall remain authorized and unissued, issuable by the Corporation in accordance with its Articles of Agreement.

(Adopted March 15, 1991)

Resolution No. 173

Membership of Switzerland

WHEREAS the Government of Switzerland has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of Switzerland has made recommendations to the Board of Governors regarding this application;

NOW THEREFORE, the Board of Governors, hereby

RESOLVES:

THAT the terms and conditions upon which Switzerland shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Corporation" means International Finance Corporation.
   (b) "Articles" means the Articles of Agreement of the Corporation.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.
   (d) "Subscription" means the capital stock of the Corporation subscribed by a member.
   (e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, Switzerland shall subscribe to 23,502 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, Switzerland shall pay $23,502,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Switzerland shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* Switzerland shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when Switzerland shall have complied with the following requirements:
   (a) become a member of the International Bank for Reconstruction and Development;
   (b) made the payment called for by paragraph 3 of this resolution;
   (c) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
   (d) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and

(e) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* Switzerland may fulfill the requirements for membership in the Corporation pursuant to this resolution until June 30, 1992, or such later date as the Board of Directors may determine.

(Adopted June 10, 1991)

Resolution No. 174

Membership of the Lao People's Democratic Republic

WHEREAS the Government of the Lao People's Democratic Republic (hereinafter called Lao PDR) has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of Lao PDR has made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors, hereby

RESOLVES:

THAT the terms and conditions upon which Lao PDR shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Corporation" means International Finance Corporation.
   (b) "Articles" means the Articles of Agreement of the Corporation.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.
   (d) "Subscription" means the capital stock of the Corporation subscribed by a member.
   (e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, Lao PDR shall subscribe to 157 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, Lao PDR shall pay $157,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Lao PDR shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* Lao PDR shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when Lao PDR shall have complied with the following requirements:

(a) made the payment called for by paragraph 3 of this resolution;
(b) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
(c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(d) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* Lao PDR may fulfill the requirements for membership in the Corporation pursuant to this resolution until December 31, 1991, or such later date as the Board of Directors may determine.

(Adopted July 29, 1991)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE IFC AT THE 1991 ANNUAL MEETINGS

Resolution No. 175

Membership of the Republic of Albania

WHEREAS the Government of the Republic of Albania has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of the Republic of Albania has made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors, hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Albania shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Corporation" means International Finance Corporation.
   (b) "Articles" means the Articles of Agreement of the Corporation.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.
   (d) "Subscription" means the capital stock of the Corporation subscribed by a member.
   (e) "Member" means member of the Corporation.

2. *Subscription:* By accepting membership in the Corporation, the Republic of Albania shall subscribe to 736 shares of the capital stock of the Corporation at the par value of $1,000 per share.

3. *Payment of Subscription:* Before accepting membership in the Corporation, the Republic of Albania shall pay $736,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, the Republic of Albania shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* The Republic of Albania shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution, as of the date when the Republic of Albania shall have complied with the following requirements:

(a) become a member of the International Bank for Reconstruction and Development;
(b) made the payment called for by paragraph 3 of this resolution;
(c) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
(d) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(e) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of Albania may fulfill the requirements for membership in the Corporation pursuant to this resolution until December 31, 1991, or such later date as the Board of Directors may determine.

7. *Additional Subscription:* In the event that the Board of Governors of the Corporation adopts a draft Resolution entitled "1991 General Capital Increase" (the Resolution) as attached to the Report of the Board of Directors to the Board of Governors dated June 28, 1991 and circulated to the Board of Governors on July 1, 1991, providing for the increase of the Corporation's authorized capital from $1,300,000,000 to $2,300,000,000, the Republic of Albania shall have the option to subscribe up to 566 additional shares of the Corporation on the same terms and conditions as set forth in the draft resolution.

(Adopted October 15, 1991)

Resolution No. 176

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Corporation consider the Financial Statements and the Accountants' Report, included in the 1990/91 Annual

Report, and the Administrative Budget attached to the Report dated August 26, 1991, as fulfilling the requirements of Article IV, of the Articles of Agreement and of Section 16 of the By-Laws of the Corporation.

(Adopted October 17, 1991)

Resolution No. 177

Resolution of Appreciation

RESOLVED:

THAT the Governors of the World Bank Group and of the International Monetary Fund express their deep appreciation to their Majesties, the King and Queen of the Kingdom of Thailand, to Prime Minister Anand, and to the government and people of the Kingdom of Thailand, and to the city of Bangkok, for their gracious and warm hospitality;

THAT they express their gratitude for the excellent facilities of the Queen Sirikit National Convention Center made available for the meetings in Bangkok; and

THAT they express particular appreciation to the Governors and Alternate Governors for the Kingdom of Thailand and to their associates for the many contributions which they made toward ensuring the success of the 1991 Annual Meetings.

(Adopted October 17, 1991)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IDA BETWEEN THE 1990 AND 1991 ANNUAL MEETINGS

Resolution No. 154

Membership of the Mongolian People's Republic

WHEREAS the Government of the Mongolian People's Republic (hereinafter called Mongolia) has applied for admission to membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association;

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of Mongolia, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Mongolia shall be admitted to membership in the Association shall be as follows:

1. *Definition:* As used in this resolution:
   (a) "Association" means International Development Association.
   (b) "Articles" means the Articles of Agreement of the Association.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.

2. *Initial Subscription:*
   (a) The terms and conditions of the membership of Mongolia in the Association other than those specifically provided for in this resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part II of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscription, usability of currencies and voting rights).
   (b) Upon accepting membership in the Association, Mongolia shall subscribe funds in the amount of $230,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960, that is to say, pursuant to the decision of the Executive Directors of the Association of June 30, 1986 on the valuation of initial subscrip-

tions, $277,461, and shall pay the latter amount to the Association as follows: (a) ten percent either in gold or in freely convertible currency, and (b) ninety percent in the currency of Mongolia. As of the date Mongolia will become a member of the Association, 546 votes shall be allocated to Mongolia in respect to such subscriptions, consisting of 46 subscription votes and 500 membership votes.

3. *Effective Date of Membership:* Mongolia shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this resolution as of the date when Mongolia shall have complied with the following requirements:

(a) become a member of the International Bank for Reconstruction and Development;
(b) made the payments called for by paragraph 2 of this resolution;
(c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(d) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.

4. *Limitation on Period for Fulfillment of Requirements of Membership:* Mongolia may fulfill the requirements for membership in the Association pursuant to this resolution until June 28, 1991, or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscriptions:* Upon or after acceptance of membership, Mongolia shall also be authorized at its option to make the following additional subscriptions:

(a) An additional subscription in the amount of $35,684 which shall carry 14,707 votes, calculated on the basis of 1,107 subscription votes and 13,600 membership votes, and which shall be subject to the following terms and conditions:
    (i) Payment of such additional subscription shall be made in the currency of Mongolia within 30 days after Mongolia notifies the Association of its intention to make such additional subscription.
    (ii) The rights and obligations of the Association and Mongolia with regard to such additional subscription shall be the same (except as otherwise provided in this resolution) as those which govern the 90% portion of the initial subscriptions of original members payable under Articles II, Section 2(d) of the Articles by members listed in Part II of Schedule A of the Articles, provided,

however, that the provisions of Articles IV, Section 2 of the Articles shall not be applicable to such subscription.

(b) A further additional subscription in the amount of $6,450 which shall carry 4,458 votes, calculated on the basis of 258 subscription votes and 4,200 membership votes, and which shall be subject to the following terms and conditions:

(i) Payment of such additional subscription shall be made in the currency of Mongolia within 30 days after Mongolia notifies the Association of its intention to make such additional subscription.

(ii) The rights and obligations of the Association and Mongolia with regard to such further additional subscription shall be the same (except as stated in this resolution) as those which are applicable to the subscriptions authorized for Part II members under Section D of the Ninth Replenishment Resolution (No. 150) adopted by the Board of Governors on May 8, 1990.

(Adopted February 13, 1991)

Resolution No. 155

Membership of Switzerland

WHEREAS the Government of Switzerland has applied for admission to membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association;

WHEREAS Switzerland has made grants to the Association in the aggregate amount of 181,480,000 Swiss Francs under agreements which provide that in the event that Switzerland becomes a member of the Association, such grants may be converted into a subscription carrying votes determined on the same basis as for "Part I" members, and Switzerland wishes to effect such conversion upon its becoming a member of the Association;

WHEREAS Switzerland has made available untied grants to borrowers of the Association under cofinancing arrangements in the aggregate amount of 675.3 million Swiss Francs during the commitment periods of the Fourth through the Eighth Replenishments of the Association's resources;

WHEREAS Switzerland has undertaken to make available untied grants to borrowers of the Association in cofinancing with development credits of

the Association in the aggregate amount of 380.0 million Swiss Francs in conjunction with the Ninth Replenishment;

WHEREAS the Executive Directors have recommended that the Association recognize the value of such untied cofinancing grants made to its borrowers by allocating to Switzerland voting rights related to the amounts of such grants upon payment of subscriptions and contributions to be made by Switzerland in amounts equal to the present value of such grants calculated as if they had been made through the Association on the terms of the development credits of the Association;

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with the representatives of the Government of Switzerland, have made recommendations to the Board of Governors regarding the application of Switzerland for admission to membership in the Association;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which Switzerland shall be admitted to membership in the Association shall be as follows:

1. *Definitions:* As used in this resolution:
   (a) "Association" means International Development Association.
   (b) "Articles" means the Articles of Agreement of the Association.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.

2. *Subscription:*
   (a) The terms and conditions of the membership of Switzerland in the Association other than those specifically provided for in this resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part I of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscriptions, usability of currencies and voting rights).
   (b) By converting Switzerland's grant contributions to the Association of 181,480,000 Swiss Francs, upon accepting membership in the Association, Switzerland shall have a subscription in the amount of $51,200,000.
   (c) As of the date Switzerland will become a member of the Association, 22,324 votes shall be allocated to Switzerland on account of such

subscription, consisting of 4,024 subscription votes and 18,300 membership votes.

3. *Effective Date of Membership:* Switzerland shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this resolution as of the date when Switzerland shall have complied with the following requirements:

(a) become a member of the International Bank for Reconstruction and Development;
(b) made the payments called for by paragraph 2 of this resolution;
(c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(d) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.

4. *Limitation on Period for Fulfillment of Requirements of Membership:* Switzerland may fulfill the requirements for membership in the Association pursuant to this resolution until June 30, 1992 or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscription and Contribution:* Upon or after acceptance of membership, Switzerland shall also be authorized at its option to make the following additional subscription and contribution:

(a) Upon payment of $67.8 million, taking into account the grants Switzerland made to borrowers of the Association in cofinancing with the Association, an additional subscription and contribution in the amount of $580,068,000 which shall carry 45,585 subscription votes, and which shall be divided into a subscription carrying voting rights of $9,663,808 and a contribution not carrying voting rights of $570,404,192.
(b) The rights and obligations of the Association and Switzerland with respect to the additional subscription and contribution described in sub-paragraph (a) above shall be the same (except as stated in this resolution) as those which are applicable to the subscriptions and contributions of contributing members under Resolution No. 150 of the Board of Governors (the Ninth Replenishment Resolution) adopted on May 8, 1990, provided however, that payment shall be made in one installment and all votes corresponding to such subscription shall be allocated upon payment of the amount stated in the said sub-paragraph.

6. *Limitation of Period for Additional Subscription and Contibution:* Switzerland may make the additional subscription and contribution set forth in the preceding paragraph until July 31, 1992, provided, however, that in the event that Switzerland makes the additional subscription and contribution at a later date, the amount to be paid shall be recalculated by the Association to reflect the present value of the grants as described in the fifth paragraph of the preamble to this resolution.

(Adopted June 10, 1991)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IDA AT THE 1991 ANNUAL MEETINGS

Resolution No. 156

Membership of the Republic of Albania

WHEREAS the Government of the Republic of Albania has applied for admission to membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association;

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of the Republic of Albania, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Albania shall be admitted to membership in the Association shall be as follows:

1. *Definition:* As used in this resolution:
   (a) "Association" means International Development Association.
   (b) "Articles" means the Articles of Agreement of the Association.
   (c) "Dollars" or "$" means dollars in currency of the United States of America.

2. *Initial Subscription:*
   (a) The terms and conditions of the membership of the Republic of Albania in the Association other than those specifically provided for in this resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part II of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscription, usability of currencies and voting rights).
   (b) Upon accepting membership in the Association, the Republic of Albania shall subscribe funds in the amount of $230,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960, that is to say, pursuant to the decision of the Executive Directors of the Association of June 30, 1986 on the valuation

of initial subscriptions, $277,461, and shall pay the latter amount to the Association as follows: (a) ten percent either in gold or in freely convertible currency, and (b) ninety percent in the currency of the Republic of Albania. As of the date the Republic of Albania will become a member of the Association, 546 votes shall be allocated to the Republic of Albania in respect to such subscriptions, consisting of 46 subscription votes and 500 membership votes.

3. *Effective Date of Membership:* The Republic of Albania shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this resolution as of the date when the Republic of Albania shall have complied with the following requirements:

(a) become a member of the International Bank for Reconstruction and Development;
(b) made the payments called for by paragraph 2 of this resolution;
(c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
(d) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.

4. *Limitation on Period for Fulfillment of Requirements of Membership:* The Republic of Albania may fulfill the requirements for membership in the Association pursuant to this resolution until December 31, 1991, or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscriptions:* Upon or after acceptance of membership, the Republic of Albania shall also be authorized at its option to make the following additional subscriptions:

(a) An additional subscription in the amount of $42,134 which shall carry 19,165 votes, calculated on the basis of 1,365 subscription votes and 17,800 membership votes, and which shall be subject to the following terms and conditions:
    (i) Payment of such additional subscription shall be made in the currency of the Republic of Albania within 30 days after the Republic of Albania notifies the Association of its intention to make such additional subscription.
    (ii) the rights and obligations of the Association and the Republic of Albania with regard to such additional subscription shall be the same (except as otherwise provided in this resolution) as those which govern the 90% portion of the initial subscriptions of orig-

inal members payable under Articles II, Section 2(d) of the Articles by members listed in Part II of Schedule A of the Articles, provided, however, that the provisions of Articles IV, Section 2 of the Articles shall not be applicable to such subscription.

(Adopted October 15, 1991)

Resolution No. 157

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Association consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1990/91 Annual Report, as fulfilling the requirements of Article VI, Section 11, of the Articles of Agreement and of Section 8 of the By-Laws of the Association.

(Adopted October 17, 1991)

Resolution No. 158

Resolution of Appreciation

RESOLVED:

THAT the Governors of the World Bank Group and of the International Monetary Fund express their deep appreciation to their Majesties, the King and Queen of the Kingdom of Thailand, to Prime Minister Anand, and to the government and people of the Kingdom of Thailand, and to the city of Bangkok, for their gracious and warm hospitality;

THAT they express their gratitude for the excellent facilities of the Queen Sirikit National Convention Center made available for the meetings in Bangkok; and

THAT they express particular appreciation to the Governors and Alternate Governors for the Kingdom of Thailand and to their associates for the many contributions which they made toward ensuring the success of the 1991 Annual Meetings.

(Adopted October 17, 1991)

RESOLUTIONS ADOPTED BY THE COUNCIL OF GOVERNORS OF MIGA BETWEEN THE 1990 AND 1991 ANNUAL MEETINGS

Resolution No. 19

Membership of the Republic of Bulgaria

WHEREAS the Government of the Republic of Bulgaria (hereinafter called Bulgaria) has applied for admission to membership in the Multilateral Investment Guarantee Agency (Agency); and

WHEREAS, pursuant to Section 17(c) of the Agency's By-Laws, the Board of Directors has made recommendations to the Council of Governors regarding this application;

NOW, THEREFORE, the Council of Governors hereby

RESOLVES that:

1. Upon deposit of its instrument of ratification, acceptance or approval of the Convention, Bulgaria shall be obligated to:
   (i) subscribe at par to 365 shares of the capital stock of the Agency; and
   (ii) pay in full to the Agency the paid-in portions of the subscription price of such shares in accordance with Articles 7 and 8 of the Convention.

2. With effect from the date of the fulfillment of the conditions set forth in paragraph 1 above, Bulgaria shall be admitted to membership and shall be classified as a Category Two and developing member country for the purposes of the Convention.

(Adopted March 5, 1991)

Resolution No. 20

Review of Allocation of Shares

WHEREAS Article 39(c) of the Convention provides that the Council of Governors shall review the allocation of shares in the Agency before the end of the third year following the entry into force of the Convention.

WHEREAS under Article 39(c), this review is to lead to a decision on the reallocation of shares allocated to non-signatory countries with a view to obtain parity of voting power between the two Categories of States listed in Schedule A of the Convention.

WHEREAS, in view of the current status of membership in the Agency, the Board of Directors has recommended to the Council of Governors that the decision concerning the reallocation of shares be taken during the fifth year following the entry into force of the Convention.

NOW, THEREFORE, the Council of Governors hereby

RESOLVES that:

(a) The decision referred to in Article 39 (c) of the Convention shall be taken during the fifth year after the entry into force of the Convention;

(b) Until the decision referred to in paragraph (a) above is taken, the shares of the Agency which have not been subscribed continue to be allocated to the countries and in the number set forth in Schedule A of the Convention.

(Adopted April 12, 1991)

Resolution No. 21

Amendment of Schedule A to the MIGA Convention
Republic of Yemen

WHEREAS the Government of the Republic of Yemen on November 21, 1990 informed the Multilateral Investment Guarantee Agency (the "Agency") of the merger on May 22, 1990 of the Yemen Arab Republic and the People's Democratic Republic of Yemen into a single state, "Republic of Yemen," and advised that the Republic of Yemen accepts as binding upon it the signature on October 1, 1986, and the ratification on January 10, 1990, of the Convention Establishing the Multilateral Investment Guarantee Agency (the "Convention") by the Yemen Arab Republic, and confirmed the calculation of the Republic of Yemen's shares of the Agency's capital stock at 155 and the amount of its capital subscription at SDR 1,550,000;

WHEREAS, Schedule A to the Convention needs to be amended to reflect these changes;

WHEREAS, pursuant to Article 59(b) of the Convention, Schedule A to the Convention may be amended by the Council of Governors by special majority;

NOW, THEREFORE, the Council of Governors hereby

RESOLVES that Schedule A to the Convention is hereby amended by:

(a) deleting: (i) "Yemen Arab Republic" and "Yemen, People's Democratic Republic of" from the list of Category Two countries and (ii) the number of shares and the amount of subscription in millions of SDR set forth opposite the name of each of these countries; and

(b) adding: (i) "Yemen, Republic of" to the list of Category Two countries and (ii) "155" under the number of shares and "1.55" under the amount of subscription in millions of SDR set forth opposite the name of this country.

(Adopted September 3, 1991)

RESOLUTIONS ADOPTED BY THE COUNCIL OF GOVERNORS OF MIGA AT THE 1991 ANNUAL MEETINGS

Resolution No. 22

Membership of the Republic of Albania

WHEREAS the Government of the Republic of Albania has applied for admission to membership in the Multilateral Investment Guarantee Agency (the "Agency"); and

WHEREAS, pursuant to Section 17 (c) of the Agency's By-Laws, the Board of Directors has made recommendations to the Council of Governors regarding this application;

NOW, THEREFORE, the Council of Governors hereby

RESOLVES that:

1. Before becoming a party to the Convention Establishing the Multilateral Investment Guarantee Agency (the "Convention"), the Republic of Albania shall accept membership in and become a member of the International Bank for Reconstruction and Development.

2. Upon deposit of its instrument of ratification, acceptance or approval of the Convention, the Republic of Albania shall be obligated to:
   (i) subscribe at par to 58 shares of the capital stock of the Agency; and
   (ii) pay in full to the Agency the paid-in portions of the subscription price of such shares in accordance with Articles 7 and 8 of the Convention.

3. With effect from the date of the fulfillment of the conditions set forth in paragraph 2 above, the Republic of Albania shall be admitted to membership and shall be classified as a Category Two and developing member country for the purposes of the Convention.

(Adopted October 15, 1991)

Resolution No. 23

Resolution of Appreciation

RESOLVED:

THAT the Governors of the World Bank Group and of the International Monetary Fund express their deep appreciation to their Majesties, the King

and Queen of the Kingdom of Thailand, to Prime Minister Anand, and to the government and people of the Kingdom of Thailand, and to the city of Bangkok, for their gracious and warm hospitality;

THAT they express their gratitude for the excellent facilities of the Queen Sirikit National Convention Center made available for the meetings in Bangkok; and

THAT they express particular appreciation to the Governors and Alternate Governors for the Kingdom of Thailand and to their associates for the many contributions which they made toward ensuring the success of the 1991 Annual Meetings.

(Adopted October 17, 1991)

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

March 26, 1991

Allocation of FY90 Net Income Retained as Surplus

1. On September 27, 1990 the Board of Governors adopted a resolution on the Allocation of FY90 Net Income (Resolution No. 445) in which the Board of Governors noted with approval the addition to the General Reserve for the fiscal year ended June 30, 1990 of $750 million and decided that any excess of income over $750 million would be retained as surplus pending a decision on its further disposition prior to March 31, 1991.

2. On March 26, 1991 the Executive Directors considered the disposition of the amount so retained as surplus, equivalent to $296 million on June 30, 1990 (and equivalent to $317 million as of March 6, 1991), and have concluded that the interests of the Bank and its members would be best served by the transfer of SDR 200 million (equivalent to $281 million as of March 6, 1991) to the International Development Association (the Association) by way of grant, and by the transfer of any balance of the surplus (equivalent to SDR 25 million and $36 million as of March 6, 1991) to the Global Environment Trust Fund (the Trust Fund) administered by the Bank, also by way of grant. The draft resolution authorizing such transfers provides that they shall be made at times and in manners decided by the Executive Directors, provided that the amount of such grants may at any time be changed by agreement between the Bank and the Association and the Bank and the Trustee of the Trust Fund into an equivalent amount in other currencies.

3. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution. . . .[1]

(This report was approved and its recommendation was adopted by the Board of Governors on May 13, 1991)

April 25, 1991

Membership of Switzerland and Increase in Authorized Capital Stock of the Bank

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, Section 17 of the By-Laws of the

[1]*See page 221.*

International Finance Corporation and Section 9 of the By-Laws of the International Development Association, the applications of Switzerland for membership in the Bank, IFC, and IDA are herewith submitted to the Boards of Governors.

The Bank

2. The draft resolution concerning Switzerland's membership in the Bank provides that in addition to its initial subscription of 14,682 shares, Switzerland would have the option to subscribe to 11,674 shares under the terms and conditions of the 1988 General Capital Increase (Resolution No. 425), and to 250 shares under the terms and conditions of the 1979 Additional Capital Increase (Resolution No. 347), a total of 26,606 shares.

3. Albania has also applied for membership in the Bank. All of the 14,000 shares authorized in 1988 under Resolution No. 426 to provide for new members have been allocated and the number of shares available for allocation (709 as of the date of this report) is insufficient to provide for the membership of Switzerland and Albania. In the circumstances, the Executive Directors recommend that the authorized capital of the Bank be increased by 28,000 shares to provide for these new members. As the bulk of the increase is to provide shares for Switzerland, in the event that Switzerland fails to become a member or to subscribe all or part of the shares it is authorized to subscribe under the said draft membership resolution by the dates set forth or referred to in the membership resolution, the authorized capital will automatically be reduced by the number of shares Switzerland shall have failed to subscribe.

4. The Executive Directors recognize that, under Article II, Section 3 (c) of the Articles of Agreement, members must be given a reasonable opportunity to subscribe their proportionate share of an increase in the authorized capital stock. However, the objective of the proposed increase is to provide shares for new members and the exercise of this right by even a few members could jeopardize this objective. For this reason, the draft capital increase resolution will become effective upon its adoption by the required majority (a three-fourths majority of the total voting power) and no exercise of preemptive rights.

5. The draft membership resolution conforms to the usual pattern for such resolutions, except for the additional condition of subscription of the initial shares, namely that the capital increase resolution has become effective. The period for acceptance of membership would end on June 30, 1992, and could be extended by decision of the Executive Directors.

6. The Executive Directors are aware of the possible consequences of the admission of a member with a capital subscription of the size recommended for Switzerland on the elections of Executive Directors. In this connection, they reaffirm the view they have often expressed, that they consider the present structure of the Board acceptable and believe it desirable that both wide geographical and balanced representation be maintained. In this connection, there is attached a letter dated November 26, 1990 from H. E. Otto Stich, Head of the Ministry of Finance of Switzerland to Mr. S.M.H. Adeli, Chairman of the Group of 24, which has a bearing on this issue.

IDA

7. The terms proposed for Switzerland's membership in IDA reflect Switzerland's financial support to IDA and its borrowers. Under agreements reached in 1980, Switzerland converted into grants the principal amount outstanding of loans it had made earlier to IDA in the aggregate amount of SwF 181.48 million, with the possibility for Switzerland to convert these grants into a subscription in the event that it became a member of IDA. At Switzerland's request, this amount will be converted into a subscription, which, on the same basis as other Part I members, will carry 4,024 subscription votes.

8. In order to reflect the untied grants Switzerland has made to IDA borrowers in cofinancing with IDA during the replenishment periods of IDA4 through IDA8, and has undertaken to make in conjunction with IDA9, it is proposed to give Switzerland voting rights upon payment of the present value of the repayments the beneficiaries of these grants would have made if the grants (amounting to SwF 1,055.3 million, equivalent to $580.068 million) had been made through IDA on IDA repayment terms. On this basis, Switzerland would receive 45,585 additional subscription votes upon payment of $67.8 million. If Switzerland made this optional payment, it would have a total of 67,909 votes, of which 18,300 would be membership votes, and 49,609 would be subscription votes. Switzerland would have until July 31, 1992 to make this payment. If Switzerland wished to make the payment at a later date, the amount to be paid would be recalculated to reflect the present value of repayments at that time.

IFC

9. The number of shares to be allocated to Switzerland under the resolution for membership in IFC would be 23,502 shares for a value of $23,502,000. Given the current allocations of capital in the Bank and the IFC, an allo-

cation of 23,502 shares in IFC would provide Switzerland with a percentage allocation of capital equivalent to its percentage allocation in the Bank.

Recommendations

10. Representatives of Switzerland have been consulted regarding the terms and conditions recommended in the draft resolutions and they have indicated that they are acceptable to them.

11. The resolutions[1] on the increase in the authorized capital of the Bank and the membership of Switzerland in the Bank, IDA and IFC are recommended for adoption by the Boards of Governors of the Bank, IDA and IFC, respectively.

(Attachment)
Berne, November 26, 1990

Excellency:

Switzerland's application for membership in the Bretton Woods Institution is under discussion in the Membership Committee of the International Monetary Fund, and the time to take a decision concerning the quota for my country is approaching.

As you no doubt know, Switzerland has asserted that the quota which is assigned to it should be commensurate with its importance as a financial center and permit it to provide corresponding support to the Bretton Woods Institutions. I am convinced that Switzerland, once admitted to IMF and to The World Bank, will have a substantial creditor role.

It has been brought to my attention that, in the course of the debates by the Membership Committee, certain developing countries expressed the fear that Switzerland's joining could endanger one of their seats on the Executive Boards of the Bretton Woods Institutions. In this respect, I want to assure you that my Government does not intend to claim a seat to the detriment of the developing countries. Besides, public opinion in Switzerland, especially our influential non-governmental development organizations, would oppose the weakening of positions already acquired by the developing countries.

Having clarified this point, I would like to call upon the excellent relations which exist between your country and mine and hope that your representative in the Membership Committee will be able to support an understand-

[1]*See pages 222, 223, 239, and 248.*

ing acceptable to Switzerland. Furthermore, I would appreciate if you—as Chairman of the G-24—could bring the content of this letter to the attention of the members of the group.

Sincerely yours,

/s/ Otto Stich
Member of the Swiss Government
Head of the Ministry of Finance

(This report was approved and its recommendation was adopted by the Board of Governors on June 10, 1991)

August 27, 1991

Transfer from Surplus to Fund Technical Assistance for the Union of Soviet Socialist Republics

1. On July 22, 1991 the Union of Soviet Socialist Republic (USSR) submitted and application for membership in the Bank. In view of this application, the request by the USSR for technical assistance from the Bank during the transitional period before membership, and in order to promote the purposes of the Bank in these circumstances, the Executive Directors consider that a program of technical assistance by the Bank should be undertaken forthwith. They recommend that the Board of Governors authorize the transfer from surplus, by way of grant, United States $30 million to a trust fund administered by the Bank for this purpose.

2. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution[1] .

(This report was approved and its recommendation was adopted by the Board of Governors on September 18, 1991)

July 23, 1991

Allocation of FY91 Net Income

1. The Bank's net income for the fiscal year ended June 30, 1991 amounts to $1,200 million. The General Reserve has been decreased by a net translation adjustment due to exchange rate changes of $221 million. As of June 30, 1991, the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totalled $293 million and, without regard to the 1991 fiscal year's income, the General Reserve amounted to $9,725 million. Total reserves including accumulated net income therefore

[1] *See page 227.*

amounted to $11,218 million, of which the $293 million in the Special Reserve is kept in liquid form, the remainder being used in the business of the Bank.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to the net income for the fiscal year ended June 30, 1991. The Executive Directors have concluded that the interests of the Bank and its members would best be served by the following dispositions of the net income of the Bank:

(a) the addition of $250 million to the General Reserve to achieve the Bank's reserves target, which will remain 11% for the Bank's reserves-to-loans ratio;
(b) the addition of $200 million to the General Reserve to allow for a waiver for all payment periods commencing in the fiscal year ending June 30, 1992 of 25 basis points on the interest rate charged to borrowers which have serviced all their loans from the Bank in a timely manner;
(c) the transfer, by way of grant, to the International Development Association of $350 million; and
(d) the retention of any excess of net income over $800 million as surplus.

3. Accordingly, the Executive Directors recommend that the Board of Governors note with approval the present report and adopt the draft resolution. . . .[1]

(This report was approved and its recommendation was adopted by the Board of Governors on October 17, 1991)

[1]*See page 231.*

REPORT OF THE BOARD OF DIRECTORS OF IFC

January 31, 1991

Increase of Subscriptions by Colombia and Czechoslovakia to the Capital of the Corporation

1. On December 26, 1985, the Board of Governors adopted International Finance Corporation (IFC) Resolution No. 149 (herein called the Capital Increase Resolution, as amended by Resolution No. 161 adopted on June 20, 1989) in which the authorized capital of IFC was increased to $1,300,000,000 by the creation of 650,000 additional shares. These shares were allocated for subscription by the then member countries of IFC on the terms and conditions and in the amounts set forth in the Capital Increase Resolution.

2. Colombia has requested an additional allocation of 2,554 shares. Colombia has subscribed to and paid for its full allocation of 4,571 shares. With an additional allocation of 2,554 shares, Colombia's share of total IFC votes, on an allocated basis, would rise from 0.38% to 0.57%.

3. Czechoslovakia became IFC's 136th member on September 20, 1990. At that time, Czechoslovakia subscribed and paid for 3,404 shares, its obligatory membership subscription. The Government of Czechoslovakia has requested an additional allocation of 4,153 shares. This is the number of shares Czechoslovakia would have been allocated under the 1985 Capital Increase, had it been a member of IFC at that time. This additional allocation will align Czechoslovakia's shareholding in IFC more closely with that which it has in the IBRD.

4. With adoption of this proposal, the total number of allocated shares would increase by 0.54%, to 1,253,998 shares. Consequently, the effect on the voting powers of other members would be minimal. The Attachment shows country shareholding allocations and voting shares as a result of Resolution No. 149 and subsequent allocations, and those which would come into effect upon approval of the resolution. When subscribed, the proposed allocations would provide IFC with $6,707,000 of additional share capital.

5. Shares subscribed by Colombia and Czechoslovakia pursuant to this proposed allocation would be issued from IFC's pool of 52,709 authorized and unallocated shares. Following approval of the resolution, the Corporation would have a balance of 46,002 authorized unallocated shares.

6. The Board of Directors, having duly considered the matter, has found the allocation of 2,554 shares to Colombia and 4,153 shares to Czechoslo-

vakia to be desirable. Accordingly, the Board of Directors submits to the Board of Governors, for a vote without meeting, the proposal which is set out in the draft resolution.

7. The Board of Directors recommends that the Board of Governors adopt the draft resolution,[1] and, pursuant to Section 11 of IFC's By-Laws, waives the requirement that no Governor may vote on the Resolution until 7 days after its dispatch. . . .

(This report was approved and its recommendation was adopted by the Board of Governors on March 15, 1991)

[1] *See page 238.*

INTERNATIONAL FINANCE CORPORATION—SHARE ALLOCATIONS, DISTRIBUTION OF VOTES, AND RANKINGS WITH THE ADDITIONAL ALLOCATION OF 2,554 SHARES TO COLOMBIA AND 4,153 SHARES TO CZECHOSLOVAKIA

	Before the 1985 Capital Increase		1985-1990 Allocations						Proposed Position if the Proposal is Adopted[3]			Paid Shares as of 12/31/90	
Member Country	Share-holding (A)	Votes[1]	1985 Capital Increase (B)	Other Subse-quent (C)	New Member-ships[2] (D)	Total as of 12/31/90 (A+B+C+D)	Votes[1]	Rank	Share Allocation	Votes[1]	Rank	Shares	Votes[1]
Afghanistan	111	0.06%	133	0	0	244	0.04%	101	244	0.04%	101	111	0.03%
Algeria	0	0.00%	0	0	3,177	3,177	0.27%	49	3,177	0.27%	49	3,177	0.29%
Angola	0	0.00%	0	0	837	837	0.08%	77	837	0.08%	77	837	0.09%
Antigua & Barbuda	0	0.00%	0	0	13	13	0.02%	136	13	0.02%	136	13	0.02%
Argentina	9,821	1.75%	11,730	0	0	21,551	1.70%	13	21,551	1.69%	13	19,205	1.66%
Australia	12,191	2.16%	14,560	0	0	26,751	2.11%	11	26,751	2.10%	11	26,751	2.31%
Austria	5,085	0.93%	6,073	0	0	11,158	0.89%	21	11,158	0.89%	21	9,943	0.87%
Bahamas, The	0	0.00%	0	137	114	251	0.04%	100	251	0.04%	100	142	0.03%
Bangladesh	2,328	0.45%	2,780	0	0	5,108	0.42%	37	5,108	0.42%	39	5,108	0.46%
Barbados	93	0.06%	111	0	0	204	0.04%	105	204	0.04%	105	182	0.04%
Belgium	13,723	2.43%	16,390	0	0	30,113	2.37%	10	30,113	2.36%	10	27,446	2.37%
Belize	26	0.05%	31	0	0	57	0.02%	122	57	0.02%	122	50	0.03%
Benin	0	0.00%	0	0	67	67	0.02%	120	67	0.02%	120	67	0.03%
Bolivia	490	0.13%	585	0	0	1,075	0.10%	69	1,075	0.10%	69	958	0.10%
Botswana	29	0.05%	35	0	0	64	0.02%	121	64	0.02%	121	64	0.03%
Brazil	10,169	1.81%	12,145	0	0	22,314	1.76%	12	22,314	1.75%	12	19,885	1.72%
Burkina Faso	245	0.09%	293	0	0	538	0.06%	89	538	0.06%	89	432	0.06%
Burundi	100	0.06%	119	0	0	219	0.04%	104	219	0.04%	104	100	0.03%
Cameroon	490	0.13%	585	0	0	1,075	0.10%	69	1,075	0.10%	69	885	0.10%
Canada	20,952	3.68%	25,024	0	0	45,976	3.61%	6	45,976	3.59%	6	45,976	3.95%
Cape Verde	0	0.00%	0	0	11	11	0.02%	137	11	0.02%	137	11	0.02%
Chile	2,328	0.45%	2,780	0	0	5,108	0.42%	37	5,108	0.42%	39	4,552	0.41%
China	4,154	0.77%	4,961	0	0	9,115	0.73%	26	9,115	0.73%	26	8,122	0.72%
Colombia	2,083	0.41%	2,488	0	0	4,571	0.38%	41	7,125	0.57%	33	4,571	0.41%
Congo, People's Rep.	67	0.06%	80	0	0	147	0.03%	112	147	0.03%	112	131	0.03%
Costa Rica	245	0.09%	293	0	0	538	0.06%	89	538	0.06%	89	479	0.06%
Côte d'Ivoire	913	0.20%	1,090	0	0	2,003	0.18%	58	2,003	0.17%	58	1,349	0.14%
Cyprus	551	0.14%	658	0	0	1,209	0.11%	65	1,209	0.11%	65	1,209	0.12%

Czechoslovakia	0	0.00%	0	0	3,404	3,404	0.29%	48	7,557	0.61%	32	3,404	0.31%
Denmark	4,779	0.87%	5,708	0	0	10,487	0.84%	22	10,487	0.83%	22	10,487	0.92%
Djibouti	21	0.05%	25	0	0	46	0.02%	124	46	0.02%	124	21	0.02%
Dominica	11	0.05%	13	0	0	24	0.02%	129	24	0.02%	129	22	0.02%
Dominican Republic	306	0.10%	365	0	0	671	0.07%	83	671	0.07%	83	598	0.07%
Ecuador	674	0.16%	805	0	0	1,479	0.13%	63	1,479	0.13%	63	1,479	0.15%
Egypt, Arab Rep. of	3,124	0.59%	3,731	131	0	6,986	0.56%	33	6,986	0.56%	35	6,855	0.61%
El Salvador	11	0.05%	13	0	0	24	0.02%	129	24	0.02%	129	11	0.02%
Ethiopia	33	0.05%	39	0	0	72	0.03%	119	72	0.02%	119	33	0.02%
Fiji	74	0.06%	88	0	0	162	0.03%	110	162	0.03%	110	162	0.04%
Finland	4,043	0.75%	4,829	0	0	8,872	0.71%	29	8,872	0.71%	29	8,872	0.78%
France	29,528	5.17%	35,266	3,606	0	68,400	5.35%	4	68,400	5.33%	4	68,400	5.87%
Gabon	429	0.12%	512	0	0	941	0.09%	73	941	0.09%	73	931	0.10%
Gambia, The	35	0.05%	42	0	0	77	0.03%	118	77	0.03%	118	35	0.02%
Germany	33,204	5.81%	39,657	0	0	72,861	5.70%	3	72,861	5.67%	3	72,861	6.25%
Ghana	1,306	0.27%	1,560	0	0	2,866	0.24%	50	2,866	0.24%	50	2,242	0.21%
Greece	1,777	0.35%	2,122	0	0	3,899	0.32%	46	3,899	0.32%	47	3,899	0.35%
Grenada	21	0.05%	25	0	0	46	0.02%	124	46	0.02%	124	46	0.03%
Guatemala	306	0.10%	365	0	0	671	0.07%	83	671	0.07%	83	598	0.07%
Guinea	134	0.07%	160	0	0	294	0.04%	97	294	0.04%	97	294	0.05%
Guinea-Bissau	18	0.05%	22	0	0	40	0.02%	127	40	0.02%	127	18	0.02%
Guyana	368	0.11%	440	0	0	808	0.08%	79	808	0.08%	79	406	0.06%
Haiti	306	0.10%	365	0	0	671	0.07%	83	671	0.07%	83	306	0.05%
Honduras	184	0.08%	220	0	0	404	0.05%	91	404	0.05%	91	184	0.04%
Hungary	0	0.00%	0	4,815	1,364	6,179	0.50%	36	6,179	0.50%	38	5,216	0.47%
Iceland	11	0.05%	13	0	0	24	0.02%	129	24	0.02%	129	11	0.02%
India	19,788	3.48%	23,633	2,555	0	45,976	3.61%	6	45,976	3.59%	6	45,976	3.95%
Indonesia	7,351	1.32%	8,780	0	0	16,131	1.28%	16	16,131	1.27%	16	16,131	1.40%
Iran, Islamic Rep. of	372	0.11%	444	0	0	816	0.08%	78	816	0.08%	78	372	0.05%
Iraq	67	0.06%	80	0	0	147	0.03%	112	147	0.03%	112	147	0.03%
Ireland	332	0.10%	397	0	0	729	0.08%	82	729	0.08%	82	729	0.08%
Israel	550	0.14%	657	0	0	1,207	0.11%	67	1,207	0.11%	67	1,076	0.11%

[1]A member's number of votes is equal to its number of shares plus 250 votes. There are 139 IFC members.
[2]Membership subscriptions of countries joining IFC after the 1985 Capital Increase.
[3]Assuming countries subscribe to, and pay in, their full allocations.

INTERNATIONAL FINANCE CORPORATION—SHARE ALLOCATIONS, DISTRIBUTION OF VOTES, AND RANKINGS WITH THE ADDITIONAL ALLOCATION OF 2,554 SHARES TO COLOMBIA AND 4,153 SHARES TO CZECHOSLOVAKIA (cont.)

	Before the 1985 Capital Increase		1985-1990 Allocations						Proposed Position if the Proposal is Adopted[3]			Paid Shares as of 12/31/90	
Member Country	Share-holding (A)	Votes[1]	1985 Capital Increase (B)	Other Subse-quent (C)	New Member-ships[2] (D)	Total as of 12/31/90 (A+B+C+D)	Votes[1]	Rank	Share Allocation	Votes[1]	Rank	Shares	Votes[1]
Italy	19,114	3.36%	22,828	4,034	0	45,976	3.61%	6	45,976	3.59%	6	41,942	3.61%
Jamaica	1,103	0.24%	1,317	0	0	2,420	0.21%	52	2,420	0.21%	52	2,420	0.23%
Japan	25,546	4.48%	30,510	23,738	0	79,794	6.24%	2	79,794	6.21%	2	79,794	6.84%
Jordan	429	0.12%	512	0	0	941	0.09%	73	941	0.09%	73	735	0.08%
Kenya	1,041	0.22%	1,243	0	0	2,284	0.20%	54	2,284	0.20%	54	1,529	0.15%
Kiribati	0	0.00%	0	0	7	7	0.02%	139	7	0.02%	139	7	0.02%
Korea, Republic of	2,450	0.47%	2,926	3,637	0	9,013	0.72%	28	9,013	0.72%	28	9,013	0.79%
Kuwait	4,533	0.83%	5,414	0	0	9,947	0.80%	23	9,947	0.79%	23	4,533	0.41%
Lebanon	50	0.05%	60	0	0	110	0.03%	117	110	0.03%	117	50	0.03%
Lesotho	18	0.05%	22	0	0	40	0.02%	127	40	0.02%	127	18	0.02%
Liberia	83	0.06%	99	0	0	182	0.03%	106	182	0.03%	106	83	0.03%
Libyan Arab Jamahiriya	55	0.05%	66	0	0	121	0.03%	115	121	0.03%	115	55	0.03%
Luxembourg	551	0.14%	658	0	0	1,209	0.11%	65	1,209	0.11%	65	1,209	0.12%
Madagascar	111	0.06%	133	0	0	244	0.04%	101	244	0.04%	101	111	0.03%
Malawi	368	0.11%	440	222	0	1,030	0.10%	72	1,030	0.10%	72	853	0.09%
Malaysia	3,921	0.72%	4,683	0	0	8,604	0.69%	30	8,604	0.69%	30	7,668	0.68%
Maldives	4	0.04%	5	0	0	9	0.02%	138	9	0.02%	138	9	0.02%
Mali	116	0.06%	139	0	0	255	0.04%	99	255	0.04%	99	116	0.03%
Mauritania	55	0.05%	66	0	0	121	0.03%	115	121	0.03%	115	55	0.03%
Mauritius	429	0.12%	512	0	0	941	0.09%	73	941	0.09%	73	838	0.09%
Mexico	6,004	1.09%	7,171	0	0	13,175	1.05%	19	13,175	1.04%	19	10,306	0.90%
Morocco	2,328	0.45%	2,780	0	0	5,108	0.42%	37	5,108	0.42%	39	4,552	0.41%
Mozambique	0	0.00%	0	0	182	182	0.03%	106	182	0.03%	106	182	0.04%
Myanmar	666	0.16%	795	0	0	1,461	0.13%	64	1,461	0.13%	64	666	0.08%
Namibia	0	0.00%	0	497	404	901	0.09%	76	901	0.09%	76	404	0.06%
Nepal	306	0.10%	365	0	0	671	0.07%	83	671	0.07%	83	306	0.05%
Netherlands	14,458	2.56%	17,268	0	0	31,726	2.49%	9	31,726	2.48%	9	31,726	2.73%
New Zealand	923	0.20%	1,102	0	0	2,025	0.18%	55	2,025	0.18%	55	1,583	0.16%

Nicaragua	184	0.08%	220	0	0	404	0.05%	91	404	0.05%	91	184	0.04%
Niger	67	0.06%	80	0	0	147	0.03%	112	147	0.03%	112	131	0.03%
Nigeria	5,575	1.01%	6,658	0	0	12,233	0.97%	20	12,233	0.97%	20	10,900	0.95%
Norway	4,533	0.83%	5,414	0	0	9,947	0.80%	23	9,947	0.79%	23	9,947	0.87%
Oman	306	0.10%	365	0	0	671	0.07%	83	671	0.07%	83	671	0.08%
Pakistan	4,411	0.81%	5,268	0	0	9,679	0.77%	25	9,679	0.77%	25	8,626	0.76%
Panama	344	0.10%	411	0	0	755	0.08%	81	755	0.08%	81	426	0.06%
Papua New Guinea	490	0.13%	585	0	0	1,075	0.10%	69	1,075	0.10%	69	490	0.06%
Paraguay	123	0.06%	147	0	0	270	0.04%	98	270	0.04%	98	270	0.04%
Peru	1,777	0.35%	2,122	0	0	3,899	0.32%	46	3,899	0.32%	47	1,777	0.17%
Philippines	3,247	0.61%	3,878	0	0	7,125	0.58%	32	7,125	0.57%	33	3,247	0.30%
Poland	0	0.00%	0	0	4,090	4,090	0.34%	43	4,090	0.34%	44	4,090	0.37%
Portugal	2,144	0.42%	2,561	0	0	4,705	0.39%	40	4,705	0.38%	42	4,705	0.42%
Romania	0	0.00%	0	0	1,504	1,504	0.14%	62	1,504	0.14%	62	1,504	0.15%
Rwanda	306	0.10%	365	0	0	671	0.07%	83	671	0.07%	83	306	0.05%
Saint Lucia	19	0.05%	23	0	0	42	0.02%	126	42	0.02%	126	37	0.02%
Saudi Arabia	9,251	1.65%	11,049	0	0	20,300	1.60%	15	20,300	1.59%	15	14,447	1.26%
Senegal	707	0.17%	844	0	0	1,551	0.14%	61	1,551	0.14%	61	1,106	0.12%
Seychelles	7	0.04%	8	0	0	15	0.02%	135	15	0.02%	135	15	0.02%
Sierra Leone	83	0.06%	99	0	0	182	0.03%	106	182	0.03%	106	83	0.03%
Singapore	177	0.07%	211	0	0	388	0.05%	95	388	0.05%	95	177	0.04%
Solomon Islands	11	0.05%	13	0	0	24	0.02%	129	24	0.02%	129	19	0.02%
Somalia	83	0.06%	99	0	0	182	0.03%	106	182	0.03%	106	83	0.03%
South Africa	4,108	0.76%	4,906	0	0	9,014	0.72%	27	9,014	0.72%	27	9,014	0.79%
Spain	6,004	1.09%	7,171	7,753	0	20,928	1.65%	14	20,928	1.64%	14	13,175	1.15%
Sri Lanka	1,838	0.36%	2,195	0	0	4,033	0.33%	44	4,033	0.33%	45	3,594	0.33%
Sudan	111	0.06%	133	0	0	244	0.04%	101	244	0.04%	101	111	0.03%
Swaziland	184	0.08%	220	0	0	404	0.05%	91	404	0.05%	91	404	0.06%
Sweden	6,923	1.25%	8,268	0	0	15,191	1.20%	18	15,191	1.20%	18	15,191	1.32%
Syrian Arab Republic	72	0.06%	86	0	0	158	0.03%	111	158	0.03%	111	72	0.03%
Tanzania	724	0.17%	865	0	0	1,589	0.14%	60	1,589	0.14%	60	897	0.10%
Thailand	2,818	0.53%	3,366	0	0	6,184	0.50%	35	6,184	0.50%	37	5,510	0.49%

[1]A member's number of votes is equal to its number of shares plus 250 votes. There are 139 IFC members.
[2]Membership subscriptions of countries joining IFC after the 1985 Capital Increase.
[3]Assuming countries subscribe to, and pay in, their full allocations.

INTERNATIONAL FINANCE CORPORATION—SHARE ALLOCATIONS, DISTRIBUTION OF VOTES, AND RANKINGS WITH THE ADDITIONAL ALLOCATION OF 2,554 SHARES TO COLOMBIA AND 4,153 SHARES TO CZECHOSLOVAKIA (cont.)

	Before the 1985 Capital Increase		1985-1990 Allocations						Proposed Position if the Proposal is Adopted[3]			Paid Shares as of 12/31/90	
Member Country	Share-holding (A)	Votes[1]	1985 Capital Increase (B)	Other Subse-quent (C)	New Member-ships[2] (D)	Total as of 12/31/90 (A+B+C+D)	Votes[1]	Rank	Share Allocation	Votes[1]	Rank	Shares	Votes[1]
Togo	368	0.11%	440	0	0	808	0.08%	79	808	0.08%	79	808	0.09%
Tonga	0	0.00%	0	10	9	19	0.02%	134	19	0.02%	134	13	0.02%
Trinidad and Tobago	1,059	0.23%	1,265	0	0	2,324	0.20%	53	2,324	0.20%	53	1,818	0.18%
Tunisia	919	0.20%	1,098	0	0	2,017	0.18%	56	2,017	0.18%	56	1,795	0.17%
Turkey	3,063	0.58%	3,658	1,500	0	8,221	0.66%	31	8,221	0.66%	31	5,985	0.53%
Uganda	735	0.17%	878	0	0	1,613	0.15%	59	1,613	0.14%	59	735	0.08%
United Arab Emirates	1,838	0.36%	2,195	0	0	4,033	0.33%	44	4,033	0.33%	45	1,838	0.18%
United Kingdom	37,900	6.63%	45,265	(14,765)	0	68,400	5.35%	4	68,400	5.33%	4	68,400	5.87%
United States	146,661	25.53%	175,162	0	0	321,823	25.12%	1	321,823	24.99%	1	281,492	24.07%
Uruguay	919	0.20%	1,098	0	0	2,017	0.18%	56	2,017	0.18%	56	2,017	0.19%
Vanuatu	25	0.05%	30	0	0	55	0.02%	123	55	0.02%	123	55	0.03%
Venezuela	7,106	1.28%	8,487	0	0	15,593	1.24%	17	15,593	1.23%	17	15,593	1.35%
Viet Nam	166	0.07%	198	0	0	364	0.05%	96	364	0.05%	96	166	0.04%
Western Samoa	9	0.05%	11	0	0	20	0.02%	133	20	0.02%	133	20	0.02%
Yemen, Republic of	184	0.08%	220	0	0	404	0.05%	91	404	0.05%	91	360	0.05%
Yugoslavia	2,879	0.54%	3,439	0	0	6,318	0.51%	34	6,318	0.51%	36	4,947	0.44%
Zaire	1,929	0.38%	2,304	0	0	4,233	0.35%	42	4,233	0.35%	43	2,159	0.21%
Zambia	1,286	0.27%	1,536	0	0	2,822	0.24%	51	2,822	0.24%	51	1,286	0.13%
Zimbabwe	546	0.14%	652	0	0	1,198	0.11%	68	1,198	0.11%	68	546	0.07%
TOTALS (A)	544,238	100.00%	650,000	37,870	15,183	1,247,291	100.00%		1,253,998	100.00%		1,135,583	100.00%
AUTHORIZED CAPITAL (B)	650,000					1,300,000			1,300,000			1,300,000	
BALANCE (B) − (A)	105,762					52,709			46,002			164,417	
Allocated unsubscribed	—					—			—			76,316	
Subscribed unpaid	—					—			—			35,392	
Unallocated	105,762					52,709			46,002			52,709	

[1]A member's number of votes is equal to its number of shares plus 250 votes. There are 139 IFC members.
[2]Membership subscriptions of countries joining IFC after the 1985 Capital Increase.
[3]Assuming countries subscribe to, and pay in, their full allocations.

REPORTS OF THE BOARD OF DIRECTORS OF MIGA

March 13, 1991

Review of Allocation of Shares

1. Article 39(c) of the Convention requires a review by the Council of Governors on the allocation of the shares before the end of the third year after entry into force of the Convention, i.e., April 12, 1991.

2. As of December 31, 1990 the Convention had been signed by 97 States (17 Category One and 80 Category Two States) whose subscriptions totalled 82.801% of the Agency's authorized capital. Of the signatories, 64 States had become full members of the Agency and subscribed to 72.974% of the Agency's authorized capital. As of this date, according to the number of shares subscribed, the voting power of Category One countries full members of the Agency was 57,234 votes (67.89%) which correspond to 54,579 shares and the voting power of Category Two countries full members of the Agency was 27,068 votes (32.11%) which correspond to 18,395 shares.

3. Under Article 39(c) of the Convention, the review of the allocation of shares by the Council of Governors is to lead to a decision by which the shares allocated to non-signatory States are to be reallocated among the members of the Agency in such manner as to make possible voting parity between the two Categories of States. While the review must take place during the third year, the decision itself may be taken at a later stage.

4. In view of the status of membership in MIGA as of December 31, 1990, if parity were to be attained at the end of the three-year period by reallocating the unsubscribed shares, and maintained thereafter, an increase of capital would be necessary and, furthermore, no new countries could be admitted to membership without new increases of the capital. Additional subscriptions, even if offered on favorable terms, would add to the financial burden of the developing member countries. In addition, there is no operational need for a capital increase at this stage.

5. In light of the above considerations, the Board of Directors recommends to take the decision on reallocation of shares during the fifth year following the entry into force of the Convention, in the expectation that by that time the number of unsubscribed shares will have been so reduced that their reallocation among MIGA's members will not create an undue burden on members. Meanwhile, the allocations made in Schedule A of the Convention would remain available for subscription by countries which have not yet signed the Convention.

6. The draft resolution is recommended for adoption by the Council of Governors.[1]

(This report was approved and its recommendation was adopted by the Council of Governors on April 12, 1991)

July 19, 1991

Amendment of Schedule A to the MIGA Convention
Republic of Yemen

1. By letter dated November 21, 1990, the Government of the Republic of Yemen informed the Multilateral Investment Guarantee Agency (the "Agency") of the following:

> As a consequence of the merger on May 22, 1990, of the Yemen Arab Republic and the People's Democratic Republic of Yemen into a single State, "Republic of Yemen[,]" [p]lease be advised that the Republic of Yemen accepts as binding upon it the signature on October 1, 1986 and the ratification on January 10, 1990, of the MIGA Convention by the Yemen Arab Republic. The calculation of the Republic of Yemen's allocation of capital in MIGA should be made in accordance with the Republic of Yemen's relative allocation of shares in the capital of the International Bank for Reconstruction and Development. According to this calculation we believe it would be appropriate for the Republic of Yemen to be authorized to subscribe to one hundred and fifty-five (155 shares) of MIGA's capital stock. . . .

2. Schedule A to the Convention needs to be amended to (i) delete the references to the Yemen Arab Republic and to the People's Democratic Republic of Yemen and (ii) include the Republic of Yemen as a Category Two country and to set forth the proposed capital subscription of the new State.

3. In accordance with Article 59(b) of the MIGA Convention, an amendment of Schedule A to the Convention which reflects these changes is herewith submitted to the Council of Governors.

4. The draft resolution is recommended for adoption by the Council of Governors.[2]

(This report was approved and its recommendation was adopted by the Council of Governors on September 3, 1991)

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[1]*See page 255.*
[2]*See page 256.*

REPORT OF THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE

October 14, 1991

Sirs:

As Chairman of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee), I have the honor to present herewith to the Boards of Governors the XVIIth Annual Report by the Committee on the progress of its work for the period July 1990-June 1991. The report is presented in compliance with Section 5(i) of the Bank Board of Governors Resolution No. 294 and the Fund Board of Governors Resolution No. 29-9, adopted on October 2, 1974.

Yours sincerely,
/s/ Alejandro Foxley

REPORT OF THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(July 1990-June 1991)

I. *INTRODUCTION*

The Committee held its 39th, 40th and 41st meetings in Washington, D.C. during the period under review. The first two meetings, chaired by Mr. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe, were convened on September 24 and 27, 1990. The purpose of the 40th meeting was to select a new Chairman, Mr. Alejandro Foxley, Minister of Finance of Chile. The 41st meeting was convened on April 30, 1991 at which Mr. Peter Mountfield (United Kingdom) was elected as the Executive Secretary for a three-year period to succeed Mr. Yves L. Fortin (Canada).

The Committee's deliberations were assisted by a number of issues papers and reports prepared by the staffs of the IMF and the World Bank, as well as by the written opening statements of the Chairman and reports of the President of the World Bank and the Managing Director of the IMF. The Chairman of the Group of 24 briefed the members orally on the outcome of its meetings. In addition, papers presented by observers relating to the agenda items were circulated.

II. *INTERNATIONAL ECONOMIC SETTING*

The Committee's discussions took place against an external economic environment which, although highly uncertain in the middle of 1990 and expected to recover in the course of 1991, continued to pose problems for the developing world. The implications of the events in the Middle East worsened the economic situation in and outside the region. Furthermore, the decline in non-fuel commodity prices resulted in a deterioration in the economies of the developing countries. In addition to the front-line countries, a number of developing countries were affected seriously by the continued non-oil effects of the Middle East crisis, the direct and indirect costs of the respective war, as well as by other key factors such as the slowdown of the economies of some major industrial countries, and developments in Eastern Europe and the USSR.

Due to these developments, the growth of the world economy is expected to decline further from about 3.3 percent in 1989 to 2.1 percent in 1990 and 1.2 percent in 1991, and the growth of world trade (volume) is projected to

decline from 7.1 percent in 1989 to 3.9 percent in 1990 and 2.4 percent in 1991. In this context, real GDP growth had shown a declining trend in the developing countries as a group from 3.0 percent in 1989 to 1.5 percent in 1990. From a regional point of view, growth was well maintained in Asia, but slowed in Africa and turned negative in the Middle Eastern and Latin American countries. The aggregate net flows[1] to developing countries were projected to decrease from $75.2 billion in 1990 to $74.1 billion in 1991 mainly as a result of a fall in official development assistance (ODA) flows. The current year did not commence favorably for the developing world; inflationist prospects, diverging developments in relatively high interest rates, the increasing burden of external debt, negative impact of industrial countries' agricultural, trade and industrial policies, and delays in the Uruguay Round negotiations continued to affect their economies adversely. However, oil prices fell substantially following the outbreak of the war in the Middle East and, in mid-1991, were at levels close to those prior to August 1990. Several donors, also, provided a significant amount of assistance to the countries seriously affected from the crisis. Following the end of the war, consumer and business confidence in the industrial countries appeared to have recovered. It is, therefore, projected that the external economic environment facing the developing countries is likely to improve in 1992.

These economic developments underscored the need for the formulation and implementation of sound macroeconomic and structural policies and adjustment programs by the developing countries. In fact, an increasing number of developing countries adopted growth-oriented adjustment programs, supported by the Bretton Woods institutions. Many of them also endorsed and executed unilaterally trade liberalization policies. These developments also underlined the importance of establishing a favorable external environment through the adoption and implementation by industrial countries of policies aimed at eliminating existing trade distorting measures. The successful conclusion of the Uruguay Round of multilateral trade negotiations was seen as essential to the continuation of this progress.

III. *INTERNATIONAL DEVELOPMENT ISSUES*

The September 1990 and April 1991 agendas of the Development Committee were determined in the light of the external economic environment and the current international development situation including the implications of the Middle East crisis as outlined above. The Committee had extensive deliberations on the following key issues:

(1) Middle East crisis and the response of the World Bank and the IMF;

[1]*Aggregate net flows equal gross disbursements (less amortization on loans), net foreign direct investment and official and private grants.*

(2) Poverty alleviation;
(3) Enhancing the economic role of women in development;
(4) Private sector development and the roles of the Bretton Woods institutions;
(5) The role of foreign direct investment and the roles of the Bretton Woods institutions;
(6) Impact of industrial countries' policies on development;
(7) The debt strategy and its impact on the development prospects of the severely indebted countries.

In addition, the Committee received and considered progress reports on:

(8) Environmental issues;
(9) Trends in the transfer of resources;
(10) International trade developments.

1. *Middle East crisis and the response of the World Bank and the IMF*

The implications of the Middle East crisis, particularly on the economies of affected developing countries, and the response of the World Bank and the IMF were key issues in both meetings.

When the Committee met in September 1990, the economic prospects of a number of developing countries were being affected adversely by the increase in the price of oil. Furthermore, the non-oil related factors, such as the disruption of trade and tourism earnings, workers' remittances, contracts' receipts created serious balance-of-payments problems and the programs for the returning workers and the refugees brought additional budgetary burdens. These shocks also had negative consequences on structural adjustment programs currently under way in those countries. An offsetting action was needed in the very short run not only by those developing countries but also by the donor community.

The Committee therefore welcomed the efforts currently under way to coordinate the distribution of assistance for those countries. Members also welcomed the various proposals made by the managements of the World Bank and the IMF and recommended that their respective Boards of Executive Directors commence a comprehensive review of measures that would enable the institutions to respond promptly, flexibly and with expanded resources. In the light of experience, members agreed that strong and rapid adjustment measures by affected developing countries were essential for maintaining internal and external balances in their economies.

In the Spring of 1991, although the negative impact of the oil price increases had diminished, it was evident that the adverse effects of non-oil related factors and the direct and indirect cost of the war would be felt by certain developing countries for a considerable period of time. The key

issues for the institutions were to assess the needs of the countries affected, in and outside the region; to mobilize additional financial resources and identify possible sources; and, finally, to consider an appropriate coordination mechanism.

The Committee welcomed the prompt response and ongoing efforts of the World Bank and the IMF, and urged them to continue analyzing the financial requirements of the affected developing countries in and outside the region. They were also urged to assist in the mobilization of resources from all possible sources. Members underscored the importance of an appropriate and effective coordination arrangement to deal with reconstruction and the adjustment and longer term development needs of the countries in the Middle East. It was stressed that financial assistance to the affected developing countries should seek to facilitate, rather than to substitute for, the sustained implementation of sound economic policies and adjustment programs.

2. *Poverty alleviation*

In the Fall of 1990, the members discussed the policies for the effective reduction of poverty in the 1990s. As Chairman Chidzero stated in his opening statement, the persistence of massive poverty in the world suggested that existing efforts and strategies might not have been commensurate with the problem; there was, therefore, a need to re-examine these strategies.

The findings and conclusions of the World Development Report (WDR) 1990 and the UNDP's 1990 Human Development Report provided a strong motivation for the Committee to agree that the objective of a sizeable poverty reduction is the highest priority for the world development community. Members agreed that a broad consensus is emerging on the means to achieve this goal. It was stressed that the poverty reduction objective would be most effectively achieved through the adoption of national development strategies, including sound macroeconomic and structural policies, which (i) encourage sustainable growth that increases income-earning opportunities for the poor, and (ii) develop the human resources of the poor. It was also emphasized that the above strategies should be supplemented by selectively targeted social safety net programs.

The Committee also agreed that governments of developing countries have the primary responsibility for poverty reduction. Good governance and involvement of the poor in the design and execution of development projects and programs were seen as key elements for the effectiveness of poverty reduction efforts. All parties concerned were encouraged to discuss their poverty reduction approaches, programs and goals in the framework of their policy dialogue. The Committee, however, emphasized that the poverty reduction efforts of developing countries should be supported and complemented by industrial countries. Members agreed that aid donors and mul-

tilateral development agencies should examine their operational policies to ensure that their external assistance more fully supports the implementation of recipient countries' national development strategies aimed at lasting poverty reduction thus improving the quality of aid. In this respect, members welcomed the commitment of the President of the World Bank to submit to the Board of Executive Directors for its early consideration proposals for fully translating the conclusions of the 1990 WDR into the World Bank's operational practice.

In the Fall of 1990, the Committee welcomed the World Summit for Children, initiative that would focus international attention on the survival, protection and development of children. Members, noting the strong emphasis placed by the World Bank on poverty reduction in its lending program and operations, urged it to play a central role in helping to realize the objectives of this Summit through the further expansion of its programs in the areas of primary education and health care.

In the Spring of 1991, members considered the financial implications of development policies aimed at poverty reduction in the context of transfer of resources. As Chairman Foxley stressed in his opening statement, the key issue was, "Are we able and willing to devote increased financial resources to fight poverty?"

The Committee reiterated its position that the objective of poverty reduction is the highest priority and reaffirmed its support for the strategy presented in the 1990 WDR. Members also emphasized the importance of good governance by all countries in the fight against poverty while recognizing that the sovereignty of each country must be respected.

It was agreed that individual countries, in particular the ones which had a high level of poverty, had the prime responsibility to fight poverty. Members emphasized the special need for these countries to maximize efficiency in the use of existing resources and to mobilize additional domestic savings and public revenues for poverty reduction purposes while increasing the access of the poor to such resources. It was, however, recognized that the task of mobilizing additional domestic resources to combat poverty is particularly difficult in low-income countries where the poor are concentrated, and in some of the severely indebted countries.

As regards the generation of additional resources, the Committee emphasized the need to re-examine the possible reallocation of public expenditures. In this context, the need to reallocate excessive military expenditures was stressed for the first time. The important role of private sector investment in generating income-earning opportunities for the poor was also noted. The Committee stressed that adequate external resources are necessary to complement the developing countries' efforts at poverty reduction; these external resources should mainly be of a concessional nature and directed to low-income countries pursuing appropriate development policies, including poverty reduction. The Committee invited donor countries,

particularly those with assistance levels below the 0.7 percent ODA/GNP target, to make further efforts to increase the transfer of resources.

The Committee was of the view that any additional aid volume should be accompanied by a number of improvements in aid delivery. Members emphasized the importance of further efforts in the following areas: (i) meaningful untying of bilateral aid; (ii) selective and limited recurrent-cost financing; (iii) initiatives to enhance the effectiveness of technical assistance; and (iv) means to improve the coordination of concessional resources. The Committee also called upon the providers of concessional resources to examine the scope for reallocating their assistance toward those poor countries implementing sound poverty alleviation strategies.

As regards the roles of the institutions, members welcomed the policy paper on poverty recently endorsed by the World Bank's Board of Executive Directors, which calls for reliance on rapid, broadly based economic growth and investments in human capital targeted at the poor. The intention of the World Bank to implement a plan of action designed to translate the conclusions of the 1990 WDR into operational practices and budgetary priorities was also supported. The Committee requested a progress report for its Spring 1992 meeting on the implementation of the World Bank's plan of action for the reduction of poverty. Members also noted the IMF's continued efforts to assist member countries in the pursuit of sound economic policies, while protecting the poor through appropriate measures, including the use of social safety nets.

In respect of aid coordination, the Committee urged the World Bank, together with the relevant United Nations agencies, to strengthen further their cooperation in improving: (i) the database on poverty; (ii) poverty monitoring, and (iii) the division of labor among their operational activities of a poverty-oriented nature. Members also underscored the need for the IMF to rely on this improved database in its work on poverty issues.

3. *Enhancing the economic role of women in development*

The growing recognition and awareness of the contribution of women to economic development was welcomed by the Committee when it considered this topic in the Fall of 1990. Members agreed that there was a need for a major effort and a strong commitment to concrete action to strengthen the economic role of women in development.

The Committee drew attention to the fact that governments have the primary responsibility for promoting women's economic potential within their own specific socio-cultural framework. The Committee encouraged governments to design women-in-development policies and strategies in consultation with relevant groups such as women's associations and respective NGOs. Members stressed that the main way to assist women is to enable them to raise their own productivity and income. It was noted that improv-

ing opportunities for women will foster development and also contribute effectively to other development objectives—such as reducing poverty, improving children's health and education, easing population pressure and conserving natural resources.

Members emphasized that the main objective in this respect can best be accomplished by focusing on the following five priorities: (i) female education; (ii) family planning and maternal health care; (iii) agricultural extension and other related services for women farmers; (iv) provision of credit facilities to female entrepreneurs, and (v) access to labor markets. Moreover, the Committee urged governments to remove constraints affecting women by adopting or revising legal codes and regulations, as may be required, in order to guarantee women equal rights including ownership and use of productive assets, and opportunities to take part in all sectors of the economy.

The Committee welcomed the initiatives taken so far and encouraged the governments and bilateral and multilateral development institutions to further integrate women-in-development objectives in their activities.

Members noted the encouraging progress made so far by the World Bank in respect of women in development and urged it to increase further the resources it devotes to women-in-development activities and to strengthen its institutional capacity to integrate these issues more effectively into its country strategies, economic and sector work, policy dialogue and actual lending operations. The World Bank was also requested to prepare a progress report on its women-in-development activities for the October 14, 1991 meeting of the Committee.

4. *Private sector development and the roles of the Bretton Woods institutions*

Progress made in the implementation of the World Bank Group's private sector development action program was reviewed by the Committee in the Fall of 1990 in light of its full discussion at its previous meeting of the contribution of the private sector to development and the roles of the World Bank and the IMF. The Committee welcomed the progress made under this action program to support (i) the promotion of an enabling environment, (ii) public sector restructuring, including privatization, and (iii) the acceleration of the pace of financial sector reforms. Members also noted the important role of IFC in providing financing and advice for new investment, and the work of IFC and MIGA in supporting the continued growth in the flow of resources to the private sector in developing countries. The Committee stressed the role that the World Bank Group can play in reaching small urban and rural private sector enterprises and encouraged the Group to increase its efforts to assist the development of indigenous entrepreneurship and a locally based private sector.

Members welcomed the growing emphasis given to market systems and the role of private initiative by member countries in their development strategies. With a view to the debt problem, as well as dried-up private flows to developing countries, members noted the need to stimulate private domestic, and foreign direct investment and the return of flight capital so as to encourage non-debt-creating flows in the 1990s.

The Committee reiterated its call on the World Bank Group to give a very high priority to private sector development in its operations and to continue to expand the scope of its activities in this area, including new approaches and instruments as may be needed, as well as to assist developing countries' efforts to implement long-term institutional, regulatory and legal reforms. As the World Bank Group implements and adapts its action program and strives to enhance further its catalytic impact, members emphasized the need to keep under review the roles, policies and lending programs of the World Bank and its affiliates, the balance between their advisory and operational functions and the need for systematic coordination within the World Bank Group. The Committee requested the World Bank to prepare a report on these issues for consideration by its Board of Executive Directors.

Members recognized the important catalytic role of IFC in promoting sound private sector development and underscored the need for IFC to have adequate resources to meet the growing demand for its services in a regionally balanced and financially prudent manner during the current decade. Since most of the members were concerned that IFC would become constrained by lack of resources, the Committee urged the IFC Board of Directors to complete, by the end of 1990, its review of the operational policies and adequacy of the capital of the Corporation.[1]

In the Spring of 1991, members welcomed the recent steps undertaken in the World Bank Group's activities, particularly the working party set up by the President of the Bank, to improve coordination within the Group. The Committee noted the intention of the President of the World Bank to put forward to the Board of Executive Directors for its consideration a comprehensive plan of action for the World Bank Group to strengthen its role in private sector development. The Committee called on the World Bank Group to adopt, in the near future, such a plan of action involving a vigorous and integrated approach to the promotion of the private sector, including an even stronger role for IFC in the development of the World Bank Group's policies.

The Committee reiterated its view that the work of IFC is of special relevance to the development of the private sector in developing countries and emphasized that as part of a strengthened World Bank Group private

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[1] *The proposal, which envisages an IFC capital increase of $1 billion, was endorsed by the IFC Board of Directors on June 28, 1991.*

sector focus, IFC should have adequate resources to meet the growing demand for its services during the current decade in a financially prudent and regionally balanced manner. The Committee urged the IFC Board of Directors to complete its negotiations on an IFC capital increase and to make a recommendation on its amount and modalities of subscription and payment to the Board of Governors so that the IFC could step up significantly its activities.

5. *The role of foreign direct investment and the roles of the Bretton Woods institutions*

In the Spring of 1991, this issue was considered within the context of the transfer of resources. Members welcomed the recent increase in real terms in FDI flows to developing countries. It was recognized that FDI could make an important contribution to development through various ways—i.e., the creation of employment, the development of skills, the transfer of technology, the improvement in competitiveness, the expansion of markets.

Members agreed that the prime responsibility for creating a climate of confidence and attracting FDI rested with the host countries. Members emphasized that (i) adequate economic stability and growth in the context of adjustment efforts, and (ii) the promotion of an efficient private sector, as well as (iii) adequate infrastructure, and (iv) manpower skills, were crucial factors. Members also touched upon the role of the industrial countries by noting that their policies can impact on FDI flows. Members stressed in particular that all countries should make further efforts to remove trade and investment barriers so as to allow a freer flow of goods and capital.

Recognizing that FDI would normally tend to flow to the more advanced and creditworthy developing countries, members stressed the need to explore ways to mobilize and increase FDI flows to low- and lower middle-income countries, particularly in Sub-Saharan Africa. In view of the constraints on FDI flows to low-income countries, the Committee recognized that concessional flows would remain of critical importance to them. Moreover, in the case of low- and lower middle-income countries, members underscored that high priority should be given to the development of local entrepreneurial skills and an indigenous business sector.

In respect of the roles of the institutions, given the close relationship between a strong domestic private sector and FDI, the Committee stressed that both the World Bank and the IMF should continue to strengthen their efforts to promote an environment favorable to a higher contribution by the private sector to development and increase the flows of FDI to developing countries. The Committee encouraged the multilateral institutions to assist the efforts of developing countries in maximizing the development impact and the most efficient use of FDI by promoting market-oriented policies and, as appropriate, a stronger legal regulatory framework. It recognized

the need for an overall legal framework that would embody the essential principles so as to promote FDI. The Committee noted some proposals made by members and urged the MIGA to consult with other competent institutions and report to the Development Committee at its Spring 1992 meeting in this respect.

6. *Impact of industrial countries' policies on development*

In the Spring of 1991, the Committee discussed the impact of industrial countries' trade, industrial and agricultural policies on the economies of the developing countries. The joint staff report highlighted the seriousness of the adverse impact of some of these policies on the economies of the developing countries, as well as on themselves. It was indicated that the annual cost of trade barriers in foregone income to developing countries amounts to about twice the annual interest they pay on their external public debt, and is about twice the annual volume of the official development assistance they receive from industrial countries. As Chairman Foxley noted in his opening statement, the removal over time of trade barriers by industrial countries would result in very significant gains in the GNP of developing countries, not to speak of the benefits to the world economy as a whole. This agenda item also highlighted the importance of the successful outcome of the Uruguay Round negotiations.

The Committee stressed that all countries, and in particular the industrial countries, have a special responsibility to pursue sound macroeconomic, industrial, trade and agricultural policies in order to promote a more open multilateral trade-and-payments system and to remove trade and investment barriers. Industrial countries were also encouraged to take steps to ensure greater transparency and awareness in their countries of the costs and distorting effects of trade restrictive measures. The Committee welcomed the market-oriented reforms and the trade-liberalization measures which have been implemented in recent years by an increasing number of developing countries and encouraged them to continue to broaden this progress and to integrate themselves into the multilateral trading system.

As regards the roles of the institutions, the Committee urged the World Bank and the IMF to follow up and continue to evaluate closely developments in respect of trade, industrial and agricultural policies and their impact on the development prospects of developing countries. They were encouraged also to coordinate closely their work on these issues with the GATT. It was noted that the findings of the GATT's Trade Policy Reviews can provide valuable inputs for the reports prepared from time to time for the Development Committee on the impact of the industrial countries' trade policies on developing countries.

As regards the issue of regionalism versus multilateralism in trade matters, the Committee emphasized that regional trade arrangements should

be part of, rather than an alternative to, wider efforts at promoting multilateral trade liberalization based on the GATT's non-discriminatory principles.

7. *The debt strategy and its impact on the development prospects of the severely indebted countries*

The Committee continued its review of the debt strategy and its impact on the development prospects, as follows:

(a) *Strengthened debt strategy* (Middle-income countries largely indebted to commercial banks)

In the Fall of 1990, the Committee reaffirmed its support for the strengthened debt strategy it had endorsed at its Spring 1989 meeting based on a cooperative framework between the debtor countries, the commercial banks and official creditors. While welcoming the increasing number of debt and debt-service reduction packages, members expressed concern about the slow pace of negotiations in some cases. The Committee emphasized the crucial importance for debtor countries to adopt appropriate growth-oriented adjustment programs as a basis for debt and debt-service reduction. In this connection, members welcomed U.S. efforts to implement the "Enterprise for the Americas Initiative" designed to promote investment, growth and debt reduction in Latin America.

In the Spring of 1991, the Committee welcomed the further progress in the implementation of the Brady initiative which was on track. It was stressed that the situation of a number of debtor countries required further attention given the constraint that their debt burden, and in some cases, current policies, continued to have on their budgetary positions and ability to attract foreign direct investment and the return of flight capital. With a view to the pace of negotiations, the Committee urged debtor countries and commercial banks to accelerate their negotiations and to reach agreements that will facilitate the return to normal debtor/creditor financial relations. The Committee also called on the World Bank and the IMF to continue to provide support for debt and debt-service reduction packages with the necessary flexibility under their established guidelines.

(b) *Lower middle-income countries, largely indebted to bilateral official creditors*

In the Fall of 1990, the Committee expressed concern that the prospects for external viability with sustainable growth remained difficult for some of those lower middle-income countries, even if a significant strengthening of domestic policies was assumed. Members, therefore, welcomed the consensus by Paris Club creditor countries to lengthen repayment periods and to

permit debt/equity and other debt conversion in reschedulings. Members stressed that the review of additional options should take into account the need for debtor countries to benefit from increased new financial flows. The recent bilateral decisions by a number of creditor countries which would contribute to alleviating the burden of bilateral debt of some of those countries were praised. Members, in this context, invited all creditor countries to consider taking further measures on a coordinated and case-by-case basis in favor of those lower middle-income countries implementing adjustment programs.

In the Spring of 1991, members welcomed the adaptation of debt restructuring terms introduced recently by the Paris Club bilateral official creditors—including the lengthening of repayment terms and the option of debt swaps in rescheduling—to assist those lower middle-income countries. It was recognized that there was a need to monitor closely the progress on their debt problems toward resumption of normal financial relations with their creditors and economic growth.

(c) *Severely indebted low-income countries*

In the Fall of 1990, it was recognized that although a great deal had been accomplished there was still a long way to go before these low-income countries could restore their external viability and sustain growth in their economies. The Committee, therefore, welcomed the debt relief that creditor countries had provided to these countries implementing adjustment programs, through (i) concessional official debt rescheduling, and (ii) ODA debt cancellation. The Committee also welcomed the utilization of IDA reflows for the benefit of IDA-only countries with outstanding IBRD debt. The early use of the resources of the World Bank's facility, financed from the World Bank's net income, to assist eligible IDA-only countries to reduce low-income countries' debt to commercial banks was also encouraged.

The Committee welcomed the request made to the Paris Club in the Houston Declaration to review the implementation of the existing options that apply to the poorest countries and encouraged the concerned creditors to complete this review in a timely manner. The Committee called for early consideration, through the Paris Club, of the proposals made at its meeting by France, the Netherlands, and the United Kingdom (the Trinidad terms), for further bilateral official debt relief for low-income countries implementing adjustment programs. It was reiterated that creditor countries' new commitments of assistance to these low-income countries should be provided on highly concessional terms.

In the Spring of 1991, the Committee expressed its concern that notwithstanding the application of the Toronto terms the prospects for external viability in many of these low-income countries remained uncertain. It therefore encouraged the Paris Club official creditors to complete by mid-

1991 their review of the implementation of the existing options and their consideration of additional debt relief measures which could be taken in light of proposals made by a number of creditor countries.

(d) *Indebted countries which have not restructured their external debt obligations*

At both of its meetings, the Committee drew attention to the needs of those countries which had avoided the rescheduling of their external debt while pursuing sound macroeconomic policies. It was stressed that the efforts of those countries to maintain normal debtor/creditor financial relations should be encouraged and supported. The Committee, therefore, urged that special efforts be made to provide those countries with sufficient financial flows, including multilateral flows, to support adjustment programs, development and poverty reduction.

8. *Environmental issues*

At both its regular meetings, the Committee reiterated the importance it attaches to environmental issues. In the Fall of 1990, the World Bank's first "Annual Report on the Environment", which the Committee had requested at its Berlin meeting in September 1988, was welcomed. The Committee stressed the importance of integrating environmental concerns into the World Bank's operations as well as of introducing new initiatives, (i) to provide greater protection for tropical forests, and (ii) to promote energy efficiency and conservation in all countries. The World Bank was asked to increase its cooperation with governments making efforts in these two areas and to include an assessment of progress achieved in its second Annual Report on the Environment.

In the Spring of 1991, the Committee welcomed the establishment of the joint World Bank, UNEP and UNDP Global Environment Facility (GEF). The role that the GEF could play as a mechanism to provide additional assistance to developing countries in the framework of ongoing negotiations on the global environment was underlined. Members underscored the importance of this pilot facility and urged that relevant experience derived from the GEF's operations in dealing with global environmental challenges be taken into consideration in the World Bank's regular operations. The Committee emphasized the importance of open and transparent approaches to addressing environmental challenges. The Committee urged that these and other organizational issues be addressed early on to ensure that the GEF achieves the objectives envisioned by participants.

The Committee also noted the recent initiatives taken in the IMF toward greater awareness of environmental concerns in its work.

9. *Trends in the transfer of resources*

Recent trends in the transfer of real resources to developing countries were considered in the Committee at both of its meetings. In the Fall of 1990, the Committee noted with concern that net resource flows to developing countries had declined in 1989. The situation, particularly to low-income Asian countries and the severely indebted middle-income countries, was disappointing. The Committee agreed, therefore, on the need to continue to mobilize adequate financing in support of developing countries' reforms and development efforts. In respect of the second phase of the Special Program of Assistance (SPA) for Sub-Saharan Africa, the Committee called on donor countries to ensure the full financing of SPA II. The outcome of the Maastricht Conference, organized by the Dutch Government in July 1989, and the wide support expressed for measures which could stimulate external assistance for Sub-Saharan Africa's development efforts, as well as the main conclusions of the Paris Conference on the least developed countries, were welcomed.

In the Spring of 1991, the overall trends in the transfer of resources to developing countries were seen as improving. In 1990, the aggregate net flows increased in real terms over the 1989 level. But it was lower than the average of the first five years of the decade (although that figure included an unsustainably high level of commercial bank lending). The constraints faced on the availability of financing from commercial sources continued in 1990 due, particularly, to the debt-servicing difficulties of many developing countries. The share of financing from official sources, however, rose significantly and continued to account for the largest part of external financing. The overall trend of ODA flows which had been stagnant during the last decade, started to show a slightly declining trend in 1990 and 1991. However, it was projected that the improvement in the aggregate net transfers would continue in 1991.[1]

10. *International trade developments*

Since the mid-1980s, the subject of linkages between trade and development, given the growing interdependence of economies of industrial and developing countries, assumed greater importance in the Committee and developments in this respect have been followed closely. The Committee has also given special emphasis to the efforts to liberalize and strengthen the international trading system through the Uruguay Round of multilateral trade negotiations in the framework of the GATT.

In the Fall of 1990, members heard from the Director General of the GATT that the Uruguay Round negotiations were in their final phase and

[1]*Aggregate net transfers equal aggregate net flows less interest payments and reinvested and remitted profits.*

that the time had come for participants in the Round to reach basic agreements across the board. These areas were identified as agriculture, textiles and clothing, and tropical products which are of particular importance to developing countries. The Committee reiterated its call on all parties concerned to agree on a global package by the end of 1990.

In the Spring of 1991, the Committee revisited this issue in the aftermath of the Brussels meeting of trade ministers. It was recognized that open access to markets for the goods of developing countries was an essential support to their macroeconomic recovery during the adjustment phase. However, as Chairman Foxley stated in his opening statement, recovery after the adjustment phase in developing countries would also depend crucially on trade opportunities. Members heard from the Director General of the GATT on the prospects of the Uruguay Round negotiations which had just resumed. Expressing deep concern about the potentially serious negative impact of another failure on the global economy, the Committee urged all participants, and especially the major industrial countries, to increase their efforts to avoid further delay in reaching a successful conclusion to the Uruguay Round in the sectors of particular importance to developing countries and in strengthening GATT rules and in developing disciplines in new areas discussed in the context of the Uruguay Round.

ANNEX A

MEMBERS OF THE DEVELOPMENT COMMITTEE

	Member	*Countries*
1.	Mohammad Abalkhail Minister of Finance and National Economy Saudi Arabia	Saudi Arabia
2.	Ibrahim Abdul Karim Minister of Finance and National Economy Bahrain	Bahrain, Egypt (Arab Rep. of), Jordan, Kuwait, Lebanon, Maldives, Oman, Pakistan, Qatar, Republic of Yemen, Syrian Arab Rep., United Arab Emirates
3.	Pierre Bérégovoy Minister of State for Economy, Finance, and the Budget France	France
4.	Mohamed Berrada Minister of Finance Morocco	Afghanistan (Dem. Rep. of), Algeria, Ghana, Iran (Islamic Rep. of), Socialist People's Libyan Arab Jamahiriya, Morocco, Tunisia
5.	Nicholas F. Brady Secretary of the Treasury United States	United States
6.	Guido Carli Minister of the Treasury Italy	Greece, Italy, Malta, Poland, Portugal
7.	Tekola Dejene Minister of Finance Ethiopia	Angola, Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Mozambique (People's Rep. of), Namibia, Nigeria, Seychelles, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
8.	Daniel Kablan Duncan Minister Delegate in the Office of the Prime Minister in Charge of Economy, Finance, Commerce, and Planning Côte d'Ivoire	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (People's Rep. of), Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tomé and Principe, Senegal, Somalia, Togo, Zaïre
9.	Alejandro Foxley[1] Minister of Finance Chile	Argentina, Bolivia, Chile, Paraguay, Perú, Uruguay
10.	Ryutaro Hashimoto Minister of Finance Japan	Japan
11.	John Charles Kerin, M.P. Treasurer of the Commonwealth of Australia Australia	Australia, Kiribati, Korea (Rep. of), New Zealand, Papua New Guinea, Solomon Islands, Vanuatu, Western Samoa, (Mongolia)

[1] *The alternate Member for the Chairman's constituency is: Mr. Juan José Díaz Pérez, Minister of Finance, Paraguay*

MEMBERS OF THE DEVELOPMENT COMMITTEE

	Member	*Countries*
12.	Wim Kok Deputy Prime Minister and Minister of Finance The Netherlands	Bulgaria, Cyprus, Israel, The Netherlands, Romania, Yugoslavia
13.	Norman Lamont Chancellor of the Exchequer United Kingdom	United Kingdom
14.	Allan Larsson Minister of Finance Sweden	Denmark, Finland, Iceland, Norway, Sweden
15.	Philippe Maystadt Minister of Finance Belgium	Austria, Belgium, Czechoslovakia, Luxembourg, Republic of Hungary, Turkey
16.	Donald Mazankowski Deputy Prime Minister and Minister of Finance Canada	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
17.	Miguel Rodriguez Minister of State and Head, CORDIPLAN Venezuela	Costa Rica, El Salvador, Guatemala, Honduras, México, Nicaragua, Panamá, Spain, Venezuela
18.	Manmohan Singh Minister of Finance India	Bangladesh, Bhutan, India, Sri Lanka (Dem. Socialist Rep. of)
19.	Carl-Dieter Spranger Federal Minister for Economic Cooperation Germany	Germany
20.	J.B. Sumarlin Minister of Finance Indonesia	Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Viet Nam
21.	Wang Bingqian State Councillor and Minister of Finance China	China
22.	Selby Wilson Minister of Finance Trinidad and Tobago	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Philippines, Suriname, Trinidad and Tobago

ANNEX B

OBSERVERS TO THE DEVELOPMENT COMMITTEE

African Development Bank ..... AfDB
Associate: Arab Bank for Economic Development in Africa ..... BADEA
Arab Fund for Economic and Social Development ..... AFESD
Asian Development Bank ..... AsDB
Commission of the European Communities ..... CEC
Associate: European Investment Bank ..... EIB
Commonwealth Secretariat ..... COMSEC
General Agreement on Tariffs and Trade ..... GATT
Inter-American Development Bank ..... IDB
International Fund for Agricultural Development ..... IFAD
Islamic Development Bank ..... IsDB
Organisation for Economic Cooperation and Development ..... OECD
Associate: Development Assistance Committee ... DAC
OPEC Fund for International Development ..... OPEC FUND
United Nations ..... UN
Associates: UNCTAD ..... UNCTAD
UNDP ..... UNDP
Switzerland ..... SWITZERLAND

ANNEX C

Agenda of Development Committee Meeting, September 24, 1990

PROVISIONAL AGENDA

1. Strategies for the effective reduction of poverty in the 1990s

2. The debt strategy and its impact on the development prospects of all severely indebted countries

3. Enhancing the economic role of women in development

4. Review of progress in the implementation of the Bank's action plan for private sector development and in the discussion of IFC's capital adequacy

5. Reports:
   (a) environmental issues;
   (b) trends in the transfer of resources;
   (c) current international trade developments.

6. Annual Report of the Committee

7. Other Business

Agenda of Development Committee Meeting, April 30, 1991

PROVISIONAL AGENDA

1. Issues in the Transfer of Resources to Developing Countries:
   (a) Financial Implications of Development Policies aimed at Poverty Reduction; and
   (b) Role of Foreign Direct Investment in Development.

2. The Impact of Industrial Countries' Trade, Agricultural and Industrial Policies on Developing Countries

3. Progress reports:
   (a) The Middle East Crisis and the Response of the Bank and the Fund;
   (b) Implementation of the Debt Strategy and its Impact on the Development Prospects of all Severely Indebted Countries;
   (c) IFC's Capital Adequacy;
   (d) Establishment of a Program to address Global Environmental Problems; and
   (e) Current International Trade Developments.

4. Election of Executive Secretary

5. Other Business

ACCREDITED MEMBERS OF DELEGATIONS AT 1991 ANNUAL MEETINGS

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Alternate Governor
Abdul Baqi Samandari*

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Governor
Gramoz Pashko

Alternate Governor
Agron Saliu

Adviser
Niko Hobdari

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Hocine Benissad

Alternate Governor
Kacim Brachemi

Advisers
Mustapha Baba Ahmed
Mohamed Benhocine +
Karim Djoudi
Mohamed Elias El Hanani
Ali Kara Mustapha
Mohamed Salah Rekouche
Rachid Bruno Sekak

Angola

Governor
Salomao Xirimbimbi

Alternate Governor
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Ms. Maria Madalena Ramalho
Ms. Marinela Martins Amaral Ribas

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Argentina =

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Roque Benjamin Fernandez

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Raul Baglini
Oraldo Britos
Felix Alberto Camarasa +
Joaquin A. Cottani
Miguel Angel Espeche Gil
Adrian Gomez
Alieto Aldo Guadagni
Rafael Iniesta
Joaquin Izcue
Oscar Lamberto
Horacio Tomas Liendo
Jorge Lopez
Ms. Monica Merlo
Jose Victor Mondino
Angel Pena
Jesus Rodriguez
Alberto Rodriguez Saa
Jesus Sabra
Ruben Nestor Sierra
Jose Eduardo Valenzuela
Eduardo Villalba

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Peter McCawley*
M. John Phillips*
A.S. Cole *

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Mike Dalton
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Ms. Marie Stubbings
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Walter Rill + +

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M.A. Syed * + +

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Mushfiq-us-Swaleheen

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Frank-Michael Habermann
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Ms. Erika Reinhardt
Ms. Christa Scheel
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Juergen Stark
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Baron Berthold von Pfetten-Arnbach
Ms. Ingrid Walz
Ms. Lydia Westrich
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Wilfried Wolf
Ralf Zeppernick
Bernhard Ziese
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Alternate Governor
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Ernest Ako-Adjei
N.C.O. Holm
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Lauriston F. Wilson, Jr.

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Jose Antonio Perez Morales

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N.K. Singh*
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Alternate Governor
Hasudungan Tampubolon

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Faiz Al-Gailani
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Samson S. Surtan

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Mikare Baraniko*

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Young-Man Bae
Young-Wook Chin
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Jin-Yup Chu
Dong-Soo Chung
Soon Ik Hong
Kun-Il Hwang
Gil-Sang Kang
Deug-Ha Kim
Jung-Hwan Kim
Kwang Yie Kim
Sun-Ok Kim
Won Tai Kim
Woo-Suk Kim
Chang-Koo Lee
Young-Hoi Lee
Bong-Sung Oum
Yoon-Jin Rhee
Bong-Hee Won

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Alternate Governor
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Hamad A. Al-Marzouq
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Sheikh Salem Abdullah Al-Ahmed Al-Sabah
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Lao People's Democratic Republic<> =

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Khamphout Keoboualapha

Alternate Governors
Sunthorn Manodharm*
Soulignong Nhouyvanisvong

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Kongthong Heuangphengsy
Bounkeut Sangsomsak

Lebanon =

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Ali El-Khalil

Alternate Governor
Habib Abu-Sakr

Advisers
Nuhad Baroudi
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Lesotho

Governor
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Mrs. Amelia A. Ward

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J. Morenje Mlawa*

Adviser
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Libyan Arab Jamahiriya =

Governor
Mohamed El Madni Al-Bukhari

Alternate Governor
Bashir Ali Khallat

Advisers
Nuri Abdussalam Baryun
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Mahmud M. Shenghir
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Luxembourg

Alternate Governor
Yves Mersch

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Lucio Izzo
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Madagascar

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Tantely Andrianarivo
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Malawi

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Dato Mohd. Sheriff bin Mohd. Kassim

Advisers
Dato' Ali Abul Hassan Sulaiman
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Noordin Abdullah

Maldives =

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Fathulla Jameel

Alternate Governor
Mohammed Kemal*

Mali =

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Alternate Governor
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Malta <>#

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Sidi Mohamed Ould Boubacar
Cheikh Ould M'Haimed

Mauritius

Governor
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S.B. Marah
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Snyder Rini

Somalia =

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Sri Lanka

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R. Paskaralingam

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Susantha de Alwis*
H.C. Gunawardena*
K. Shanmugalingam

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S.C. Manapperuma

Sudan =

Governor
Abdul-Rahim Mahmood Hamdi

Alternate Governor
Mohamed Kheir El Zubeir

Advisers
Abdalla Ahmed Abdalla
Ibrahim Adam Habib

Suriname <> # =

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Rudie Wilfred Braam

Swaziland

Governor
Elliot Bhembe

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Mrs. Musa Fakudze
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Ms. Margareta A. Kyhlberg
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Syrian Arab Republic =

Governor
Mohammed Khaled Mahayni

Alternate Governor
Adnan Al-Saty

Adviser
Ghassan Idriss

Tanzania =

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K.A. Malima, M.P.

Alternate Governor
Simon Mbilinyi

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Thailand =

Governor
Suthee Singhasaneh

Alternate Governors
M.L. Birabhongse Kasemsri*
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Togo

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Alternate Governor
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Trinidad and Tobago =

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K.J. Kunakunov
N.F. Rumas
Oleg V. Bostorin
Oleg V. Mozhaiskov
Victor V. Rakov
V.V. Prokurnov
Alexei Y. Mihkailov
Sergei A. Zverey
Sergei M. Nazarov
Vladimir N. Sterlikov
Vladimir V. Grigoriev
Sergei Y. Chestnoy

EXECUTIVE DIRECTORS, ALTERNATES AND ADVISORS
BANK
October 17, 1991

Executive Directors	*Alternate Executive Directors*	*Advisors to Executive Directors*
Ibrahim A. AL-ASSAF (Saudi Arabia)	Ahmed M. AL-GHANNAM (Saudi Arabia)	Richard HERBERT (United Kingdom)
Fawzi Hamad AL-SULTAN (Kuwait)	Mohamed W. HOSNY (Egypt)	Rumman A. FARUQI (Pakistan) Ezzedin M. SHAMSEDIN (Lebanon)
Vibul AUNSNUNTA (Thailand)	Aung PE (Myanmar)	Pita WAQA (Fiji)
J.S. BAIJAL (India)	M.A. SYED (Bangladesh)	Pradeep V. BHIDE (India)
Mohamed BENHOCINE (Algeria)	Salem Mohamed OMEISH (Libya)	Ernest AKO-ADJEI (Ghana) Mohammad Khazaee TORSHIZI (Iran)
Rosario BONAVOGLIA (Italy)	Fernando S. CARNEIRO (Portugal)	Andrzej ILCZUK (Poland)
Felix Alberto CAMARASA (Argentina)	Nicolas FLAÑO (Chile)	
E. Patrick COADY (United States)	Mark T. COX IV (United States)	Thomas BURKE (United States)
John H. COSGROVE (Australia)	A. John WILSON (New Zealand)	Bong-Hee WON (Korea)
Fritz FISCHER (Germany)	Harald REHM (Germany)	Tobias GEIB (Germany)
Eveline HERFKENS (Netherlands)	Boris SKAPIN (Yugoslavia)	Ileana IONESCU (Romania)
Jean-Pierre LANDAU (France)	Philippe DE FONTAINE VIVE (France)	Gerard LADANT (France)
J. Ayo LANGLEY (Gambia)	O.K. MATAMBO (Botswana)	Agil M. ELMANAN (Sudan) Leonard MSEKA (Malawi)
Jean-Pierre LE BOUDER (Central African Republic)	Ali BOURHANE (Comoros)	Ali Mahamoud KALFAN (Somalia) Mamadou Lamine DIALLO (Senegal) Theodore MPATSWENUMUGABO (Rwanda)
Ernest LEUNG (Philippines)	Paulo C. XIMENES-FERREIRA (Brazil)	Manuel PIANTINI (Dominican Republic)
Einar MAGNUSSEN (Norway)	Jorunn MAEHLUM (Norway)	Anders HENRIKSSON (Sweden)
Moises NAIM (Venezuela)	Gabriel CASTELLANOS (Guatemala)	Rocio ALBERDI (Spain) Moises PINEDA PADRON (Mexico)
David PERETZ (United Kingdom)	Robert GRAHAM-HARRISON (United Kingdom)	
N. Frank POTTER (Canada)	Clarence ELLIS (Guyana)	David SEVIGNY (Canada) Samuel MCCONNELL (Ireland)
Masaki SHIRATORI (Japan)	Kiyoshi KODERA (Japan)	Masaaki AMMA (Japan)
Bernard SNOY (Belgium)	Walter RILL (Austria)	Nurcan AKTURK (Turkey)
WANG Liansheng (China)	JIN Liqun (China)	Zhu XIAN (China)

DIRECTORS AND ALTERNATES
MIGA
October 17, 1991

Directors	*Alternate Directors*
Alhaji Ahmadu ABUBAKAR (Nigeria)	Charles MBINDYO (Kenya)
Ibrahim A. AL-ASSAF (Saudi Arabia)	Ahmed M. AL-GHANNAM (Saudi Arabia)
Fawzi Hamad AL-SULTAN (Kuwait)	Mohamed W. HOSNY (Egypt)
Rosario BONAVOGLIA (Italy)	Fernando S. CARNEIRO (Portugal)
E. Patrick COADY (United States)	Mark T. COX IV (United States)
Nicolás FLAÑO (Chile)	Patricio RUBIANES (Ecuador)
Fritz FISCHER (Germany)	Harald REHM (Germany)
J.E. ISMAEL (Indonesia)	Bong-Hee WON (Republic of Korea)
Oscar KNAPP (Switzerland)	Matthijs BIENEFELT (Netherlands)
Jean-Pierre LANDAU (France)	Philippe DE FONTAINE VIVE (France)
Jean-Pierre LE BOUDER (Central African Republic)	Ali BOURHANE (Comoros)
Einar MAGNUSSEN (Norway)	Jorunn MAEHLUM (Norway)
Janos MARTONYI (Hungary)	Nurcan AKTURK (Turkey)
David PERETZ (United Kingdom)	Robert GRAHAM-HARRISON (United Kingdom)
Frank POTTER (Canada)	Clarence ELLIS (Guyana)
M. A. SYED (Bangladesh)	Ernest AKO-ADJEI (Ghana)
Masaki SHIRATORI (Japan)	Tatsuo FUJINO (Japan)
WANG Liansheng (China)	JIN Liqun (China)

OFFICERS OF THE BOARDS OF GOVERNORS IBRD, IFC AND IDA AND JOINT PROCEDURES COMMITTEE FOR 1991-92

OFFICERS

Chairman	Morocco
Vice Chairmen	Malawi
	Venezuela

JOINT PROCEDURES COMMITTEE

Chairman	Morocco
Vice Chairmen	Malawi
	Venezuela
Reporting Member	Hungary
Members	Antigua & Barbuda
	Australia
	Belgium
	Comoros
	Côte d'Ivoire
	France
	Germany
	Guyana
	Iran, I.R. of
	Ireland
	Japan
	Malaysia
	Norway
	Saudi Arabia
	Tonga
	Uganda
	United Kingdom
	United States

OFFICERS OF THE MIGA COUNCIL OF GOVERNORS AND PROCEDURES COMMITTEE FOR 1991-92

OFFICERS

Chairman	Morocco
Vice Chairmen	El Salvador
	Malawi

MIGA PROCEDURES COMMITTEE

Chairman	Morocco
Vice Chairmen	El Salvador
	Malawi
Reporting Member	Hungary
Members	China
	Côte d'Ivoire
	France
	Germany
	Ireland
	Japan
	Korea
	Norway
	Portugal
	Saudi Arabia
	Sri Lanka
	Switzerland
	United Kingdom
	United States

THE WORLD BANK GROUP

Headquarters
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: (202) 477-1234
Telex Nos.: FTCC 82987
RCA 248423
WUI 64145
TRT 197688
Facsimile No.: (202) 477-6391

European Office
66 avenue d'Iéna
75116 Paris, France
Telephone: (1) 40-69-30-00
Telex No.: 640651
Facsimile No.: (1) 40-69-30-66

Cable Address
World Bank: INTBAFRAD
IFC: CORINTFIN
IDA: INDEVAS
MIGA: MIGAVEST